

Southern California Edison
Stakeholder Comments

CAISO Energy Imbalance Market (EIM)
Year 1 Enhancements Phase 2 Draft Final Proposal
Dated September 8, 2015

Submitted by	Company	Date Submitted
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Southern California Edison (SCE) appreciates this opportunity to comment on the California Independent System Operator’s (CAISO) Energy Imbalance Market (EIM) Year 1 Enhancements Phase 2 draft final proposal dated September 8, 2015 (Proposal).¹ SCE has supported the development of the EIM and continues to support EIM design refinements and appreciates being involved in the stakeholder process.

In the comments herein, SCE asks the CAISO to clarify whether the element of its proposal on the EIM congestion revenue allocation² would create market revenue and participation issues and how the proposal would be applied with multiple EIM Entities. SCE believes that the potential impacts need to be well understood before the proposal can be adopted. SCE further recommends the DMM and MSC provide an opinion on whether there is a structural issue that could lead to undesired market incentives and if mitigation measures are needed.

1. The proposed change to congestion revenue allocation needs to be vetted more carefully.

The CAISO proposes to change the congestion revenue allocation on an EIM Transfer Limit from the current 50/50 split between the CAISO and the EIM Entity to 100% to the EIM Entity when the EIM Transfer Limit is less than the corresponding Intertie Scheduling Limit. SCE

¹http://www.caiso.com/Documents/DraftFinalProposal_EnergyImbalanceMarketYear1Enhancements_Phase2.pdf

² In Section 6, “EIM Transfer Congestion Rent Treatment”, of the Draft Final Proposal, The CAISO proposes to change the congestion revenue allocation on an EIM Transfer Limit from the current 50/50 split between the CAISO and the EIM Entity to 100% to the EIM Entity when the EIM Transfer Limit is less than the corresponding Intertie Scheduling Limit.

believes that the CAISO needs to further evaluate the potential impacts of this proposal, and investigate (1) whether the proposal can create any revenue shortfall to the market, (2) whether the proposal can create undesired market incentives, and (3) how the proposal will be applied when there are multiple EIM Entities (with NV Energy, for example) and when multiple parties, including load serving entities, pay for the transmission.

1.1 The CAISO should evaluate whether the proposal can create revenue shortfall to the market.

SCE believes that it is not clear how base schedules which enter into EIM and Real Time EIM transactions contribute to congestion price formation. For instance, suppose the EIM entity's Base Schedule in the DA timeframe results a certain amount of transfer into the CAISO and this amount becomes self-scheduled in the RTM. If the EIM Entity releases an EIM Transfer Limit equal to the amount of the Base Schedule, then the EIM Transfer Limit will bind. Under the CAISO's proposal, the EIM Entity will now receive all the congestion revenue on the EIM Transfer Limit even though there may be no additional RT EIM schedule. If congestion price formation is based upon the combination of Base Schedule and EIM transactions, then such a scenario would lead to a congestion value on the EIM Transfer Limit even without any incremental RT EIM transactions. Under this scenario, it is not clear that there is any entity paying for the congestion yet a congestion value is being derived. Does the CAISO proposal intend to create congestion value only on the incremental EIM transactions or will the congestion value be based upon both Base Schedules and EIM transactions? If the latter, how will the congestion revenues become funded?

Further, suppose the corresponding Intertie Scheduling Limit did not bind in the DAM, because the CAISO enforces the EIM Transfer Limit in the RTM and only in the RTM, when the EIM Transfer Limit binds and all congestion revenue on the EIM Transfer Limit goes to the EIM Entity under the CAISO proposal, will this create revenue shortfall for the CAISO market?

1.2 The CAISO should evaluate whether its proposal would create undesired market incentives.

The CAISO should evaluate whether its proposal would discourage participation in the EIM for parties other than the EIM entity that receives all of the congestion revenue on an EIM Transfer Limit. This is because, when the congestion revenue goes to only the EIM Entity, it may have incentive to not release the full capacity over the EIM Transfer Limit if the congestion revenue it receives outweighs the lost energy revenue it would have received from its generation absent the congestion (i.e., to leverage the congestion revenue by withholding capacity on the EIM Transfer Limit), especially when there are other parties offering their generation to the EIM in the same EIM area. This can result lower prices in the EIM area for other parties in the area, and therefore, may discourage EIM participation. SCE therefore would like to further understand what processes or controls the CAISO will have in place to prevent changes in the EIM Transfer Limit that would create inefficient outcomes.

1.3 The CAISO should clarify how the proposal will be applied when there are multiple EIM Entities (e.g. NV Energy, Puget Sound, APS) and when multiple parties, including load serving entities, pay for the transmission.

The CAISO should clarify whether its proposal is intended to implement the general principle that the entity paying for the transmission should be allocated the congestion revenue. The CAISO should clarify, in the PacifiCorp case, which part of the EIM Entity (merchant, transmission or retail load) pays for the transmission and which part of the Entity receives the congestion revenue. With additional EIM Entities (e.g. NV Energy, Puget Sound, APS) joining the EIM, multiple entities, including load serving entities, may pay for the transmission for an EIM Transfer. Will the CAISO proposal allow the congestion revenue to be allocated to those paying for transmission? In the NV Energy case, if the load serving entities that paid for the transmission are located outside NV, will they likewise receive their share of the congestion revenue? If so, how will the share for multiple entities be determined?

SCE believes that, with additional EIM Entities joining the EIM, the CAISO should include more detailed scenarios of the congestion possibilities and guiding principle for allocation of the congestion revenues.

2. SCE supports the proposal to perform additional analysis before making policy decision on items related to EIM-wide transmission rate, flow entitlements and bidding rules.

Given the complicated nature of the issues involved, SCE supports the CAISO proposal to perform additional analysis and present results to the stakeholders on the following items:

- Potential EIM-wide transmission rate
- Flow Entitlements for base schedules/day-ahead schedules
- Compensation for third parties making capacity available for EIM transfers
- Bidding rules on external EIM interties

Given that CAISO does not propose any new specifics on these items in the Draft Final Proposal, SCE retains its prior comments³ on these items and requests the CAISO address them in the analysis.

3. SCE supports the dynamic assessment for market power mitigation to include EIM transfer constraints, and recommends continuous monitoring of the effectiveness of the reference bus in an EIM area.

³ http://www.caiso.com/Documents/SCEComments_EIMYear1EnhancementPhase2-IssuePaper-StrawProposal.pdf

SCE supports the CAISO proposal that limits on EIM transfers into an EIM BAA be subject to market power mitigation processes the same as any other internal constraint. SCE recommends the CAISO and DMM continuously monitor whether the current selection of the reference bus is effective for EIM transfer constraints and internal constraints in an expanded market footprint.

4. SCE requests the CAISO provide a list of NERC Standards that may be impacted with the proposed service in providing outage reporting to the Peak Reliability Coordinator.

SCE thanks the CAISO for the clarification that its proposal would not change the reliability responsibilities of the EIM entity and no liability would be assumed by the CAISO in providing the outage reporting service. To ensure full compliance, SCE recommends the CAISO review relevant Standards and provide a list of NERC Standards that may be impacted due to its proposal.