

Stakeholder Comments

Energy Imbalance Market

Submitted by	Company	Date Submitted
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The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to provide its comments to the California Independent System Operator Corporation's (CAISO) May 30, 2013 "Energy Imbalance Market (EIM) Revised Straw Proposal and Issue Paper" (Revised Straw Proposal). SMUD operates its system within the Balancing Authority of Northern California (BANC) Balancing Authority (BA) Area footprint and serves as the contract operator of the BANC BA, which is directly interconnected to the CAISO BA. SMUD is also a member of the Transmission Agency of Northern (TANC), which manages SMUD's share of entitlements to the 500 kV California-Oregon Transmission Project (COTP). The COTP makes up one third of the California-Oregon Intertie (COI), for which the CAISO serves as the COI Path Operator. SMUD has participated in numerous forums examining a west-wide EIM, including earlier discussion at the Western Electricity Coordinating Council (WECC) and the Public Utility Commissions EIM group and the ongoing discussions at the both Northwest Power Pool and the CAISO. SMUD therefore has a direct interest in the CAISO's EIM proposal both in terms of its policies and its operational impacts. Indeed, SMUD will be directly impacted by a CAISO EIM whether or not its Balancing Authority chooses to participate. Moreover, given the investment in time and resources made in this effort both by SMUD and other stakeholders, it is important that the design process be afforded sufficient time to address the outstanding design details and legitimate concerns raised by stakeholders.

Uplift Allocations

SMUD appreciates the CAISO's clarification on the proposed uplift allocation, as well as providing guiding principles for cost allocation. While SMUD generally agrees with these high-level guiding principles, it does have some concerns with respect to some of the proposed uplifts, as described below.

The CAISO proposes to allocate four different real-time uplifts to EIM participants:

- Real Time Imbalance Energy Offset (RTIEO)
- Real Time Congestion Offset (RTCO)
- Real Time Bid Cost Recovery Allocation

Flexible Ramp Up Cost Allocation

While SMUD does not necessarily dispute the uplifts the CAISO has identified, it does have lingering concerns with the certainty of these charges. First, SMUD's primary concerns are with the RTIEO and RTCO. For example, the CAISO's April 2013 report to its Department of Market Monitoring, titled "Annual Report on Market Issues and Performance" (Report), discusses the significance of both the RTIEO and RTCO charges. Indeed, these specific charges have been historically high and therefore the focus of analysis by the CAISO over the past few years:

Real-time imbalance costs for energy and congestion totaled about \$236 million in 2012, compared to \$165 million in 2011. [T]his was primarily attributable to increases in the real-time congestion imbalance offset costs, which rose from \$28 million to \$186 million. As explained later in this chapter, the increase in real-time imbalance costs for congestion was driven primarily by high real-time congestion prices on constraints whose flow limits were reduced in real-time. In most cases, these limits were reduced to account for unscheduled flows observed in real-time.

Real-time imbalance energy offset costs decreased from \$137 million in 2011 to \$50 million in 2012, the lowest yearly value since the nodal market began in 2009. As explained in the following sections, the decrease in real-time imbalance energy costs in 2012 was primarily driven by the suspension in virtual bidding on inter-ties in December 2011. Report at 90.

It is of particular note that the CAISO cites to the suspension of virtual bids at the interties as one reason at least the RTIEO has decreased. It is very likely, however, that virtual bidding will be reinstated at the interties through the Order 764 (15-minute market) implementation by the time EIM goes live or soon thereafter. Moreover, the RTCO has increased dramatically.¹ While there may be many reasons for this, it is clear that the CAISO's real-time market has experienced significant uplifts over the past and these costs will be shared with EIM participants. Given the fact that there are multiple design changes and additions impacting the real-time market occurring on or around EIM, including 15-minute markets and reinstatement of virtual bidding at the interties, these costs will be hard to predict.

SMUD also notes that costs associated with Flexible Ramping Allocations and Bid Cost Recovery have been sizeable in the past and have the potential to significantly increase over time.

At bottom, SMUD remains concerned that, should these uplifts somehow increase, cost allocation disputes will arise and many of the alleged benefits of an EIM will evaporate. Moreover, the initial proposed governance structure does not afford EIM participants sufficient protections in the CAISO's internal processes with respect to changes potentially influencing these costs. While the CAISO has indicated a willingness to consider other structures, this will not be known until the parallel process described in Section 3.8 (Market Rule Oversight) has concluded. In any event, SMUD believes, at a minimum, that metrics should be developed to ensure these charges are carefully monitored and that the causes of these uplifts can be

¹ The CAISO refers to "real-time congestion *imbalance* offset" costs, as opposed to what is referenced above, "real-time congestion offset" costs (CC6774). Based on the charge codes assigned, SMUD understands that these are one and the same.

separated with relative accuracy. This is especially important given the convergence of several design changes impacting the real-time market within a very short time period.

Market Rule Oversight

SMUD appreciates the CAISO's recognition and decision to address governance matters head on. To do so, the CAISO has proposed a parallel stakeholder process to commence in August. Revised Straw Proposal at 47. While SMUD does not object to a separate process, it is important that it remain in-sync with the other EIM activities. The governance process should not be allowed to proceed on a separate track to the extent it may lag behind the completion of this instant process.

Optimal Commitment

SMUD has viewed the concept of an EIM as an incremental sub-commitment/scheduling-interval market (to an hour-ahead or 15-minute ahead market). That is, the EIM is a market that could supply (or take) differences in loads and generation that weren't covered in the hour-ahead or 15-minute ahead schedules. Furthermore, we've also viewed the EIM as a form of an economy energy market – i.e., EIM Participants have already made their capacity commitment decisions, and the EIM provides a way for participants to more efficiently dispatch that capacity.

Contrary to this view, the CAISO has proposed to treat EIM bids as equal to other non-EIM bids by including EIM bids in Real Time Unit Commitment (RTUC), the proposed 15-minute unit commitment run. The CAISO states: “[t]he unit commitment function of RTUC does not affect the EIM Participating Resources because the commitment status of these resources is given, and not optimized.” *Id.* at 31. As such, inclusion in RTUC treats EIM bids as having the same firmness and capacity attributes as non-EIM bids that have procured transmission reservations for supply or load. This appears problematic.

SMUD is concerned that including EIM bids in with RTUC imputes some capacity value to EIM supply, which is the wrong signal to market participants, which are expected to bring sufficient capacity apart from EIM. This could incent participants to rely more heavily on the EIM for capacity. Accordingly, SMUD proposes exploring the concept of excluding EIM bids from RTUC, and introducing EIM bids post-RTUC for use in only in Real Time Dispatch.

Transmission Service

SMUD continues to support a charge for EIM use of *as-available* transmission and believes it should be included at EIM start-up. Alternatively, SMUD would be less concerned should the CAISO commit to its previously-stated (i.e., during the April 11th stakeholder meeting) limitation of 100 MW for EIM transactions between itself and PacifiCorp as a threshold for adding the charge. Obviously, should other entities join the initial EIM, this will likely exceed such a threshold.

SMUD is concerned that any co-optimization of EIM bids with non-EIM bids will advantage EIM imports/exports over non-EIM imports/exports which must secure transmission reservations. Moreover, this would appear to create a longer-term economic incentive for leaning on the EIM market to the possible detriment of reliable operations by lowering RTD prices below 15-minute prices. SMUD therefore urges the CAISO to initiate the EIM with transmission charges.

Greenhouse Gas Emissions Costs for Imports into California

SMUD appreciates the CAISO addressing the specific GHG costs for imports in its Revised Straw Proposal and supports the CAISO continuing discussions with the California Air Resources Board and stakeholders.

EIM Administrative Costs

SMUD previously raised questions about the CAISO's administrative rate of \$0.19 per MWh, effective October-December 2014. This rate is based on an EIM cost of \$96M divided by an allocated volume of 500 TWh. SMUD still cannot see how this rate can work under the existing participation level, particularly if we assume limited transfer capability between the CAISO and PacifiCorp of 100 MW.

While SMUD sought clarification during the last round of comments, the CAISO did not directly respond to SMUD's question, but rather restated its methodology. Therefore, for purposes of clarification, SMUD asks the CAISO to explain how the \$0.19 per MWh rate can remain when the calculation was based on an unrealistic volume of 500 TWh – i.e., reflective of a WECC-wide participation?

Further, the CAISO has only committed to this rate through December 2014. What would the rate be if only PacifiCorp participates after December 2014 and the volume remains significantly under 500 TWh?

The CAISO Must Separately Address Potential EIM Impacts to the California-Oregon Intertie

While SMUD understands that EIM dispatches are not intended to diminish existing non-participating transmission rights-holders, SMUD is still concerned regarding potential, or unintended, impacts on non-EIM transmission rights. To this end, SMUD supports the comments of TANC and its request for additional information, including studies and testing, especially as it pertains to the California Oregon Intertie.

Conclusion

SMUD reiterates its appreciation for the CAISO's efforts and looks forward to its responses to both SMUD and other commenters.