

**Comments of California Wind Energy Association and American Wind Energy Association
on the CAISO Energy Imbalance Market Year 1 Enhancements Phase 2 Issue
Paper & Straw Proposal Dated June 30, 2015**

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Introduction

The California Wind Energy Association (CalWEA) and the American Wind Energy Association (AWEA) appreciate the opportunity to comment on the California Independent System Operator Corporation's ("CAISO") Energy Imbalance Market ("EIM") Year 1 Enhancements Phase 2 Issue Paper & Straw Proposal, dated June 30, 2015. In a 2013 letter to the CAISO Board, CalWEA expressed its full support for the implementation and expansion of the then soon-to-be-rolled-out CAISO's region-wide Energy Imbalance Market. At the time, many of the rules and protocols of the EIM were considered to be preliminary and transitional, and the plan was to look at some of those protocols after one year of implementation. CAISO has taken that step through this issue paper which broadly covers several critical issues related to the continued successful operation and geographic expansion of the EIM. These issues include:

- EIM-wide transmission rate;
- Flow entitlements for base schedules/day-ahead schedules;
- EIM transfer limit congestion treatment;

- Dynamic competitive assessment for market power mitigation of EIM transfer limits; and
- Bidding rules on external EIM interties.

The most critical and timely element of the issue paper for the wind industry is its transmission rate proposal and, as such, the focus of our comments will be on this proposal.

CAISO Transmission Rate Alternatives for EIM

The CAISO issue paper presents an overview of four EIM-wide transmission rate alternatives. Even though the presentation of these transmission rate alternatives is not made in detail, one can readily see the major attributes of the four alternatives to determine their relative merits.

Alternative 1 is simply the continuation of the EIM's current transmission pricing, which involves not charging for EIM use of transmission by CAISO and PacifiCorp which are "mutually waiving transmission charges between these areas for the optimized energy dispatches that EIM produces." CAISO is considering whether this transmission rate could be a "permanent structure based on reciprocity among the BAAs that comprise EIM." Effectively "the ISO and transmission service providers in EIM entities will maintain their current transmission access charges during this period, except for energy dispatched within the ISO and EIM footprints."

Alternative 2 involves the expansion of the existing well-functioning transmission rate structure with the CAISO's (and other RTOs') footprint for all EIM transmission services. This transmission rate structure "ensures that no transmission customer pays pancaked rates, and provides access and incentives to expand the regional transmission system." Furthermore, this rate structure should "enable transmission providers or rights-holders to make their

transmission available to the EIM even if they are separate companies from the EIM entity itself.”

Alternative 3 involves incorporating “a transmission charge based on the amount of transfer from one BAA to another.” These transfers could be between the ISO and EIM entity BAAs, or from one EIM-entity BAA to another EIM-entity BAA. Imposition of this inter-BAA “hurdle rate” would “disadvantage suppliers in one EIM entity’s BAA from meeting energy needs in a different EIM entity, due to adding a cost for moving energy between BAAs” and can severely reduce the efficiency of the overall market.

Alternative 4 is a modification of Alternative 1 whereby only EIM transactions that involve wheeling-out or wheeling-through an EIM entity will see transmission charges. In effect, this transmission rate mechanism raises the hurdle rate for certain classes of EIM transactions and, as a result, leads to inefficient and discriminatory market operation. In fact, in a 2013 paper where these four EIM transmission rate mechanisms were first presented,¹ CAISO stated: “The ISO is not proposing here that Alternative 4 should be adopted, but is describing it to encourage comments on a broad range of alternatives.”

Alternative 2 for the EIM Transmission Rate Structure Should be Implemented as Early as Practicable

Several RTOs, including CAISO, have significant experience with the successful implementation of Alternative 2. Alternative 2 eliminates rate pancaking, is non-discriminatory, results in efficient market operation (“[p]lacing responsibility for the access charge on

¹ See http://www.caiso.com/documents/thirdrevisedstrawproposal-energyimbalancemarket-aug13_2013.pdf.

withdrawals from the ISO controlled grid ensures the least-cost dispatch of supply resources, without hurdles between supply resources affecting their dispatch”), and promotes investment in transmission infrastructure (“This ensures that no transmission customer pays pancaked rates, and provides access and incentives to expand the regional transmission system”).

Hence, CalWEA and AWEA strongly recommend that CAISO focus its attention on the implementation of Alternative 2 across the entire EIM footprint and develop an EIM-wide Transmission Access Charge. If Alternative 1, which was developed and implemented for EIM Phase 1 due to its simplicity, is kept in place to facilitate expansion of the EIM to additional footprints, CalWEA and AWEA strongly recommend that a specific transition path to Alternative 2 be developed as early as possible as part of CAISO’s re-examination of EIM transmission charges to cover Day-Ahead and Hour-Ahead schedules, which involve much more significant costs and volumes. Under no circumstances should this transition extend beyond the date when one (or more) of the EIM entities join the CAISO as a Participating Transmission Owner because all CAISO PTO transactions should be treated equally.

Finally, CalWEA and AWEA understand that, while maintaining its principle features, some refinements may need to take effect in the CAISO’s existing transmission rate mechanism (Alternative 2) before it is applied across the EIM footprint or across the expanded CAISO footprint. One such refinement could involve the treatment of firm transmission rights outside the current CAISO footprint. CalWEA and AWEA look forward to participating in the discussion of those refinements with the main goal of preserving the principle elements of the Alternative 2 transmission rate mechanism.