

***Energy Imbalance Market Year 1 Enhancements
Issue Paper and Straw Proposal
Comments of Puget Sound Energy
January 22, 2014***

Puget Sound Energy (PSE) appreciates the opportunity to provide this second round of comments on CAISO's Energy Imbalance Market (EIM) Year 1 Enhancements Issue Paper and Straw Proposal, originally issued November 10, 2014. PSE has been actively evaluating the benefits and impacts of CAISO's EIM, and provides comments on the following issues.

I. *External Intertie Bidding*

PSE appreciates that the Department of Market Monitoring's (DMM's) analysis, submitted in DMM's December 8 comments on the Year One Enhancements proposal, suggests that "[e]conomic real-time participation on external EIM interties has the potential to significantly increase competition in the EIM area by increasing the number of suppliers."¹ PSE fully supports the overall goal of making the EIM as liquid and competitive as possible. Nevertheless, PSE requests that CAISO either forego the proposed requirement that all EIM Entities allow for external intertie bidding or open a separate stakeholder proceeding to examine external intertie bidding at a later date. In order to ensure the effectiveness of the market, EIM Entities should have the discretion to manage their deployment process without the added complication of external intertie bidding, particularly new EIM Entities during their one-year transitional period into the market.

PSE supports initiating a separate stakeholder process on whether to implement a requirement to offer external intertie bidding (for seasoned EIM Entities), but only after transmission issues and charges – including third party transmission and wheeling for EIM transactions – are addressed, approved by FERC where required, and successfully utilized in the market for some time. The twelve-month transitional period proposed by CAISO for new EIM Entities demonstrates the underlying need for EIM Entities and Participating Resources to gain operational experience, and the continued tariff amendments and training on information transfer and model enhancements are evidence of the complexities of the market awaiting full resolution. To avoid adding unnecessary complexity and potential additional market issues to the still-developing EIM, PSE requests that CAISO 1) at present, grant EIM Entities discretion over whether to allow bidding at their external interties, and 2) open a separate stakeholder proceeding to examine mandatory external intertie bidding at a later date.

II. *GHG Flag*

PSE strongly supports CAISO's change from a 5-10 day delay in changing a participating resource's Master File designation for the GHG Flag (in the original straw proposal) to allowing an hourly GHG Flag change (in the draft final proposal). The draft final proposal supports EIM market liquidity, as dictated

¹ Available at http://www.caiso.com/Documents/DMMComments_EIMYear1EnhancementsIssuePaper-StrawProposal.pdf

by the Federal Energy Regulatory Commission (FERC). FERC's June 2014 order on CAISO's proposed EIM tariff provisions, clearly stated its intent to require CAISO to create a greenhouse gas (GHG) flag, granting an EIM market participant flexibility and control over its level of involvement in California markets while participating in the EIM.² In following FERC's intent on this matter, CAISO revised the GHG Flag proposal to reduce the change process time from 5-10 days to 1 hour. This change would allow entities to efficiently opt in or out of dispatches to and from California and, thereby, encourages increased market liquidity in the EIM.

The unnecessary 5-10 day delay in implementation of GHG Flag selections previously proposed by CAISO could have discouraged participants from engaging in the EIM for extended periods of time in order to avoid being dispatched to or from California. Additionally, a participant flagged to bar dispatch to California would have been precluded from changing that flag intraday to allow for dispatch to California if, for instance, additional liquidity or fast start units were needed in California; even if a participant had economic units available to resolve that need in the next market hour, a flag change taking 5-10 days would have prevented its participation. This could have unnecessarily harmed market liquidity. PSE supports CAISO's proposed change to the hourly GHG Flag implementation, and believes that this change supports EIM market liquidity in accordance with FERC's intent.

III. *Graduated Bid Caps.*

CAISO has proposed that graduated bid caps be applied to new EIM Participating Resources and imports/exports on EIM external intertie scheduling points. PSE is concerned with the implementation of escalating bid caps, which could potentially create different prices in various balancing authority areas (BAAs) participating in the EIM with different go-live dates. PSE appreciates CAISO's decision to consider the bid cap proposal in this EIM Year 1 Enhancements forum, rather than in the originally proposed, expedited stakeholder process under the EIM Transition Period Draft Final Proposal.³ However, additional information is needed to fully vet and comment on the graduated bid cap proposal. PSE requests a thorough review of the potential for market manipulation or other seams issues created by this policy, as well as analysis of how its implementation would affect pricing for EIM Entities and Participating Resources. Additionally, PSE specifically supports a review of the potential for inequity or artificial illiquidity in a given BAA with a lower EIM bid cap than neighboring EIM BAAs during a regional reliability event. PSE requests a report from CAISO and the Department of Market Monitoring on these issues, following which a full stakeholder process should be held with ample time for comment.

² FERC specifically ordered CAISO to create this GHG Flag to ensure the utmost liquidity in the EIM markets, stating that, "...we understand commenters' concerns that resources using the GHG bid adder [as originally proposed by CAISO without a GHG Flag]...could still be dispatched to serve load into CAISO....While this outcome is unlikely, and a resource seeking absolute assurance...has the option not to participate in the EIM, we are concerned that this issue might deter market participation as the EIM expands." FERC Order Conditionally Accepting Proposed Tariff Revisions to Implement Energy Imbalance Market, 174 FERC¶ 61,231, at P 240 (2014).

³ As discussed in CAISO's January 15, 2015 EIM Transitional Period tariff filing, available at http://www.caiso.com/Documents/Jan15_2015_TariffAmendment_EIMTransitionPeriodPrices_ER15-861.pdf.

Allowing for a thorough review of this proposal will help to ensure stability of the EIM, and avoid potential issues that could lead to unnecessary future price spikes or excursions.