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EIM Transitional Committee
CAISO
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EIM Transitional Committee members,

Thank you for the opportunity to provide comments on the *Conceptual Models of Governing the Energy Imbalance Market* Issue Paper. Western Grid Group (WGG) has followed the development of the EIM closely over the past four years. WGG advocates for greater regional coordination, as it is critical to providing cost-effective, reliable electric service in the Western Interconnection.

The West will undergo significant changes in resource mix in the next several decades as some coal is retired, additional clean generation and natural gas is built, and energy demand is more actively managed. By necessity, management and operation of the grid will change to accommodate this more diverse, flexible portfolio. New tools and services will be developed and deployed that will make the Western Interconnection more reliable, flexible and resilient. Due to economic and reliability benefits, balancing area coordination will increase and consolidation will occur in response to the changing energy mix; replacing the current system of 38 individual balancing areas managing their own resources.

In the West the CAISO EIM service has emerged in part to assist with increasing variability of the generation fleet but, more importantly, it will provide increased reliability for those participating¹. The EIM is a prime example of the economic and reliability benefits of increased balancing area

¹ In its 2013 paper *Qualitative Assessment of Potential Reliability Benefits from a Western Energy Imbalance Market*, FERC stated "EIM could provide reliability benefits through:

- security constrained economic dispatch across the market footprint, which provides better management of imbalances and enhanced ability to manage flows within system operating limits, as well as enhanced opportunities to deliver energy from a diverse set of conventional and emerging technologies, such as demand response resources, for balancing;
- enhanced situational awareness;
- potentially fewer Energy Emergency Alerts;
- faster identification, dispatch and delivery of replacement generation after contingency reserve sharing assistance ends and for contingencies beyond reserve obligations; and
- assisting with the integration of variable energy resources."

www.ferc.gov/CalendarFiles/20141020173202-ER14-1578-001.pdf page 2.

coordination. The EIM is just one of many services contemplated by utilities in the Western Interconnection to improve grid operations, such as those studied in the Joint Initiative of Columbia Grid, Northern Tier Transmission Group and WestConnect. **Thus, as the Transitional Committee develops the EIM governance structure, it is important to build a structure that has sufficient flexibility that it can add services as participants request or as demonstrated to result in improved grid operation.**

WGG commissioned a report by Synapse Energy Economic, Inc. to estimate the benefits of the newly formed regional Energy Imbalance Market. The report was commissioned to illuminate all benefits – financial savings as well as reliability improvements – resulting from utilities participating in this market platform. The report presents a new method and results for quantified reliability benefits by estimating the Value of Lost Load (VOLL) applied to the September, 2011 Southwest outage. Using the VOLL method, the study finds that EIM reliability benefits far outweigh EIM costs.²

WGG believes, and studies have documented, that the market will be most effective and provide the greatest reliability and cost benefits the wider the geographic scope and number of participants. **To encourage broad participation in the EIM, and potentially other services in the future, WGG believes that the governance of the EIM must be completely separate from the CAISO.** An autonomous board could have a balance of individuals who are financially independent from those using the services and some representatives who are users of the system. It is most important that the board is not dominated by representatives of any one state. The board should include an opportunity for input by state regulators and public interest organizations to ensure the organization is run in the public interest.

The Issue Paper notes important considerations on the potential costs of an Autonomous Separate Entity for staff and facilities. **As the Transitional Committee continues its evaluation of governance structures, WGG recommends that it refine potential costs for staffing and facilities of an autonomous governance structure.** This will allow current and prospective market participants to evaluate whether an autonomous structure is worth the cost of independence. While there may be costs for administration of an autonomous board, the costs will be small relative to the costs of the operation of a market such as EIM.

The Issue Paper also contemplates the potential for conflict in tariffs filed with FERC by an autonomous board. Seams issues are a legacy problem inherent in the current operation of the Western Interconnection. As balancing areas increase coordination and consolidate and more shared services are developed, seams issues will be reduced. In the meantime, as the Issue Paper notes, careful coordination will be needed on seams issues.

WGG acknowledges that creating an autonomous governance structure may be more time consuming and add some costs. However, **long term, an independent structure will allow services to be**

² Peterson, P., Fields, S., Whited, M., Synapse Energy Economics, Inc., “Balancing Market Opportunities in the west: How Participation in an Expanded Balancing Market Could Save Customers Hundreds of Millions of Dollars,” Prepared for Western Grid Group, October 10, 2014. Web link: <http://www.westerngrid.net/wp-content/uploads/2014/10/EIM-Synapse.pdf>

developed that benefit all balancing areas and states in the Western Interconnection and not be tied to the practices, policies or tariffs of a single state entity.

WGG recognizes the many difficulties in designing a governance structure to meet current and future needs. We believe the Transitional Committee is well constituted and possesses the broad representation necessary to create an efficient and effective structure to support the EIM platform. We recommend that the Transitional Committee keep the end in mind and design a governance structure for an organization what will be able to provide services that utilities will need to make our electrical system increasingly flexible, clean and reliable. We look forward to continued participation in its efforts.

Best Regards,

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