

Consolidated EIM Initiatives from 2017 Roadmap Straw Proposal
Comments Submitted on behalf of Public Interest Organizations

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Submitted by:

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These comments are submitted on behalf of the following Public Interest Organizations (PIOs): Western Resource Advocates (WRA), Natural Resources Defense Council (NRDC), and Western Grid Group (WGG). We appreciate the opportunity to be involved in the California Independent System Operator's (CAISO) Energy Imbalance Market (EIM) stakeholder processes and submit the following comments for consideration.

Introduction

On July 31, 2017, CAISO issued its Consolidated EIM Initiatives from 2017 Roadmap Straw Proposal. The purpose of this straw proposal is to consolidate certain EIM-related items from the roadmap into one effort. The CAISO selected the following three issues to be included in the Consolidated EIM Initiatives: (1) Third Party Contribution of Transmission to the EIM; (2) Management of Bilateral Schedule Changes; and (3) Equitable Sharing of EIM Wheeling Benefits.

PIOs see value and support continued analysis where needed on the first two topics, but have concerns with CAISO's proposed approach to the third topic. The EIM, by definition, provides benefits to participating source and sink Balancing Authority Areas (BAAs) by serving their load at a cheaper price or dispatching their generation economically. The relative simplicity of the EIM's market design, resulting in significant benefits for EIM participants, is one of the trademarks of its success. PIOs strongly caution against the development of transmission compensation schemes to address perceived inequities of EIM wheeling benefits. Not only will these schemes unnecessarily complicate the EIM's market design thereby undermining its benefits, but they appear to be a solution in search of a problem, given that all EIM BAAs are importing and exporting more than they are facilitating wheeling.¹

¹ California ISO, Consolidated EIM Initiatives from 2017 Roadmap Straw Proposal 18 (July 31, 2017).

I. THIRD PARTY CONTRIBUTION OF TRANSMISSION TO THE EIM

PIOs support CAISO staff's proposal to discontinue work on this topic until there is clear interest by companies in contributing transmission to the EIM. Stakeholder comments to CAISO did not indicate an interest by companies in providing third party transmission to the EIM. PIOs believe there is no need for further analysis at this time.

II. MANAGEMENT OF BILATERAL CONTRACT CHANGES

PIOs support continued work on this topic. PIOs appreciate CAISO's efforts to resolve seams issues between the EIM and the bilateral market, but are also sensitive to the concerns of current EIM market participants regarding whether this particular proposal will be feasible or commercially attractive for market participants.² At this time, PIOs are unable to take a particular position, but do support continued analysis by CAISO staff on this important issue.

III. EQUITABLE SHARING OF EIM WHEELING BENEFITS

PIOs oppose consideration of transmission compensation schemes at this time. Currently, an EIM entity facilitating a wheel-through receives no direct financial benefit for facilitating the wheel; only the sink and source BAAs receive a direct financial benefit. Of primary concern to PIOs is the very real risk that changing this model by developing complex transmission compensation schemes for equitable sharing of EIM wheeling benefits could reduce the EIM's overall benefits by creating market inefficiencies. For example, PacifiCorp recently noted that such transmission compensation schemes may reduce incentives for EIM entities to make investments in their resources that create flexibility in the market.³

Furthermore, according to CAISO, all current EIM BAAs are sources or sinks for more kilowatt hours than they are facilitating wheeling.⁴ This is significant because when a transaction sinks or sources in an EIM BAA, the entity is benefiting by serving their load at cheaper price or dispatching their generation economically. EIM participant Arizona Public Service (APS) currently experiences the highest amount of net wheeling relative to import and export amounts.⁵ It is worth noting that as the EIM's major wheeling entity, APS has *not* objected to

² See: Comments of PacifiCorp on the Consolidated EIM Initiatives 4 (June 30, 2017); Comments of NV Energy on the Consolidated EIM Initiatives from the 2017 Roadmap 2 (June 30, 2017).

³ See: Comments of PacifiCorp on the Consolidated EIM Initiatives 5 (June 30, 2017), where PacifiCorp notes the following: "Innovation and flexibility provide benefits and help states meet renewable energy goals. If the incentives for EIM Entities to invest in innovation and flexibility are impeded by additional costs and hurdle rates, *a reduction in overall EIM benefits would likely result* [emphasis added]."

⁴ California ISO, Consolidated EIM Initiatives from 2017 Roadmap Straw Proposal 18 (July 31, 2017).

⁵ According to CAISO, APS experiences wheeling in 45.20% of their total EIM transactions. *Id.* at 17, 19.

the current system and has touted the significant benefits they are receiving from their participation in the EIM.⁶

While PIOs appreciate CAISO's efforts to identify potential solutions to what some view as inequity in the sharing of EIM wheeling benefits, PIOs oppose the consideration of transmission compensation schemes at this time. Rather, PIOs recommend that CAISO not focus on the relatively minor issue of compensation for use of transmission for EIM wheeling because it distracts companies, regulators, and stakeholders from the significant benefits each EIM participant receives from market operations. Excessive focus on minor transmission cost shifts (to the extent there are any) has resulted in past failures to create efficient markets in the West. It is the opinion of PIOs that we cannot afford to set up conditions where once again the tail (transmission revenues) wags the dog (benefits of markets in achieving lower cost dispatch).

Notwithstanding the foregoing, PIOs acknowledge that certain stakeholders see value in resolving cost shift concerns before they *do* become a problem. Should CAISO decide to address this issue in the near future, PIOs believe the "ex-post payment for net wheeling" option is the least disruptive to the market because it does not impact every EIM transaction and would adapt well to a changing market footprint, market conditions, and transmission flows. We would welcome the opportunity to comment on this issue in further detail if it is raised again in future CAISO deliberations.

Conclusion

PIOs appreciate the opportunity to submit comments and look forward to continued work with the CAISO and other interested stakeholders on these important topics.

⁶ See: "APS Customers Save \$6 Million in First Quarter of EIM Participation," Feb. 1, 2017, <https://www.aps.com/en/ourcompany/news/latestnews/Pages/aps-customers-save-6-million-in-first-quarter-of-eim-participation.aspx>.