

**SOUTHWESTERN**  
Power Group II, LLC  
An Energy Company - Alliance Builder

January 26, 2015

EIM Transitional Committee

(Sent via email to [EIM@caiso.com](mailto:EIM@caiso.com))

Dear Transitional Committee,

We respond herein with our comments to the January 5, 2015 Issue Paper titled, "Conceptual Models for Governing the Energy Imbalance Market". We have been following the development of the EIM and participated in several EIM stakeholder meetings in Arizona (generally organized by the PUC EIM group) over the past few years. SouthWestern Power Group is an independent developer of utility-scale generation and transmission projects with a focus on markets in the desert southwest.

First, let me state that we are supporters of the EIM and are hopeful that Arizona and then New Mexico utilities will soon decide to join the EIM. We believe this will bring direct benefits to those utilities, their ratepayers and those that want to participate in a future EIM market, as well as indirect benefits to other stakeholders. We will not be a direct beneficiary of an expansion of the EIM to Arizona since we do not own or operate any generation or transmission assets. The projects that we are developing however will benefit indirectly from such an expansion of the EIM and thus we have a direct interest in the EIM.

We respond below to the questions posed in Section E. Additional Factors and Questions to Consider of the Issue Paper. Our responses are highlighted in yellow.

1. With respect to the "Advisory Committee" model, is it necessary for the EIM body to have at least some degree of authority to change market rules, or could it be sufficient to have only advisory authority over EIM matters (with the ultimate authority held by the ISO Board)?

We think it's advisable for the Advisory Committee to have some degree of authority to change market rules. This will provide the Advisory Committee with some ability to improve operation of the market and not rely 100% on the ISO Board for such changes.

2. Could the "Advisory Committee" model involve a board that consisted of stakeholder representatives, like the Transitional Committee, instead of independent members? **Yes.** Would it be possible for such a stakeholder group to reach agreement concerning market rule changes given their conflicting financial interests? **Yes.** Would it matter if the body could not reach unanimity? **No.** The Committee notes its charter does not contemplate an EIM body that would include stakeholder representatives. The Committee nevertheless seeks stakeholder feedback on the issue because it understands that an important driver for having an EIM body comprised of members who are independent of stakeholders would be to enable the ISO to delegate types of authority to the body. Would it be preferable to have a body that includes stakeholder representatives even if that meant the body would have advisory authority only? **We believe this would be helpful, however the real issue is the number of stakeholders/classes of members and the voting rules.**

3. With respect to the model "Governing Board Established by California ISO Bylaws," does it offer enough autonomy to maximize the overall benefits of the EIM? **Probably, however the issue is not just about maximizing the overall benefits. Autonomy will provide potential market participants with comfort that the governing body will be more independent than the Advisory Committee model.** How might potential participants in the EIM react to this model (that is, in contrast to the model of an "Autonomous Separate Entity")? **We are not sure, however we believe they will prefer it to the Advisory Committee model. It is difficult for us to calculate the incremental benefits of an Autonomous Separate Entity (over the Governing Board under Bylaws model) and balance this against the additional cost and challenges of the Autonomous Separate Entity model. And if so, how significant is this factor? Fairly significant. In general, we believe potential participants will want more independence than the Advisory Committee model.**

4. The model involving an "Autonomous Separate Entity" raises questions related to additional costs. Those additional costs could undermine a key premise for the EIM business model – i.e., low costs to enter and none to exit – and terms on which PacifiCorp and NV Energy entered the EIM. The additional costs would include, Staffing, Facilities, Tariff Management, Costs of contracting with the ISO, Costs to market participants and Transaction costs. Would these types of costs, or other potential costs, be worth incurring in order to have the EIM governed through an autonomous entity?

**It is difficult to say without knowing what the range of incremental cost might be for the Autonomous Separate Entity model. Keeping operational costs down during the early years of the EIM is important in our view, particularly because we believe it is important to attract additional participants and expand the EIM footprint across the WECC. We suspect that the additional and intangible benefits of moving from the Governing Board under Bylaws model to the Autonomous Separate Entity is not worth the additional cost, certainly during the early years.**

5. Would negotiation with the ISO over proposed market rule changes be sufficient to avoid a risk of dueling filings at FERC, or would additional steps be necessary?

**We are not sure whether this would be sufficient however we suggest that this be the starting point during the early years and then learn from the initial experience.**

6. The EIM co-optimizes with the real-time market for California, and thus is tightly integrated with the ISO's 5- and 15-minute markets. Accordingly, an overriding practical issue associated with granting control over the EIM market rules to a separate entity would be the risk that the EIM market rules could diverge to an unworkable degree from the ISO's other markets. After a certain degree of differences, the ISO (and in turn, the EIM entity) may not be able to offer the EIM on the same terms that the ISO does now – i.e., with low cost to enter, no exit fee or lengthy notice required. What is the significance of this risk for the "Autonomous Separate Entity" model? We believe it is fairly significant and therefore would need further study and definition of potential risks. Does the model have additional value that would justify the risk? It seems to us that the additional value (over the Governing Board under Bylaws model) is questionable (at least at this point) and that the additional cost and potential risk of working with the ISO is more certain. Thus in our view, the cost/benefit outlook of moving from the Governing Board under Bylaws model to the Autonomous Separate Entity is probably not sufficient to justify doing so.

Our thoughts on the way forward regarding governance are as follows:

1. It is important for the EIM to expand by including additional members/participating utilities

This means that the EIM and its governance should be as attractive as possible to as many potential participants as possible, at least for the next 3 to 5 years.

2. It is important for the EIM to keep costs down, particularly during its early years of operation

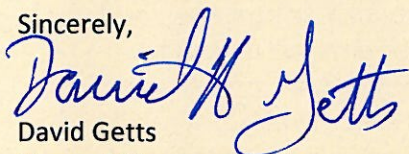
This means that more weight should be given to adopting a governance model that does not add significant additional cost or operational challenges right now.

3. There is a balance to be struck between complete independent governance (which is likely to be a long-term goal of the EIM) and a pragmatic approach to working with the ISO Board of Governors and the ISO during the early years of EIM operation and hopefully expansion.

This means in our view that the likely preferred governance model is the Governing Board under Bylaws. After the EIM has several years of experience and hopefully some additional participants, the issue of governance and structure should probably be revisited. As the EIM grows, expands its footprint and gains operational experience, we suspect that the participants will want to move to an Autonomous Separate Entity. This would seem to us to be a normal maturation and development path.

We appreciate the opportunity to comment on the Issue Paper and look forward to supporting the EIM as it matures and hopefully grows.

Sincerely,



David Getts  
General Manager