



## Comments of Pacific Gas & Electric Company

### *Energy Imbalance Market Issue Paper*

Submitted by		Company	Date Submitted
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#### **I. Introduction:**

PG&E offers these comments on the Energy Imbalance Market (EIM) Issue Paper, “Conceptual Models for Governing the Energy Imbalance Market”<sup>1</sup>, developed by both the California Independent System Operator (CAISO) and by the EIM Transitional Committee (EIM TC). The Issue Paper describes three potential governance models for stakeholders to consider:<sup>2</sup>

1. Advisory Committee (Option 1)
2. EIM Governing Body with Specific Scope (Option 2)
3. Autonomous Entity (Option 3)

The Issue Paper recommends criteria by which to evaluate EIM governance proposals as well as assessments of critical legal, regulatory, legislative, and tax rules, risks, factors and feasibilities.<sup>3</sup> The Issue Paper then bounds the EIM governance options based on these assessments.

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<sup>1</sup> CAISO, “[Conceptual Models for Governing the Energy Imbalance Market Issue Paper](#)”, Jan 5, 2015.

<sup>2</sup> Issue Paper, p. 12.

<sup>3</sup> Issue Paper, pp. 5-6.

PG&E appreciates and acknowledges the work done by the CAISO and EIM TC to facilitate governance structures. The use of an Issue Paper by which to start discussions is a useful first step because it allows for discussion of scope and of critical considerations for the range of governance options considered.

Options 2 and 3 contemplate that the governance of the CAISO tariff can workably be split between two distinct autonomous governing bodies. Whether this is feasible requires further assessment. Details are needed regarding how such a structure would work, and how differing opinions between the two governing bodies would be resolved. In the absence of a workable split of responsibility for different sections of the CAISO tariff, the split-authority structure could have the potential to harm the ability to comprehensively design and operate an efficient real-time market. It could also have the potential to allow the carefully crafted balance of benefits and burdens currently provided to all of the participants in the EIM to be upset in the future.

Because of this concern, PG&E suggests the CAISO and the EIM TC expand the timeline and scope of the effort to develop the long-term EIM governance structure to ensure a thorough and comprehensive governance design process. With more time, in addition to the three options set out in the Issue Paper, consideration should be given to governance options that maintain a single governing body for the CAISO tariff, including its EIM provisions. Modifications to the current CAISO structure would necessarily involve changes to how the members of the governing board are determined. This evolution of the CAISO into an entity that provides wholesale electric market and operations services on a regional basis, and so is responsible to a range of states, not just California, is already anticipated by California law.<sup>4</sup>

PG&E is not advocating the status quo as an appropriate governance structure for the long term. But in the interim while the various options for the long-term governing structure are carefully vetted, the current governance model is adequate. The current CAISO Board of Directors coupled with the EIM TC have provided, and continue to provide, strong leadership for EIM-related decisions.

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<sup>4</sup> California Public Utilities Code Section 359 contemplates the possible evolution of the Independent System Operator into a regional organization via a regional agreement among cooperating party states. It anticipates that, among other things, the regional agreement would specify an equitable process for the appointment or confirmation by party states of members of the governing board of the Independent System Operator. Section 341.5 of the California Public Utilities Code anticipates that any such agreement regarding the apportionment of the board appointment function among the participating states would be filed with FERC pursuant to section 205 of the Federal Power Act, and be effective upon FERC's acceptance.

## II. Detailed Comments

### A. Details and examples of how to divide up authority over CAISO tariff sections that address Real-Time Market rules are needed to assess the feasibility of Options 2 and 3.

PG&E remains concerned about the feasibility of dividing governing rights over the real-time market tariff sections, including the EIM. Such a structure must be proven to be workable and supportive of comprehensive market designs. PG&E requests the CAISO and EIM TC provide additional details and examples on how such a division could work. PG&E expects these details will further inform the stakeholder discussion and highlight potential complexities of this path.

Examples of market design issues which could become difficult to design and manage under a split-authority structure could include requirements and rules for feasible and balanced real-time schedules and the allocation of costs to resolve infeasibilities in these schedules. Other examples may apply.

Focusing on the tariff provisions relating to feasible and balanced schedules, the EIM cannot be expected to work properly and for the expected benefit of all participants, unless it has, as a starting point, incoming schedules for each participating Balancing Authority Area (BAA) that are reasonably feasible and balanced. The CAISO achieves this for its BAA through its Day-Ahead Market. EIM entities, however, may not have such a structure. Section 29.34 of the CAISO tariff addresses this key issue, stipulating the requirements that EIM Entities must meet with respect to “base schedules,” and how the cost consequences in the EIM caused by inadequate base schedules in an EIM Entity’s BAA are allocated to ensure that those costs are allocated to the EIM Entity causing the costs, not to other participants in the EIM.

But which governing body would “own” Section 29.34? On one hand, Tariff authority for Section 29.34 could logically fall under the CAISO Board, under a split-authority structure. This is because portions of Section 29.34 were developed at the behest of CAISO participants seeking rules that ensured CAISO participants are not unfairly harmed by how EIM Entities establish schedules in their respective BAAs in the day-ahead time frame. On the other hand, these Tariff provisions might also belong under the authority of the EIM governing body because they apply directly to the EIM Entities.

Consideration of how best to resolve potential “dueling filings” by the two groups is also needed. A framework that ensures successful resolution of potential dueling filings before

they occur will be key to the viability of either option 2 or 3. The EIM TC charter recognizes this, stating that any proposed EIM governance structure should “[a]void[] the potential for dueling filings at FERC, and include[] a mechanism to resolve any disagreements between the EIM governance body and the ISO Board.”<sup>5</sup>

Thus, a framework to address potential dueling filings must be developed in order to assess the feasibility of either of the options that would split the governing responsibility for the CAISO tariff between two governing bodies, even though both would presumably share in some way over the governance of real-time markets.

**B. Governance criteria should prioritize a structure that supports real-time market efficiency and fairness, not EIM growth per se.**

The Issue Paper describes a preliminary set of criteria that the EIM TC believes are important to a successful implementation of the EIM for current and future market participants. This list includes the following: “Allow options to expand the functionality of the market to provide additional services as requested by EIM Entities.”<sup>6</sup>

In addition to important benefits like renewables integration, the primary benefit of the EIM is the market efficiency gains for electric customers. PG&E believes that prospective and current EIM Entities have been, and will be, motivated to join or participate in EIM in large part due to these efficiency gains.

As a result, PG&E recommends that development of the EIM governance structure should primarily focus on the Issue Paper criteria which emphasize the efficiency gains from the EIM, rather than the criteria to expand the functionality of the market to provide additional services as requested by EIM Entities. While expanding the functionality of the market to provide additional services could provide value, the expanded functionality’s effects on the real-time market would need careful consideration before adoption. Therefore, PG&E recommends that the current efforts to develop the EIM governance framework de-emphasize providing the capability to expand the market to include additional services until after the governance structure is established.<sup>7</sup>

**C. PG&E supports the extension of the timelines for the EIM TC to allow for thorough consideration of governance options, potentially including new options.**

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<sup>5</sup> EIM TC Charter, p. 11.

<sup>6</sup> Issue Paper, pp. 5-6.

<sup>7</sup> Issue Paper, pp. 6-7.

The Issue Paper provides a helpful list of three EIM governance options for stakeholder consideration. PG&E agrees that each of those options should receive consideration.

As discussed in the introduction to these comments, PG&E recommends that, in addition, consideration be given to options that maintain a single governing body for the CAISO tariff, including its EIM provisions. Options for consideration would include an equitable process for the appointment or confirmation, by participating states, of members of the governing board. Such an option might provide the best platform for ensuring the efficient operation and possible future expansion of the EIM.<sup>8</sup>

PG&E recognizes that full consideration and implementation of this approach for the long-term governance of the CAISO tariff, including its EIM provisions, would take some time. In the interim, the current structure, including the EIM TC, is working effectively. To date, the current governance model – under which the CAISO Board has oversight of the real-time market, with the advice and counsel of the EIM TC on the EIM tariff sections – has worked to provide responsive and decisive actions that ensure the EIM is functioning well and that EIM Entity stakeholders have an effective voice on key matters.<sup>9</sup>

#### **D. Costs of alternatives need further detail.**

Differing structures will have different costs impacts. PG&E would ask that the CAISO identify the various cost implication of each structure in more detail, including costs of items like tax impact. The Issue Paper notes, in a footnote, that maintaining the CAISO's current tax exempt status may be place restrictions on the options that can be considered here.<sup>10</sup> Stakeholders need further information on these matters in order to effectively opine on the range of governance options, and how tax considerations might affect their feasibility and/or desirability. For options that would require a change in tax status to implement, the costs of

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<sup>8</sup> See California Public Utilities Code Section 359 which contemplates the possible evolution of the Independent System Operator into a regional organization via a regional agreement among cooperating party states. It anticipates that, among other things, the regional agreement would specify an equitable process for the appointment or confirmation by party states of members of the governing board of the Independent System Operator. Section 341.5 of the California Public Utilities Code anticipates that any such agreement regarding the apportionment of the board appointment function among the participating states would be filed with FERC pursuant to section 205 of the Federal Power Act, and be effective upon FERC's acceptance.

<sup>9</sup> Actions by the CAISO Board to support the EIM include: the alternate EIM Launch plan ([Memo - Decision on implementation of EIM, ER14-1386, ER14-2484, and ER14-2834](#)), the Request for a 90-Day Tariff Waiver to authorize additional price-correction authority, ([ER15-402](#)), T the Request for Tariff Waiver to allow additional price corrections between launch and November 14<sup>th</sup> 2014 ([ER15-817](#)), Authorization of the 12-month transition period ([Memo - Decision on EIM Transitional Period Proposal, \(ER15-861\)](#)), and the Request to Remove the Volumetric EIM Administrative Charge, ([Memo – Decision on EIM Administrative Charge Design, ER15-850](#)).

<sup>10</sup> Issue Paper, p. 14 fn. 9

that change should be estimated if possible. PG&E likely supports governance models that retain the current tax status.