

November 4, 2013

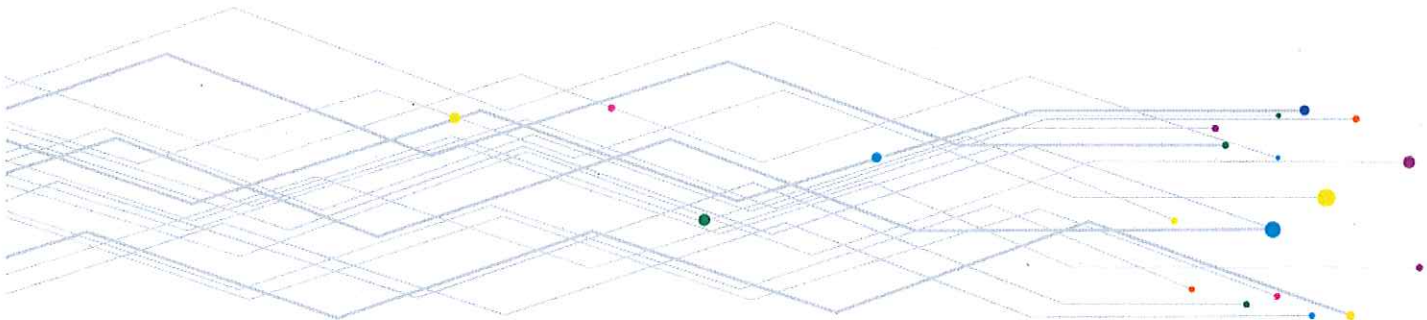
CAISO Board of Governors
P.O. Box 63901
Folsom, CA
95763-9014

Dear Board of Governors,

Powerex is supportive of the development of an Energy Imbalance Market (EIM) in the western interconnect. A carefully constructed EIM can be expected to provide substantial market efficiency benefits while enhancing reliability through increased situational awareness in both the day-ahead and real-time timeframes.

Powerex commends the CAISO management and staff for their substantial market design and stakeholder engagement efforts over the past several months on this initiative. However, despite these tremendous efforts, Powerex believes the current EIM proposal raises significant risks of unintended and undesirable market outcomes. Quite simply, the timelines for this stakeholder initiative were far too aggressive to allow for sufficient time to thoroughly explore and discuss key market design details. This is perhaps best evidenced by the fact that a lone stakeholder, PacifiCorp, has indicated that it unconditionally supports full deployment of the EIM by October 2014; all other commenters on this issue either objected to this aggressive timeline or otherwise expressed concerns. In Powerex's view, it is far more important to design the market right the first time, than to achieve an accelerated implementation timeline.

Numerous identified seams and implementation issues have yet to be resolved and a more fulsome stakeholder process is necessary to identify the universe of such issues. Stakeholder consensus is absent on a number of critical EIM design components. For example, a full 60% of stakeholder commenters objected to or otherwise raised concerns relating to distortions that would be caused by the proposal not to impose a transmission charge for initial EIM transfers. Both the number and complexity of these unresolved issues are greatly expanded by the tremendous differences between the bilateral OATT market design and the LMP market design in which PacifiCorp and the CAISO, respectively, will continue to operate.



Powerex is particularly troubled with several key design elements, including:

- The CAISO's proposed approach to resource sufficiency and capacity-neutrality, which will expose the CAISO and/or PacifiCorp to the potential for a resource sufficiency shortfall in real-time;
- The "free CAISO transmission" proposal, which is both discriminatory and can be expected to be disruptive to wholesale energy and transmission markets as the transfer capability expands;
- The transmission access charge reciprocity framework proposal, which will lead to reduced CAISO and PacifiCorp third-party transmission revenues and increased costs to native load over time, by allowing "free wheel-throughs";
- The CAISO's approach to carbon, which will lead to unintended market outcomes, while increasing the risk that jurisdictional issues may become a barrier in the approval process;
- The CAISO's approach to apply its local market power mitigation broadly to all suppliers in the EIM, which will serve to reduce liquidity and participation.

Powerex urges the Board to limit the first phase of the EIM to the PacifiCorp footprint only. This approach will afford additional time for the CAISO and stakeholders to work through key EIM issues such as carbon, transmission pricing and resource sufficiency, prior to the enabling of CAISO-EIM transfers.

Powerex also urges the Board to extend the stakeholder process of this initiative by at least six more months to allow for sufficient discussions to take place at a more detailed level on the numerous complex issues involved in this initiative.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael MacDougall". The signature is fluid and cursive, with a large loop at the end.

Michael MacDougall,
Director, Trade Policy