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September 22, 2015

Arizona Public Service Company (“APS”) is a wholly-owned subsidiary of Pinnacle West Capital Corporation and is engaged in the business of generating, transmitting, and distributing electricity in Arizona and serves more than one million retail electric customers within the state. APS executed an Energy Imbalance Market (“EIM”) Implementation Agreement with the California Independent System Operator (“CAISO”) to join effective October 1, 2016. APS has direct and substantial interest in the decisions related to EIM and, as such, offers the following comments related to the proposed Year 1 Enhancements Phase 2 Draft Final Proposal, dated September 08, 2015.

1. Standard base schedule treatment for e-Tags:

The final proposal seeks to establish a standard for use of e-tags when forming import/export base schedules to include accepted, pending, and adjusted e-Tags. The intention of the proposed rule is to ensure that neighboring EIM entities reflect the same import/export value. The proposal states that the “decision cannot be at the discretion of the EIM entity, because a base schedule import for one BAA is a base schedule export for the other BAA.”¹

APS recognizes the seams issue between the EIM entities however is concerned about making financially binding base schedules using pending e-Tags. Base schedules are financially binding inside the EIM market structure as well as through the EIM Entity Open Access Transmission Tariff. Base schedules have service implications which include Real Power Transmission Losses – a service to compensate the Transmission Provider for lost energy related to the physical use of the transmission system. Pending tags may never have physically used the transmission system to warrant charge for the service. APS recognizes that the customer is financially compensated for the losses difference through Locational Marginal Pricing² should the pending e-Tag ultimately rejected; however, APS has not had adequate time to gauge its customers’ feedback as a settlement process.

The settlement difference may create seams related to EIM entity recovery of its full cost of providing the Real Power Transmission Losses. Real Power Transmission Losses rates are designed based on actual physical use of the transmission system. Pending

¹ *Energy Imbalance Market Year 1 Enhancements Phase 2*, Draft Final Proposal issued September 8, 2015 at p. 4 https://www.caiso.com/Documents/DraftFinalProposal_EnergyImbalanceMarketYear1Enhancements_Phase2.pdf

² Locational Marginal Pricing includes compensation for energy, congestion, losses and greenhouse gases if applicable.

e-Tags that may ultimately be rejected are not embedded in the calculation and remain unclear to the extent of their future inclusion within the ratemaking and regulatory process.

APS requests more information on why pending tags should be included in the calculation, and suggests instead that the base schedules include only approved and adjusted e-Tags as a valid means to communicate an import/export base schedule to an EIM entity for purposes of imbalance settlement.

APS appreciates the opportunity to submit these comments and thanks the CAISO Board for its consideration thereof.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin Thompson", with a long, sweeping horizontal flourish extending to the right.

Justin Thompson
Director, Resource Operations & Trading