

## **Comments of Pacific Gas and Electric Company**

### *EIM Year 1 Enhancements Phase 2 – Issue Paper and Straw Proposal*

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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Pacific Gas and Electric Company (PG&E) offers the following comments on the California Independent System Operator's (CAISO) Energy Imbalance Market (EIM) Year 1 Enhancements Phase 2 June 30, 2015 Issue Paper and Straw Proposal.

PG&E continues to support the development of the CAISO's EIM, and the CAISO's efforts to refine and enhance the market as EIM participants gain experience and new EIM entrants join. Overall, PG&E does not object to the CAISO considering the issues it has scoped out in the Issue Paper and Straw Proposal. However, for most of the issues, more detail is needed in order for PG&E to provide an initial assessment. PG&E looks forward to working with the CAISO and other stakeholder to evaluate the proposed EIM rule changes as the CAISO provides more detail and expands on its proposal.

PG&E's primary comments are:

1. The CAISO should provide more details, economic analysis and examples for each of the alternative compensation methods for EIM-transmission usage.
2. PG&E supports an evaluation of the impact of PacifiCorp base schedules on the CAISO's real-time congestion offset in order to understand the extent of the issue.
3. The CAISO should provide a clear set of after-the-fact data to evaluate the settlement options of real-time congestion rents for intertie scheduling limits and EIM transfer limits.
4. PG&E agrees that market power mitigation on EIM transfer constraints should continue to remain in effect.
5. PG&E supports the requirement that an EIM entity allow 15-minute economic bidding on EIM external interties after one year of operational experience in the EIM as long as there is no operational impediment to allowing economic bidding on the interties.
6. The CAISO should provide more details on its proposal to expand upon the EIM transfer cost approach to allow third party transmission owners to make available incremental transmission to support EIM transfers.

**1. The CAISO should provide more details, economic analysis and examples for each of the alternative compensation methods for EIM-transmission usage.**

In order to inform the discussion of transmission rate options in the EIM, the CAISO must provide more information about how transmission costs would be recovered under the four alternative methods discussed in the proposal. Accordingly, PG&E requests CAISO include an economic analysis of each of the four scenarios along with robust examples of each of the alternatives in order for all stakeholders to have a clear understanding of how the alternative transmission rate design options would impact the CAISO and EIM entities. This additional information is critical in order for PG&E to further evaluate the CAISO's proposal.

Moreover, in line with existing cost causation principles, the CAISO should demonstrate that the principles of cost causation apply to any transmission rate option proposed for the EIM. When reviewing CAISO's proposal, PG&E would like to understand the process by which CAISO and its regional stakeholders would analyze an EIM entity's transmission costs and determine if they are reasonable to recover through the EIM. The discussion should also account for the fact that for all entities outside of the CAISO, the EIM is a voluntary market for imbalance energy. PG&E would expect that a proposal to adopt an alternative to the existing approach would be informed by a robust analysis showing the benefits of doing so.

**2. PG&E supports an evaluation of the impact of PacifiCorp base schedules on the CAISO's real-time congestion offset.**

PG&E supports the CAISO's evaluation of the impact of PacifiCorp base schedules on the CAISO's real-time congestion offset (RTCO) in order to understand the extent of the issue. Through this evaluation the CAISO should determine the appropriate level of impact on RTCO or a trigger that would lead to the CAISO proposing flow entitlements as a mechanism to allocate a portion of an EIM BAA's RTCO to other EIM BAAs if the other EIM BAAs' base schedule flows on the transmission constraints exceed agreed upon flow entitlements. The CAISO should also consider performing a similar evaluation for all new EIM entities to understand the impact of the new EIM entity on RTCO in other EIM BAAs. The CAISO should indicate whether it can model in advance the impact on RTCO of future EIM entities joining. If the impact of a new EIM entity is expected to be above the trigger amount, this would lead to further review and the potential to propose and establish flow entitlements.

**3. The CAISO should provide a clear set of after-the-fact data to evaluate the settlement options of real-time congestion rents for intertie scheduling limits and EIM transfer limits.**

The CAISO has proposed to look at how to allocate congestion rents arising in EIM when EIM transfer limits and scheduling limits between BAAs bind and create congestion rents. PG&E requests more information to further our understanding. The CAISO should provide a clear set of after-the-fact data to evaluate the issue. PG&E would also

appreciate examples that demonstrate how the formulation would work, how costs are allocated, and how the RTCO would be distributed.

**4. PG&E agrees that market power mitigation on EIM transfer constraints should continue to remain in effect.**

In its May 29, 2015 Report on EIM Competitiveness, the Department of Market Monitoring (DMM) concludes that the fundamental market conditions contributing to structural market power have not changed and the degree of potential structural market power remains high and warrants continuation of market power provisions currently in effect.<sup>1</sup> Thus, PG&E agrees with the CAISO's proposal to continue to test EIM transfer constraints for competitiveness when the constraint is binding. As more data becomes available, PG&E is supportive of efforts to explore a more dynamic approach for assessing the structural competitiveness of EIM BAAs.

**5. PG&E supports the requirement that an EIM entity allow 15-minute economic bidding on EIM external interties after one year of operational experience in the EIM as long as there is no operational impediment to allowing economic bidding on the interties.**

The current EIM design provides discretion as to whether an EIM entity allows economic bidding on interties with BAAs outside the EIM footprint, whereas the CAISO allows full real-time economic bidding on all interties. The CAISO proposal discusses the implications of this situation and explains how it could result in inefficient market outcomes when an economic bid on the CAISO intertie wheels through an EIM entity. PG&E believes that an EIM Entity should be required to allow economic bidding on external interties as long as the neighboring BAA allows fifteen minute scheduling and thus there is no operational impediment to allowing economic bidding on the interties. This could allow the market to capture additional flexibility outside of the EIM footprint and could lower concern about market power due to increased competition to provide flexibility and balancing.

**6. The CAISO should provide more details on its proposal to expand upon the EIM transfer cost approach to allow third party transmission owners to make available incremental transmission to support EIM transfers.**

CAISO's Issue Paper and Straw Proposal does not have enough information for PG&E to assess the proposal to expand on the EIM transfer cost approach, developed in Phase 1, to allow third party transmission owners to make available incremental transmission to support incremental EIM transfers. The CAISO should provide more details and examples to support its proposal. For example, how will this interplay with transmission planning in the Western Electricity Coordinating Council?

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<sup>1</sup> CAISO Department of Market Monitoring Report on Energy Imbalance Market Competitiveness, May 29, 2015, p.7.

PG&E recommends CAISO consider this issue within the discussion of EIM transmission alternatives. It would also seem prudent to allow the EIM transfer cost, developed in Phase 1 and not yet implemented, to be in effect for at least six months before attempting to expand upon that approach to allow third party transmission owners to make available incremental transmission to support EIM transfers.