



January 26, 2015

VIA EMAIL

EIM Transitional Committee
Calif. Independent System Operator Corp.
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Re: Comments of the Public Power Council on the EIM Transitional Committee's Issue Paper on EIM Governance Models

Dear Ladies and Gentlemen:

Thank you for the opportunity to comment on the Transitional Committee's Issue Paper concerning "Conceptual Models for Governing the Energy Imbalance Market" dated January 5, 2015. Public Power Council (PPC) is a trade organization that represents common interests of the municipal utilities, electrical cooperatives and public utility districts that purchase preference power from the Bonneville Power Administration (BPA). As BPA customers, we have a significant interest in BPA's costs and power sales and, thus, have an interest in the liquidity, accessibility and good management of western markets. We appreciate California Independent System Operator's (ISO's) interest in making the governance structure for an Energy Imbalance Market (EIM) more amenable to interests outside of California and commend the Transitional Committee for its thoughtful work through the initial phase of governance development.

The Transitional Committee has put forth three models for governance, rather than a specific proposal or proposals. Model 1 is an advisory committee within ISO that would report to the ISO Board of Directors; Model 2 is an EIM board that would be constituted within the ISO corporation and remain subordinate to the ISO Board; Model 3 is an independent entity with an independent board, which would contract with the ISO for market operations and would be obliged to negotiate with the ISO over changes to the EIM tariff. The Transmission Committee has requested feedback on preferences among those models, as well as feedback on the criteria that would define a successful model.

The Northwest electric industry has a long history of regional cooperation and successful joint initiatives. Consequently, we place a very high value on the independence and responsiveness of organizations to regional needs and preferences. We feel strongly that a successful governance model must ensure that regional influence is explicitly accommodated and that the costs and benefits of the market must be equitably distributed. To that end we suggest that a governance model that provides the greatest autonomy in decision-making and

regional self-determination will be the most successful in terms of long-term durability and in attracting participants outside of California.

With that background, we find that the first two options fall well short of the required level of independence. Both the advisory committee and governing board would be subordinate to the ISO board. The advisory committee and governing board would be reliant on ISO staff. ISO management and staff are understandably and properly acculturated to protect and advance the interests of ISO markets and the corporation. At times, however, these interests may be significantly at odds with the interests of EIM participants in areas outside of California.

For that reason, PPC believes that an independent EIM entity remains the only viable course for EIM governance in the long term. Current participants and the ISO's EIM might understandably wish to implement one of the other two models but we strongly urge the Cal ISO to retain the third model as the immediate or, failing that, the long-term goal for governance. With regard to the higher potential cost of Model 3, if more entities can be persuaded to join, these costs would be spread to more participants and may not be a very significant increase over the other options' costs on a per utility basis. In its evaluation criteria, the Transition Committee should consider the net potential cost in the context of possibly increased membership when it compares an independent EIM relative to other options.

The Issue Paper sets out models but not proposals for governance. It is a given that significant, additional detail would need to be developed to more fully understand the level of autonomy of Model 3. That said, the independent entity model contains specific expectations that must be noted. One expectation is that ISO would continue to operate the EIM across the market footprint and to optimize the EIM with the ISO's 5- and 15-minute energy markets. The question of which markets are to be favored in this optimization process remains a question because California ISO's purpose is to create and distribute benefits to California consumers. Another expectation is that ISO would retain effective control over the EIM market rules and the EIM evolves and seeks to meet the needs of EIM participants both inside and outside of California.

It is understandable that ISO would wish to retain this control over the EIM but retention of control makes Model 3, as set out, a highly imperfect option for EIM governance. It prevents the EIM entity from being optimally effective in meeting the needs of its EIM participants. It prevents the EIM entity from seeking vendors to compete with ISO for provision of services at a lower cost. Overall, it creates an on-going risk that the EIM will not return the maximum achievable benefits to EIM participants that do not choose to participate in the other Cal ISO markets.

As an initial step to mitigate this issue, Model 3 should explicitly require ISO to modify software and services needed to implement new market rules requested by the EIM organization, unless the requested change would create a predefined inequity in an adjacent

market. Also, the vendor contract with the Cal ISO should be of a reasonably short duration and subject to termination. The EIM organization should be free to contract with other vendors of such services if they can provide them at the same or a lower cost after the initial contract term.

We commend the Transitional Committee for its inclusion of an organization of state regulators; the perspective of utility regulators would be a valuable asset. We strongly suggest, however, that the organization include representation, on a regional basis, of persons who are engaged in overseeing and regulating public power utilities. Our members are governed and regulated by boards of directors and commissions that serve purposes parallel to the public utility commissions in setting rates, overseeing costs, and approving asset purchases and rate designs. Their perspective would enhance the organization as well as give public power utilities confidence that their voice is heard in that forum.

Lastly, we suggest that the evaluation criteria be reviewed to consider the importance of autonomy and responsiveness to the interests of non-California entities. An explicit recognition of the importance of those interests in the third criterion under "Confidence in Governance, etc." would be an initial step in that direction. The statement should be revised to ensure regional support for proposed additional services: "All options to expand the functionality of the market to provide additional services as requested by a majority of EIM Entities participants in each state or region in which the EIM operates." The intent of this revision is to ensure that no single group or area can force proposals on others. In that same section in the criteria we suggest a statement that the proposed governance model should be flexible enough so ensure that the governance structure and market rules can accommodate and evolve to meet the legal and contractual obligations of incoming participants.

Thank you again for the opportunity to comment on your Issue Paper. Please contact us if you have questions about our comments or wish to discuss the comments or general issue further.

Sincerely,



Nancy Baker
Senior Policy Analyst

cc: Scott Corwin, Executive Director, PPC
PPC Executive Committee
PPC Members