

Western Power Trading Forum Comments on the CAISO's Energy Imbalance Market Design Straw Proposal

Ellen Wolfe, Resero Consulting, 916-791-4533, ewolfe@resero.com

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WPTF appreciates the opportunity to present comments on the ISO's EIM Design Straw Proposal of April 4, 2012 and the discussion that took place at the April 11, 2012 Stakeholder meeting.

WPTF supports the further expansion of open and efficient markets outside of the current CAISO footprint, and we appreciate the careful consideration the CAISO is giving to the incorporation of a real-time (RT) Energy Imbalance Market (EIM) into the CAISO's forward market, hour-ahead bidding process and intended 15-minute market. We offer some comments on the design proposal to date and the open issues below.

WPTF supports the ISO's proposal for T-75 bids and base schedules

The CAISO's proposal that EIM entities submit bids and base schedules at t-75 seems to offer a relatively smooth mechanism for folding EIM resources into the RT market. The CAISO has proposed to adjust the EIM base schedules to ensure feasibility. It is unclear how efficient these adjustments will be if performed to minimize the MW schedule movements the ISO makes. It is also unclear the extent to which EIM participants will actually follow the CAISO's adjusted base schedules and what will happen if unbalanced schedules are provided. We seek the CAISO's clarification regarding what – if anything – the ISO would do in these circumstances. More consideration of these aspects may be warranted.

WPTF seeks more information about the intended PacifiCorp topography

WPTF would find it helpful if the CAISO could provide generally the high-level topography associated with the PacifiCorp EIM, including the boundaries of the two PacifiCorp BAAs and the paths over which there would be transfer capacity available for EIM/ISO transfers. Based on information from the ISO, WPTF understands there to be about 100 MWs of transfer capacity. It would be helpful in judging the tradeoffs of accuracy versus simplicity on some of the outstanding policy issues to know on which paths the capacity resides and what other capacity on which paths might become available on what schedule.

In addition, further information about the anticipated Load Aggregation Price areas (LAPs) and the possibility of any additional trading hub prices for the PacifiCorp area would be helpful.

WPTF seeks further information about how resources at the non-ISO EIM ties will be treated

WPTF finds the ISO's proposal regarding treatment of the imports into the CAISO through the EIM somewhat ambiguous and incomplete. WPTF understood the ISO to indicate at the stakeholder meeting that the EIM/ISO seam would not be considered an intertie boundary in the traditional sense of CAISO interties. This raises questions related to where the interties would be located and how the transactions at those interties would be treated in the expanded market footprint. WPTF asks the ISO to provide further information about what the new intertie points would be with the PacifiCorp EIM and to explain generally how transactions at these ties would work. For example, would a market participant outside of the EIM and CAISO footprint be able to bid to sell into or out of the EIM/ISO RT market? If not, what options are available for participants on the other side of the traditional intertie but not located within the EIM boundary.

Further refinements are needed to the ISO's treatment of GHG at the EIM seam(s)

The CAISO has proposed to determine a blended EIM emissions rate and reflect emissions costs in the CAISO as bid adders in the CAISO's markets based on the CAISO's expected net flows into the CAISO from the EIM resources. Whereas it seems workable to rely upon net flows as a basis to determine the fraction of a generator's output imported into California, WPTF believes it will be important to otherwise address adders and import schedules on a resource-specific basis. While this may warrant individual dynamic transfer tags it will provide for information for GHG compliance that is entirely resource specific other than that used to allocate the resource's output to California versus non-California load.

WPTF also encourages the CAISO to further develop the design process for determining the net import flow and assigning bid adders. For example, it is unclear how the timing will work – how the CAISO will assess net flows in advance of the bidding process and what the implications will be of mismatches between forward estimated net imports and actual net imports. WPTF also requests additional information about how the CAISO intends to determine the appropriate GHG emissions rates for the bid adders and ultimately requests that the CAISO coordinate with CARB to ensure the design will comply with AB-32 requirements.

Consideration should be given to allocating reliability and RT market costs to exports to EIM areas and/or EIM measured demand

WPTF strongly encourages the CAISO to develop cost allocation policies for the EIM that reflect cost causation. For example, costs of managing the RT market seem reasonably borne by all users of the RT market. Additionally, if the CAISO is to make available certain services such as flexiramp for ramping needs and RT energy WPTF suggests consideration of whether it is appropriate to allocate these certain forward market costs to all EIM participants. Lastly, WPTF encourages discussion of capacity-like services such as DA RUC, CPM, etc. CAISO participants have an obligation for bringing capacity to the ISO markets, whereas the EIM participants may not be obligated to ensure their RT energy is backed by forward capacity. Given that disparity and given the CAISO's intention to extend its RT market to cover the EIM RT needs, it would be useful to further discuss how to ensure there is no shift in costs or burden

to those entities in the CAISO that back energy with RA or would otherwise be required to bear costs if the ISO is short of resources.

The process would benefit from additional information regarding the extent to which the ISO can rely on EIM resources for RT deliveries and the extent to which such resources may serve adjacent markets' RA needs.

At the stakeholder meeting, CAISO staff noted that they had not yet considered the interaction of the EIM real-time energy and the forward market and flexibility needs required of CAISO participants. For example, if the CAISO hopes to rely upon the exchange of ramping and balancing energy between the EIM and the ISO traditional footprint, how does this extend to the forward capacity requirements? Will LSEs be able to procure RA and flexible RA capacity from the expanded footprint in – for example – PacifiCorp's service area? If not, then a significant portion of the purported benefits of the EIM would seem to be unavailable to California LSEs, and resources in PacifiCorp would similarly be deprived of those potential benefits. (Of course local capacity requirements are expected to continue to exist in local areas and would not be serviceable from distant EIM resources.)

The CAISO should work expeditiously to develop a process for transmission cost recovery

Whereas the ISO indicated that it feels given the low level of transfer capability it is not important to fully resolve the issue of transmission access fees before the start of the EIM, WPTF believes that this is nevertheless a key issue in the broader EIM market design and requests that the ISO aggressively work this issue. WPTF supports a practical solution. However, we also advocate for a solution that offers comparable treatment between ISO and EIM participants and an outcome that provides regulatory certainty especially in light of trying to make the EIM appealing for other WECC entities.

WPTF strongly encourages discussions with other potential EIM participants to ensure the proposed EIM design is scalable and workable beyond just the PacifiCorp EIM entity.

Whereas the CAISO's straw proposal seems to go a long way toward a preliminary design that addresses the needs of PacifiCorp EIM, it is unclear how well the design would work for other potential EIM participants. To ensure this generic design is scalable to other BAAs we encourage the ISO to give strong consideration to other potential EIM entities' perspectives.

WPTF appreciates the consideration of the ISO, PacifiCorp and other interested parties. We would be pleased to provide further information on any of the points raised above and look forward to further discussions.