

INDEPENDENT ENERGY PRODUCERS

To: CAISO

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RE: EIM Expansion into CAISO DA Capacity Markets

The CAISO released a Day-Ahead Market Enhancements Issue Paper/Straw Proposal (CAISO Proposal) on February 28, 2018. The Independent Energy Producers Association (IEP) is pleased to provide these comments on the Issue Paper and Straw Proposal.

1. Background/Overview re CAISO Proposed DA Enhancements

The CAISO Proposal has three primary components. First, the CAISO proposes to enable the disaggregation of market participants' Day-Ahead (DA) hourly schedules into 15-minute segments in order to align the scheduling increments across the DA and Real-time markets. Second, the CAISO proposes to create a new DA Imbalance Reserve market/requirement thru which the CAISO will procure forward capacity (and associated energy) to meet flexible ramping needs (up/down). The CAISO will also procure certified Ancillary Services (AS) and "corrective capacity" associated with real-time energy options imposed on resources clearing the Energy Imbalance market. Resources clearing the DA Imbalance Reserve market will be subject to a must-offer-obligation (MOO) required to submit economic energy bids in the real-time (RT) market. Third, after enacting these DA market enhancements, the CAISO proposes to expand Energy Imbalance Market (EIM) participation in the DA markets, including the DA Imbalance Reserve capacity market.

The EIM is a mechanism to transfer excess energy among the CAISO and various balancing authorities outside the CAISO), defined as EIM Entities, to balance supply and

demand in real-time at lower cost.¹ The EIM is an organization comprised of EIM Participants which, to date, are utilities located throughout the west and entities marketing power from the Federal Columbia River Power System (FCRPS).² In this context, the EIM is an organization through which the CAISO (on behalf of its participants) and the EIM (on behalf of its participants) have entered into a reciprocal trading arrangement in that each entity has comparable opportunity to sell energy/excess energy to the other in real time.

Essentially, the CAISO proposes two changes that are of primary concern. First, the CAISO proposes to alter the existing, reciprocal relationship between the CAISO markets and the EIM markets by enabling EIM participation in CAISO forward energy and capacity markets without obtaining reciprocal participation rights to non-EIM entities in EIM markets. Second, the CAISO proposes disparate standards and obligation on resources seeking to participate in CAISO markets based on whether they are CAISO participants or EIM participants, thereby creating an unlevel competitive playing field. IEP will address these concerns in more detail below.

II. Asymmetrical Market Access across Regional CAISO/EIM Footprint

IEP supports greater regionalization of the CAISO footprint under specific conditions. Regionalization must occur on the basis of non-discriminatory access and comparable rules and obligations imposed across the entire regional footprint. The CAISO Proposal seeks quasi-regionalization without obtaining the fundamental necessities of a regional market, namely a market in which loads and resources located in the region have access to the energy and capacity markets across the CAISO and EIM footprint on a comparable, non-discriminatory basis.

Effectively, the CAISO Proposal conveys the benefits of regionalization asymmetrically. While the CAISO Proposal affords EIM Entities access to the CAISO forward energy and capacity markets, the CAISO Proposal fails to provide CAISO Participants quid pro quo access to markets administered by EIM Entities. Accordingly, the primary beneficiary(s) of the

¹ EIM Entity is a balancing authority outside of the ISO, which represents one or more EIM Transmission Service Providers who have made transmission available and elect to participate in the EIM. An EIM Transmission Service Provider is a transmission owner or customer, including a party separate from the EIM Entity, which controls transmission in the EIMN Entity balancing authority area. *See Energy Imbalance Market, Draft Final Proposal, p. 2*

² Active EIM Participants include PacifiCorp, NV Energy, Puget Sound, Arizona Public Service, and Portland General Electric. Pending EIM Participants include Idaho Power Company, Powerex, Balancing Authority of Northern California/SMUD, Los Angeles Department of Power and Water, Salt River Project, and Seattle City Light. See “Western EIM – About” at www.westerneim.com. In addition to these active and pending participants, the Bonneville Power Administration has expressed interest in becoming a participant.

CAISO's proposed DA enhancements will be EIM Entities and/or subsidized federal power marketing agencies located in the PNW.³

Asymmetrical access to markets is particularly disconcerting, given that many EIM Entities (including some federal power marketing entities) have a reputation of creating barriers to the participation of alternative suppliers such as independent power producers (IPPs) in their markets or the markets of third-parties in which they wish to participate. For example, BPA has used its ratemaking ability to influence which customers have access to the California market. In order to preserve the value of long term firm transmission service to customers who have existing long-term transmission service, BPA significantly increased the cost of short term transmission service necessary to bid into the California market; effectively protecting the market share of bidders such as BPA with long term transmission rights to the California market.⁴

III. Preferential Treatment of Resources Across CAISO/EIM Footprint

The CAISO Proposal raises a number of significant concerns related to the preferential treatment of EIM resources participating in CAISO markets. Preferential, non-comparable treatment of EIM resources undermines competition in CAISO markets and, potentially, risks grid reliability. Examples of how the CAISO Proposal undermines the principle of treating market resources in a comparable manner and, thereby, how the CAISO Proposal risks undermining competitive markets include the following:

1. **Deliverability Requirements.** Under the CAISO Proposal, EIM participating resources (not dynamically scheduled) will not be subject to the same deliverability requirements as those imposed on generation internal to the CAISO footprint. Typically, internal resources are compelled to make sizable investments in transmission to interconnect their resource to obtain the status of "full deliverability" necessary to qualify to provide resource adequacy (RA) products and services. To the extent that the deliverability

³ While the CAISO asserts that the beneficiaries will include internal, "long-start" generation and internal renewables, IEP questions this assertion. For example, most if not all long-start resources are scheduled to shut-down due to state policy (e.g. the State Once-Thru-Cooling policy) and the increasing emphasis on flex capacity. Most renewables are inherently intermittent (e.g. wind and solar), and therefore providing added scheduling flexibility in the forward energy markets is not likely to benefit this resources. In fact, the history of the CAISO, supported by intermittent resources, has been to enable the scheduling of intermittent resources closer to real-time to reduce imbalance risk, rather than move the scheduling further into the forward markets .

⁴ In its Record of Decision for the 2018-19 rate period, BPA increased the rate it charges for short term service on the Southern Intertie between the Pacific NW and California by 170% from 3.53 mills/kWh to 9.56 mills/kWh. See <https://www.bpa.gov/news/pubs/RecordsofDecision/rod-20170726-BP-18-A-04-Rate-Proceeding-Administrator-Record-of-Decision.pdf>

requirements and standards imposed on EIM Entities are different than those imposed on alternative suppliers providing the same product or service, the CAISO Proposal conveys a significant competitive advantage to EIM Entities in CAISO markets.

2. **Eligibility of “Pooled” System Resources for RA.** Under the CAISO Proposal, the CAISO apparently will accept EIM Participants bids associated with “pooled” system resources. Currently, CAISO participants providing needed RA capacity are unit-contingent and subject to the direct control of the CAISO (and/or dynamically scheduled). To the extent that the unit-commitment, dispatch controls imposed on EIM Entities/resources are different than those imposed on alternative suppliers, the CAISO Proposal conveys a significant competitive advantage to EIM Entities in CAISO markets.

Ultimately, the preferential treatment of EIM resources in CAISO markets as described above risks increasing the CAISO’s reliance on external resources subject to other “call options” (e.g. BPA hydro) while concomitantly undermining the viability of existing, often internal, generation subject to full deliverability mandates. Not only does the CAISO Proposal skew competitive markets inappropriately, but this strategy risks undermining grid reliability.

Finally, IEP is concerned that the primary purpose of the proposed Day-Ahead enhancements is to facilitate energy exchanges and/or “swaps” for subsidized PNW hydropower ostensibly through CAISO markets but effectively outside them.⁵ The CAISO Proposal mirrors requests made by subsidized federal power marketing agencies in the PWN interested in such exchanges in light of various operational/deliverability constraints.⁶ IEP will be concerned about any asymmetrical and potentially discriminatory market redesign engineered primarily to facilitate “swaps” of excess energy between subsidized federal power marketing entities and the CAISO effectively outside CAISO markets.

⁵ Regarding sales of surplus peaking capacity from the Federal Columbia River Power System (FCRPS), federal law prescribes that “Any contract for the disposition of surplus peaking capacity shall provide that ... (2) the purchase shall advance or return the energy necessary to supply the peaking capacity... The Secretary may contract for the sale of such energy to the purchaser, in lieu of its return, under the conditions prescribed in subsection (a) of this section.” U.S.C. Section 837b(c)(2014).

⁶ See *BPA Comments on FRAC MOO – Phase 2 Supplemental Issue Paper*, January 6, 2017, p. 2. BPA states that nearly all the FCRPS and PNW hydro are part of an interdependent system of dams bound by the physics of hydrology and subject to several non-generation uses (e.g. flood control, navigation, fish, wildlife preservation).that have higher priority.

IV. Next Steps

The CAISO is scheduled to release a “Post Straw Proposal” on April 11, 2018. IEP requests that the CAISO address the following questions and concerns in the Post Straw Proposal:

- To what extent will the CAISO’s Availability and Deliverability requirements differ between CAISO participating resources (i.e. internal generation) and EIM participating resources (i.e. external generation)? What specific Availability Requirements and Deliverability Requirements will be imposed on EIM Entities/EIM Resources clearing CAISO capacity markets?
- What is the relationship between the CAISO’s proposed Imbalance Reserve Requirement and CPUC’s resource adequacy (RA) program?
- What is the relationship between the CAISO’s Proposal and the CAISO’s FRACMOO2 Initiative from bidding and scheduling perspective?
- To what extent will the CAISO’s dispatch control over EIM participating resources (or pool of resources) differ from the dispatch control imposed on CAISO participating resources?

In addition to the questions posed above related to the proposed DA market redesign, IEP requests that the CAISO Post Straw Proposal address the following:

- How will the energy “return” obligation imposed on federal power marketing agencies under U.S.C. Section 837b(c)(2014) be accommodated in the context of sales in the CAISO DA market of surplus peaking energy/capacity from the Federal Columbia River Power System (FCRPS)?
- How will the CAISO ensure that external resources participating in the CAISO markets through the auspices of the EIM, including “pooled” system resources, are not “double-counted” across the CAISO/EIM footprint for purposes of the following:
 - providing reliability services (i.e. capacity) across the regional footprint;
 - GHG-accounting and preventing resource-shuffling; and,
 - RPS accounting and tracking/verification.
- To what extent will CAISO Participants and regional IPPs obtain access to the energy and capacity markets administered by EIM Participants under the CAISO Proposal as would be expected under regionalization?