



# ORA

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## THE OFFICE OF RATEPAYER ADVOCATES' COMMENTS ON THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION'S JUNE 13, 2017 CONSOLIDATED ENERGY IMBALANCE MARKET INITIATIVES FROM 2017 ROADMAP ISSUE PAPER

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The Office of Ratepayer Advocates (ORA) is the independent consumer advocate within the California Public Utilities Commission (CPUC), with a statutory mandate to obtain the lowest possible rates for utility services, consistent with reliable and safe service levels, and the state's environmental goals. The following are ORA's comments and recommendations on the California Independent System Operator Corporation's (CAISO) three proposed Energy Imbalance Market (EIM) initiatives for 2017, which are (1) Third party transmission owner contribution for EIM transfers, (2) Management of Bilateral Schedule Changes in the EIM, and (3) EIM Net Wheeling Rate Charges.

### BACKGROUND

The Federal Energy Regulatory Commission (FERC) approved the western regional EIM as a voluntary real-time wholesale energy market that is allowed to operate on the "principle of reciprocity" without charging for transmission costs associated with energy transfers within the EIM. The EIM is allowed to operate on the principle of reciprocity because EIM participants are expected to receive a net gain from transferring and receiving energy in the EIM; hence, EIM participants do not need to charge for EIM transfers to cover their transmission costs. EIM participants are only required to pay transmission rates based on their local transmission costs, and are not levied additional transmission charges for their transactions in the EIM. The CAISO's benefit studies conducted before implementation of the EIM projected that EIM participant benefits would outweigh any transmission revenue losses.<sup>1</sup> The EIM benefits include access to an efficient real-time regional energy market that has extensive and diverse low cost energy resources; access to these resources reduces energy costs and increases reliability. This "principle of reciprocity" is consistent with direction from FERC to remove "pancaked" rates (transmission rate charges from different entities that are stacked on one energy transfer) within the CAISO and between regional transmission operators.

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<sup>1</sup> FERC Approval for EIM, Section I Transmission Charges and Administrative Fee:  
[http://www.caiso.com/Documents/Jun19\\_2014\\_OrderConditionallyAcceptingEIMTariffRevisions\\_ER14-1386.pdf](http://www.caiso.com/Documents/Jun19_2014_OrderConditionallyAcceptingEIMTariffRevisions_ER14-1386.pdf), ¶ 4 p. 4.

In its FERC filings, the CAISO committed to monitoring the EIM by comparing the actual net benefits of the EIM with the predicted EIM benefits.<sup>2</sup> The CAISO states that since the launch of the EIM market in November 2014, the net benefits of EIM have increased with additional EIM transfer capacity.<sup>3</sup>

The CAISO predicts that as the EIM expands and under certain circumstances, inequities in the EIM could occur, and for this reason it recommends three initiatives to address this possible outcome. These three proposed initiatives are: (1) Third party transmission owner contributions for EIM transfers, (2) Management of Bilateral Schedule Changes in the EIM, and (3) EIM Net Wheeling Rate Charges.

ORA provides the following recommendations.

### **THIRD PARTY TRANSMISSION CONTRIBUTION FOR EIM TRANSFERS INITIATIVE**

This initiative seeks to guarantee compensation for non-EIM third party transmission owners (third party TOs) that offer their excess transmission capacity on an ad hoc basis for use in the EIM. Currently, the majority of EIM energy transfers occur with the use of the transmission rights of the EIM entity. If there is a need, Scheduling Coordinators enter into contracts for transmission outside the EIM footprint, but these contracts require compensation for a set or defined period. Access to third party transmission on an ad hoc basis is advantageous, because it affords additional capacity without the requirement to pay for capacity if it is not needed.

The CAISO supports allowing third party TOs to provide additional transmission capacity through “pro forma” agreements with Scheduling Coordinators. CAISO states that its systems can support utilizing third party transmission and compensating third party TOs through transmission congestion revenues collected in the event that the EIM transfer becomes congested. The CAISO notes, however, that there is the possibility that third party TOs could be charged for providing their capacity rather than be compensated. This would occur when the congestion revenue collected for the transfer would not cover the settlements. To avoid this possibility, the CAISO proposes to provide third party TOs a guaranteed payment. Before forwarding this initiative to the EIM Board of Governors, the CAISO requests that stakeholders recommend a mechanism for guaranteeing payment and the entity that should pay for these possible charges.

#### ORA Recommendations

Further analysis should be conducted to confirm that third party TOs could be charged for providing their available transmission capacity on an ad hoc basis. During the June 20, 2017 stakeholder conference call, representatives from Powerex and Pacific Gas and Electric Company asserted that third party TOs can select the transmission direction they want to offer and, thus, avoid scenarios that would not provide a revenue gain. Based on these comments, ORA is not persuaded, at this time, that scenarios in which third party TOs would be charged for providing their excess transmission capacity

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<sup>2</sup> FERC Filing for the Energy Imbalance Market, Section VI Transmission Charges: [http://www.caiso.com/Documents/Feb28\\_2014\\_TariffAmendment\\_EnergyImbalanceMarket\\_ER14-1386-000.pdf](http://www.caiso.com/Documents/Feb28_2014_TariffAmendment_EnergyImbalanceMarket_ER14-1386-000.pdf), p.38.

<sup>3</sup> CAISO Issue Paper, Consolidated EIM Initiatives from 2017 Roadmap, June 13, 2017 (CAISO Issue Paper), p. 11.

for use in the EIM are likely. ORA is also concerned that providing a guaranteed payment along with possible congestion revenues may deter third party TOs from joining the EIM.

ORA recommends that the CAISO consider whether EIM entities that require additional transmission capacity should enter into *individual* short-term pro forma agreements with third party TOs that guarantee payment and/or cover any charges, rather than requiring all EIM participants to support these additional capacity payments.

### **MANAGEMENT OF EIM IMBALANCE SETTLEMENTS FOR BILATERAL SCHEDULE CHARGES INITIATIVE**

This initiative seeks to remedy the potential for significant charges to an entity that submits energy schedule changes after hourly base schedules are submitted. Currently, EIM entities can enter into bilateral schedule changes after hourly base schedules are submitted. EIM entities may receive imbalance fees for these schedule changes. However, whether a fee will be charged and the magnitude of the fee cannot be predicted at the time a schedule change is made. To remedy this uncertainty, the CAISO proposes to extend its wheel-through functionality offered in the EIM to allow participants to submit wheel-through and wheel-out bids at a later time period. The bids would only clear if the bid price differential is greater than the marginal congestion and losses costs.<sup>4</sup> This would limit the exposure to unlimited congestion and losses charges for wheel-through and wheel-out bids submitted after hourly base schedules. Since the CAISO cannot extend this functionality for wheel-in bids, it would not provide any allowances for wheel-in bids submitted after hourly base schedules are submitted. However, the same effect can be obtained via reductions to wheel-out transactions by reductions from generator base schedules.

#### ORA Recommendations

ORA recommends that CAISO consider comments from stakeholders regarding the value of this proposed change and conduct further analysis to determine 1) the impacts of the proposed scheduling change allowance on collected congestion and losses revenues, and 2) other potential impacts on congestion management costs to ensure that this initiative addresses scheduling issues and costs in an equitable and effective manner.

### **EIM NET WHEELING CHARGES INITIATIVE**

This initiative seeks to compensate EIM entities that provide their transmission to accommodate the transfer of energy from one EIM entity to another without benefits to their own territory. This type of energy transfer is referred to as a wheel-through transaction. Currently, there are two outcomes of this type of transaction. If there is congestion, the EIM entity that facilitates the wheel-through transaction receives congestion revenue. If congestion does not occur, the EIM entity that facilitates the wheel-through transaction does not receive congestion revenue. This initiative seeks to provide mutual benefits for wheel-through transactions when congestion does not occur. To provide mutual benefits for the wheel-through transactions when there is no congestion, the CAISO proposes a net wheeling compensation rate based on the extent of net wheeling across an EIM entity, and the cost associated with the wheeling not covered by the received congestion rent.

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<sup>4</sup> CAISO Issue Paper, Figure 3: Imports and exports through EIM, p. 9.

ORA Recommendations

ORA recommends further analysis to determine the net benefits of the EIM to participants that facilitate wheel-through transactions and whether additional compensation is necessary. This analysis should determine if any EIM participants that support wheel-through transactions when congestion does not occur have experienced a significant loss of revenue that is not offset by EIM benefits such as energy cost savings.

If you have any questions or comments, please contact Kanya Dorland at [Kanya.Dorland@cpuc.ca.gov](mailto:Kanya.Dorland@cpuc.ca.gov) or (415) 703-1374