

*Energy Imbalance Market Year 1 Enhancements
Issue Paper and Straw Proposal*

Comments of Puget Sound Energy

Puget Sound Energy (PSE) appreciates the opportunity to comment on CAISO's Energy Imbalance Market (EIM) Year 1 Enhancements Issue Paper and Straw Proposal, issued November 10, 2014. PSE has been actively evaluating CAISO's EIM and its impacts, and seeks clarification on several topics.

1. Greenhouse Gas Flag and Cost Based Bid Adder Issues

CAISO's EIM Year 1 Enhancements Issue Paper and Straw Proposal indicates that, under the proposed revisions to CAISO's tariff, an EIM Participating Resource Scheduling Coordinator will be able to utilize a GHG Flag to designate Participating Resources that will not support transfers into CAISO's BAA. The proposal also indicates that the flagging process requires changing information in the unit's Master File and will take 5-10 business days. PSE believes that this timetable is unduly long, and may deter resource participation in the EIM. EIM Participating Resources may reasonably wish to import power into California only on certain days or hours, depending on anticipated system needs. PSE suggests that CAISO consider a flagging mechanism which would allow for more rapid flagging changes, for instance at an hourly level.

CAISO has proposed using a daily GHG cost based bid adder for each unit based on heat rate, California Air Resources Board (CARB) authorized emissions rate, and GHG Allowance prices. In this calculation, PSE believes that it may be appropriate for CAISO to consider the pricing of Offset Credits as well as Allowances. Though the market for Offset Credits may currently be less liquid than the market for Allowances, it would be helpful to understand whether CAISO would consider Offset Credit pricing now or in the future and, if so, how that fits within the GHG cost adder calculation. Additionally, CAISO should consider the prospect of intra-day volatility in the Allowance market in its proposal. It is entirely possible that a daily Allowance price might substantially diverge from the Allowance price in the secondary market at the time of an EIM bid. CAISO should provide EIM Entities with real-time access to (i) the Index or other factor upon which the Allowance price is based, and (ii) the time of day at which the Allowance price will be determined. Also, PSE requests that CAISO explain how it will allocate and deal with the cost and benefit of intra-day volatility in Allowance pricing.

The straw proposal provides a process for awarding GHG cost adders to energy imported into CAISO's BAA, but is unclear regarding the applicability of such adders to energy produced from OMW to a Participating Resource's PMin. The examples on pages 8 and 9 of the straw proposal do not clearly indicate whether and how energy up to and including a Participating Resource's PMin may be dispatched to CAISO. PSE requests clarification on whether energy produced from OMW to a Participating Resource's PMin can be delivered into CAISO's BAA and, if so, whether it would be eligible for a GHG cost adder award. Additionally, PSE requests that CAISO expand upon its example on pages 8 and 9 to

reflect the relevant GHG cost adders for the selected units. This would provide information on the overall unit dispatch levels, the pro rata allocation process, and the ultimate GHG cost adder awards.

Finally, PSE requests that CAISO provide information regarding CARB's involvement in the development or implementation of the GHG cost adder and in the associated dispute resolution process. CAISO's proposed formula requires a substantial amount of unit-specific information. EIM participants should have a clear statement of the process for transmitting and verifying unit information amongst the participant, CAISO, and CARB, and a clear statement of how CAISO will ensure confidentiality of participant data. CAISO should prescribe clear limits on the permitted uses of heat rate and emissions information obtained from participants and, establish a process and timetable for resolving any disputes. PSE requests that CAISO provide a specific proposal on the dispute resolution mechanism applicable to issues relating to the GHG cost adder – whether under the general tariff dispute resolution mechanism, or under a different mechanism specifically for this issue – and provide information on its decision-making process regarding this choice. PSE notes that dispute resolution in other contexts can take several months, and requests that the process for resolving GHG bid adder issues be substantially streamlined.

2. Establishment of EIM Transfer Limits Using ATC and Modification of EIM Transfer Limit Constraints

As proposed, financially binding schedules in the EIM would be made at T-40, but transmission allocation would not be finalized until T-20. PSE believes that CAISO and EIM stakeholders should work towards a clear, transparent, and uniform method of dealing with EIM transmission allocation. PSE is concerned that operating different EIM BAAs under different transmission allocation rules could prove challenging for participants, difficult for CAISO to administer as the market operator, and potentially open to arbitrage between market areas with different prices and/or rules. CAISO has indicated that it will develop additional implementation detail, and PSE hopes that the revised straw proposal will provide clarity on the resolution of issues that could arise between T-40 and T-20, as they may under the NV Energy proposal and seams issues arising from transfers utilizing different transmission schedules and rules.

3. Resource Sufficiency Evaluation of ISO and EIM Entities

CAISO seeks comments regarding an appropriate threshold for increased resource sufficiency requirements triggered by operational adjustments necessitated by an EIM Entity's inability to meet its obligations, as scheduled at T-40. PSE suggests that any such threshold incorporate analysis of typical scheduling parameters, and that CAISO develop a mechanism that does not penalize units for normal operating conditions. Additionally, PSE suggests that CAISO incorporate a method for reducing or discontinuing the increased resource sufficiency requirements when a unit has not triggered the operational adjustment for a prescribed period.

PSE appreciates the opportunity to comment upon the initial issue paper and straw proposal, and looks forward to reviewing the CAISO's responses to PSE and other stakeholders.