

**Comments of the  
Western Energy Imbalance Market Body of State Regulators  
on the Extending the Day-Ahead Market to EIM Entities Issue Paper  
November 22, 2019**

The Western Energy Imbalance Market (“EIM”) Body of State Regulators (“BOSR”) appreciates the opportunity to submit consensus comments to the California Independent System Operator (CAISO) and EIM Governing Body on the Extending the Day-Ahead Market to EIM Entities Issue Paper dated October 10, 2019<sup>1</sup> (“Issue Paper”). The EIM BOSR is a self-governing, independent body composed of one commissioner from each state public utilities commission in which load-serving regulated utilities participate in the EIM, including the ISO real-time market.<sup>2</sup> This includes the states of Arizona, California, Idaho, Nevada, Oregon, Utah, Washington and Wyoming.<sup>3</sup> One of the BOSR’s responsibilities is to express a common position, where possible, in the CAISO stakeholder processes or to the EIM Governing Body on EIM issues.<sup>4</sup>

The Issue Paper summarizes the market design components and other issues that the CAISO proposes to address through a stakeholder initiative to develop an approach to extend participation in the CAISO’s day-ahead market to EIM entities (“the EDAM”). Under the initiative, the same principles of the EIM would apply to the EDAM: voluntary participation, low entry cost, no exit fees, and balancing authority areas retain operational control over their resources and transmission. The CAISO is seeking comments on the Issue Paper by November 22, 2019. The CAISO plans to use the comments to develop technical workshops on key topics that will begin in February 2020.

With that process in mind, the BOSR submits comments on three categories: (1) governance and the proposed revision to the Governing Body’s decisional authority over the

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<sup>1</sup> Extending the Day-Ahead Market to EIM Entities Issue Paper, California ISO (October 10, 2019), *available at*: <http://www.caiso.com/Documents/IssuePaper-ExtendedDayAheadMarket.pdf>.

<sup>2</sup> Charter, Energy Imbalance Market Body of State Regulators at 1 (March 1, 2016) (“BOSR Charter”). See also, Charter for Energy Imbalance Market Governance, V.1.1 (revised May 1, 2017), § 5.2.

<sup>3</sup> Load-serving regulated utilities from the states of Montana and New Mexico have recently stated their intent to join the Western EIM. Commissioners from these states and the Province of British Columbia have been invited to participate in the BOSR.

<sup>4</sup> BOSR Charter, Purposes and Responsibilities at 1.

EDAM Initiative; (2) two of the market design components proposed in the Issue Paper: the resource sufficiency evaluation and greenhouse gas (GHG) cost accounting; and (3) stakeholder engagement.

### **I. Governance and the Proposed Revision to the Governing Body's Authority over the EDAM Initiative.**

The EIM Governing Body has delegated authority to review, and in some cases approve, certain market rules, particularly those that affect the real-time, not the day-ahead, market. Under the current decisional classification rules, the EIM Governing Body's review authority is limited to that part of the EDAM that involves revising real time market rules and, depending on the motivation of the rule and other criteria, is either advisory, primary, or a hybrid. If the Governing Body has primary authority, the rule requires the Governing Body's approval. The BOSR perceives that a large portion of the EDAM initiative would require changes to day-ahead market rules and would probably be outside of the Governing Body's current review authority. The Issue Paper includes a proposal to request that the CAISO Board of Governors approve a one-time departure from the current decisional classification rules and require joint approval by both the Governing Body and CAISO Board of Governors for all aspects of the EDAM market design.

The BOSR supports joint authority by the EIM Governing Body and CAISO Board of Governors over all aspects of any proposed EDAM market design. This means that both bodies must approve all aspects of any proposed EDAM market design before a tariff filing can be made. The EDAM's fundamental purpose is to provide the state and regional entities participating in CAISO's regional real-time market ("EIM Entities") the opportunity to participate in the day-ahead market. As the EIM Governing Body performs the essential function to promote, protect and expand the success of the EIM for the benefit of its market participants,<sup>5</sup> the EIM Entities, any EDAM proposal should require approval of both governing bodies.

Further, the BOSR supports moving towards a simplified process that equitably shares decisional authority between the EIM Governing Body and the CAISO Board of Governors, such as joint authority, over a broader range of market rules. The BOSR has

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<sup>5</sup> Charter for Energy Imbalance Market Governance, Section 2.1 Mission, adopted December 18, 2015.

previously expressed reservations about the past approach of moving towards shared authority by incrementally adding to an already complex framework;<sup>6</sup> this has the potential to lead to procedural conflicts and unexpected outcomes.<sup>7</sup> However, the broader delegation issue, as well as other governance changes necessary to accommodate the EDAM, should be addressed in the EIM Governance Review, to be conducted concurrently with the EDAM Initiative.

## **II. Market Design Components of the Issue Paper**

The Issue Paper primarily outlines the components of the EDAM. Many stakeholders will be proposing, and are encouraged to propose, details for the market design of these components. The BOSR will not be proposing market design details at this time, but would like to take this opportunity to enunciate some key principles that should be applied to any option being considered for two of the market design components. The BOSR will apply these principles to evaluate any proposal offered by the CAISO on the EDAM market design.

### **A. Accounting for GHG Costs**

The purpose of the GHG cost accounting component of the EDAM market design is to determine which resources are serving load in regions that impose GHG costs. Currently, GHG accounting in the EIM is performed for the only region that imposes GHG costs (California), uses a bid cost adder in the EIM footprint, and is based in part on data provided by the EIM entities in their base schedules.<sup>8</sup> The issue paper notes that because base schedules will not be used in EDAM, the current method for GHG accounting in the EIM will not be extended to EDAM. Further, with more than one jurisdiction now having a GHG program or clean energy requirements or goals, other issues must be addressed, such as, redefining GHG compliance regions, developing a consistent method across regions of GHG or clean energy attribution, and accounting for different carbon prices and different points of

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<sup>6</sup> A policy initiative must be classified into one of four categories and each category has a different path through the approval process. Further, there are a number of subjective tests involved in classifying initiatives. Guidance for Handling Policy Initiatives within the Decisional Authority or Advisory Role of the EIM Governing Body, CAISO (May 27, 2019), available at: <https://www.westerneim.com/Documents/GuidanceforHandlingPolicyInitiatives-EIMGoverningBody.pdf>.

<sup>7</sup> Comments of the Western EIM BOSR on the EIM Governing Body's EIM Governance Review (January 18, 2019), available at: <https://westernenergyboard.org/library/eim-bosr/>.

<sup>8</sup> The base schedule is an hourly forward energy schedule that is submitted by an EIM Entity or EIM Participating Resource Scheduling Coordinator for use in the real time market. Base schedules include hourly-level schedules for resources among other information.

regulation. The Issue Paper also notes that the issue of “secondary dispatch”<sup>9</sup> will be revisited with the shift from base schedules.<sup>10</sup> Finally, GHG cost accounting needs to be consistent in both markets, the EDAM and the EIM, so changes to the EIM methodology also may be required.

There is tension between achieving compliance-driven accounting for GHGs under clean energy programs and maintaining effective and efficient economic dispatch that incorporates a price on carbon only for those jurisdictions that utilize one. The design of GHG accounting and application to dispatch should emphasize transparency and simplicity over complex black-box solutions in order to ensure confidence and trust in the EDAM and to avoid disrupting the success of the EIM. Pursuit of an overly complex solution could result in an inability to conclude that the allocation of GHG costs are equitable and consistent with state policies. Pursuit of an overly complex solution could also result in opportunities for manipulation. As stated in prior comments, the BOSR will apply the following principles to evaluate any GHG cost accounting proposal:

- The market design must be non-discriminatory (i.e., not favor any specific generation technology through fundamental market design).
- The market design must support economic dispatch.<sup>11</sup>

## **B. Resource Sufficiency**

The Issue Paper states that there will be a resource sufficiency test in the day-ahead timeframe. The purpose of the resource sufficiency test is to ensure that balancing authorities do not inappropriately lean on the capacity, flexibility, or transmission of other balancing authorities. The design of the resource sufficiency criteria should not negatively impact the prudent risk management policies of an EDAM entity by requiring them to close a net open position at a time, or in a manner, that would expose its retail customers to increased net variable power cost risk. As a subset of this principle, the design of resource sufficiency

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<sup>9</sup> Extending the Day-Ahead Market to EIM Entities Issue Paper, California ISO (October 10, 2019), p.15, available at: <http://www.caiso.com/Documents/IssuePaper-ExtendedDayAheadMarket.pdf>.

<sup>10</sup> The current EIM approach limits the potential GHG obligation attribution quantity of an EIM participating resource to the dispatch capability above its hourly base schedule. Id., at p. 14.

<sup>11</sup> These principles are explained in more detail in the Comments of the Western EIM BOSR on the Regional Integration and EIM Greenhouse Gas Compliance Initiative (December 18, 2017), available at: <https://westernenergyboard.org/library/eim-bosr/>.

criteria should not negatively impact the ability of an EDAM entity to rely on short-term market purchases during periods of high hydroelectric stream flows to lower its net variable power costs on behalf of its retail customers.

### **III. Stakeholder Engagement**

The EIM BOSR agrees with the CAISO that stakeholder input is critical for developing market design policy. The BOSR encourages the CAISO to seek robust stakeholder input. Stakeholders interested in the EDAM process have a wide range of electricity market sophistication and exposure to CAISO markets and processes. Current CAISO and EIM market participants comprise an important stakeholder group and their input is critical. Other stakeholders interested in participating in this process include regulatory commission staff, consumer and ratepayer advocates, environmental advocates, community activists, and others. Presenting sophisticated market design proposals during conference calls and workshops can importantly help focus the comments of sophisticated stakeholders, but it can also have the unintended consequence of crowding less sophisticated stakeholders out of the conversation. The CAISO should consider ways to structure the conference calls and workshops to allow for effective participation from the full range of interested EDAM stakeholders.

### **IV. Conclusion**

The EIM BOSR appreciates the opportunity to provide these comments and looks forward to full and productive participation in the EDAM Initiative.