



Comments of PacifiCorp on the Consolidated EIM Initiatives

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Introduction

PacifiCorp hereby submits the following comments to the California Independent System Operator Corporation (“ISO”) on its Consolidated Energy Imbalance Market (“EIM”) Initiatives issue paper dated June 13, 2017, (“Issue Paper”). The Issue Paper addresses three EIM initiatives from the ISO’s 2017 stakeholder policy initiatives roadmap: third-party transmission contribution, management of bilateral schedule changes, and net wheeling charge.

Stakeholder Process

PacifiCorp is concerned that the stakeholder process schedule is too aggressive for these complicated issues. Further, PacifiCorp cautions that whatever is done to resolve these issues must be fair and unbiased, and incenting new transmission in the EIM should not result in EIM Entities or their load customers bearing disproportionate costs.

Third-Party Transmission Contribution

The Issue Paper explains that although a third-party cannot be paid directly by the ISO for transmission contributed to support EIM transfers, a third-party could receive congestion revenues through the real-time congestion offset (“RTCO”). As such, the functionality of the proposal for third-party transmission contribution is dependent on the RTCO mechanism. In general, while PacifiCorp agrees with the statement in the Issue Paper, that “[t]he overall financial benefit of the Energy Imbalance Market increases with additional transfer capacity across interties between balancing authorities in the EIM area,” the mechanism that delivers additional transfer capacity must be transparent and fair to all EIM market participants. PacifiCorp has some concerns that the RTCO, as it is implemented and settled today lacks sufficient, verifiable transparency such that it can be easily shadowed and validated.

The current RTCO billing determinants do not distinguish between payments being received by the EIM Entity for congestion rents on the EIM transfers and payments being received for items unrelated to the EIM transfers such as generation and load nodal congestion differences within



the balancing authority area (“BAA”). The lack of ability to validate congestion rent payments for EIM transfers currently being shared between two adjacent BAAs already presents a risk to EIM Entities. Adding incremental participants in the sharing of an amount that cannot be verified does not seem reasonable without the ISO providing billing determinants to directly show the amounts being received or paid for congestion rents in EIM transfers. The ISO should provide RTCO billing determinants that show the EIM transfer quantity and congestion rent prices and resulting congestion rent dollar amounts associated with those quantities by EIM transfer point by interval. These dollar amounts should then be shown as an input to the calculation of the total RTCO balance for each interval. It will be especially critical for the RTCO to produce verifiable results where there may be more than one entity contributing transmission capacity at an EIM transfer tie so that each entity can validate that it received the appropriate amount of RTCO congestion rent in proportion to the transmission capacity it contributed (relative to other contributions) at that EIM transfer tie.

Before the third-party transmission contribution proposal can move forward, the ISO should produce additional information and any related proposals on how ensure market transparency and shadow settlement accuracy for the RTCO.

PacifiCorp also requests that the ISO clarify its terminology used in the Issue Paper. The Issue Paper repeatedly refers to “third-party transmission owners”¹ as entities which have expressed interest in providing unused transmission from the bilateral market for EIM transfers. This term lacks precision; precision is important in this context because there will be very different Open Access Transmission Tariff (“OATT”) implications depending on the scope of the proposal and what kinds of entities it applies to. PacifiCorp requests that the ISO provide clarification for the following questions:

- Does the proposal apply to a non-EIM entity transmission provider?
- Does the proposal apply to a transmission customer of a non-EIM entity transmission provider which has contracted for transmission rights under the non-EIM entity transmission provider’s OATT?
- Does the proposal only apply to contracted transmission rights or does it also apply to Available Transfer Capability (“ATC”) that has not been scheduled on an hour-ahead basis?
- Depending on the clarifications to *each* of the above, which entity is likely to be the Scheduling Coordinator referred to in the Issue Paper?

Additionally, as a point of clarification, it should be understood that the current RTCO functionality for congestion revenues applies only to EIM transfer ties; it does not consider transmission capacity being made available *internal* to an EIM Entity’s BAA. PacifiCorp requests clarification regarding whether third-party transmission contribution is intended to apply only to transmission capacity made available on EIM transfer ties or if it would include

¹ A third-party transmission owner is not necessarily also a transmission provider. For example, PacifiCorp has some third-party transmission owners inside of its BAAs that do not administer their own transmission tariffs and are transmission customers of PacifiCorp.



transmission capacity internal to an EIM BAA or across a non-EIM BAA, potentially to help relieve internally managed rate of change constraints.

Assuming that the RTCO mechanism can be validated as sufficiently transparent and shadowable to support this proposal, any framework for the distribution of congestion rents must be on the same basis as current processes used today as they apply to EIM Entities. In other words, there should be no unique settlements that apply to third-party transmission contributions that are also not made equally available to EIM Entities which receive RTCO settlements today for transmission capacity that is being used to facilitate EIM transfers. As such, PacifiCorp does not support establishing any kind of “make whole” payment that would insulate third-party transmission contributions from charges or that would provide netting of charges over intervals that is not also available to other RTCO and related settlements. A third-party transmission contributor should be exposed to the same risks as EIM Entities. Allowing a non-EIM entity to contribute transmission with no downside risk of schedule changes with regard to congestion would be biased and unfair relative to the risk EIM Entities currently face on donated transmission.

Operational constraints on the California-Oregon Intertie (“COI”) are an added layer of complexity that the ISO should address in its proposal and how the compensation mechanism would work where transmission capacity for EIM Transfers is required to be implemented on a static, 15-minute, and a dynamic, 5-minute capacity basis. How would the market differentiate between static and dynamic capacity of the donated transmission in terms of allocating congestion revenues? For example, if the non-EIM entity path operator contributes 300MW of static transmission on the COI, but only 50MW of dynamic capability is allowed, how would the allocation of congestion take this into consideration?

Moreover, PacifiCorp believes that the proposal should explicitly address how market power potential is addressed in light of the possibility of transmission capacity withholding where the entity contributing the transmission may also be a transmission provider or path operator with the ability to constrain dynamic capability and/or all flows on an EIM transfer tie.

With respect to the timing of transmission contribution, PacifiCorp requests that the ISO propose timing that is consistent with how EIM Entities currently contribute transmission for EIM transfers under their tariffs. An EIM Entity transmission customer must submit its transmission donation to the EIM 75 minutes prior to the operating hour (“T-75”) using the OATT EIM interchange rights holder mechanism, and 40 minutes prior to the operating hour (“T-40”) using ATC. The ISO’s proposal must ensure that third-party contribution is on the same interval basis as EIM Entities.

Management of Bilateral Schedule Changes

The Issue Paper provides that the ISO’s current wheeling functionality can be used to manage bilateral schedule changes that source in the EIM footprint or wheel across the EIM footprint, which would allow market participants with potential bilateral transactions to express a bid price



at which the balanced source/sink pair would result in a schedule change. This is intended to allow market participants to use “wheel bids” to manage their exposure to imbalance settlement for bilateral schedule changes made after base schedules are submitted. The Issue Paper further provides that the wheel bids would need to be submitted by T-75.

As an initial matter for clarification, the Issue Paper states: “Currently only EIM entities and a small number of third party participants bid into the EIM.” PacifiCorp notes that this is not a precise description, as EIM Entities do not bid into the market *per se*. Rather, EIM Entities have merchant functions which are separate market participants, which have distinct scheduling coordinator identification numbers (“SCIDs”), and which participate in the EIM with EIM participating resources. Further, some EIM Entities have within their BAAs unaffiliated, third-party market participants which participate in the EIM with EIM participating resources. These participating resource scheduling coordinators are the parties who actually submit bids into the EIM. PacifiCorp requests that future drafts of the proposal be more precise in this regard.

With respect to the wheel through portion of the proposal, PacifiCorp does not object to the proposal as set forth in the Issue Paper in principle but is not confident, based on the paper and on the explanatory webinar, if the proposal will be feasible or commercially attractive for market participants. PacifiCorp observes that if the wheel bids used to manage exposure to potential imbalance congestion do not clear the market, the transaction will not flow, essentially making the transaction only applicable to the limited category of non-firm energy which is problematic for load service transaction and also more challenging for the source and sink BAAs to manage and control.

Net Wheeling Charge/Equitable Sharing of Benefits

The Issue Paper describes the issue of EIM transfers occurring in which energy wheels through an EIM BAA without sourcing or sinking in that BAA, and poses the question: Should the source and sink EIM Entities accrue the benefits of the transaction, as the current EIM structure provides, or should the wheel-through EIM Entity share the benefits in return for facilitating the transfer? PacifiCorp understands that the scope of this initiative purports to be limited to net wheeling compensation and does not include any proposals to redesign the current EIM transmission rate and the principle of reciprocity.

The Issue Paper suggests that existing ISO functionality could be used to reallocate congestion revenues in RTCO to the wheel-through EIM Entity facilitating the transfer when congestion occurs. However, policy development is necessary to reallocate congestion rents or provide a wheel-through charge when congestion does not occur.

As an initial matter, PacifiCorp refers to its comments herein related to the proposal to reallocate congestion revenues using the RTCO mechanism. With respect to any proposal to reallocate congestion rents or provide a wheel-through charge when congestion does not occur, PacifiCorp does not support the development of new policy.



The EIM uses ATC that was not scheduled on an hour-ahead basis which provides a more efficient outcome to the system. An EIM Entity that would realize additional revenue without changes in its resource schedules would lose the incentive to make additional investments in its own resources that create flexibility in the market. In other words, pricing incentives would no longer drive the EIM Entity to create additional flexibility on its existing resources. For example, PacifiCorp has been incented to make additional investments in its resources to provide greater flexibility in the market in response to EIM pricing signals, such as creating lower minimums on thermal facilities. Allowing a third party to share in the revenue that an EIM Entity made possible by investing in its assets, dilutes the incentive for the market to provide solutions going forward and creates a windfall opportunity to an entity simply due to geographic location. If the EIM Entity is being wheeled through without realizing a reciprocal benefit, e.g., an inability to facilitate an export or import due to the EIM Entity's limited capacity that it bid into the market, then that EIM Entity should evaluate how it can make better investments in its own resources to realize greater benefits. Innovation and flexibility provide benefits and help states meet renewable energy goals. If the incentive 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.

In addition, PacifiCorp believes there is no compelling evidence that proves the EIM alone has imposed a loss of revenue on existing transmission wheeling revenue for bilateral transactions. Providing additional revenue to the wheel-through EIM Entity would result in compensating an EIM Entity that may potentially be unequitable.

Conclusion

PacifiCorp appreciates the opportunity to submit these comments and looks forward to continuing to work with the ISO and stakeholders on these issues.