

**UNITED STATES OF AMERICA
BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System
Operator Corporation

Docket No. ER16-1518-000

**MOTION TO INTERVENE AND PROTEST
OF THE WESTERN POWER TRADING FORUM**

Pursuant to Rules 211, 212, and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the “Commission”),¹ the Western Power Trading Forum (“WPTF”) submits this limited protest of the California Independent System Operator Corporation’s (“CAISO”) April 28, 2016, filing to implement its Energy Imbalance Market (“EIM”) Phase 2 Enhancement proposal and proposed tariff amendments (“Phase 2 Filing”).²

I. COMMUNICATIONS

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II. MOTION TO INTERVENE IN DOCKET ER 16-1518-000

WPTF is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while

¹ 18 C.F.R. § 385.211 (2010).

² CAISO Energy Imbalance Market Year One Enhancements – Phase 2, transmittal letter, April 28, 2016.

maintaining the current high level of system reliability. WPTF supports development of competitive markets throughout the West and of uniform rules to facilitate transactions among market participants. The membership of WPTF includes energy service providers, scheduling coordinators, generators, power marketers, financial institutions, energy consultants, and public utilities, all of which participate actively in the California market and other such markets in the West and across the country. WPTF's intervention in this proceeding is in the public interest. WPTF's interests will not be adequately represented by any other party. WPTF therefore respectfully requests that this motion to intervene be granted.

III. BACKGROUND

On February 28, 2014, the CAISO filed its EIM Design filing ("2014 EIM Filing"), which the Commission approved on June 19, 2014.³ The EIM began operation on November 1, 2014. On November 13, the CAISO, after experiencing a large number of price spikes during the initial days of the EIM operations, filed a Waiver Request ("Waiver Request") asking for temporary price damping mechanisms.⁴ On December 1, 2014, the Commission issued an Order granting the CAISO's Waiver Request.⁵ During the early part of 2015, additional filings were made to price retroactively and to both extend the waiver period and to apply it to all other EIM Entities going forward for the initial year of operations.

On January 15, 2015, the CAISO also filed to adjust the way it prices in the EIM ("Transitional Pricing Proposal").⁶ Following the CAISO's Transitional Pricing Proposal and

³ Order conditionally Accepting Proposed Tariff Revisions to the Implement the Energy Imbalance Market, June 19, 2014.

⁴ Petition for Limited Tariff Waiver and Request for Expedited Consideration, CAISO, November 13, 2014, ER15-402-000.

⁵ December 1, 2014 Order Granting Tariff Waiver and Directing Informational Filings, ER15-402-000.

⁶ CAISO Tariff Amendment to Implement Transition Period Pricing for Energy Imbalance Market, ER15-861-000, January 15, 2015.

the submittals of WPTF and other petitioners, the Commission rejected the CAISO's Transition Pricing Proposal and instituted a Federal Power Act section 206 proceeding to investigate the justness and reasonableness of the CAISO's EIM provisions.⁷ At that time, the Commission directed a Technical Conference to address the issues, after which further comments were submitted. Ultimately, the CAISO submitted a transition pricing design that the Commission approved.

Somewhat separately, the CAISO has considered enhancements to its overall EIM design in two phases. The Commission conditionally approved the phase one amendments on October 26, 2015. On April 28, the CAISO filed its Phase 2 Filing ("Phase 2 Filing").

IV. OVERVIEW

When the CAISO sought FERC approval of the EIM, it asserted that the EIM "is not a new market."⁸ Instead, the EIM allows other balancing authorities to participate in "the real-time market currently operated by the ISO[.]" and the EIM "will use the ISO's existing market processes and infrastructure[.]"⁹ Part of the "existing market processes" is the ability to bid external resources into the Fifteen Minute Market ("FMM") at intertie points with the CAISO. But that capability was not included for EIM Entity intertie points.

The incorporation of third-party resources¹⁰ outside the EIM footprint into the EIM economic dispatch solution has remained an unresolved issue since the EIM design was first developed. The EIM's general exclusion of these resources, many of which are both lower cost

⁷ March 16, 2015 Order [cite fully] in ER15-861-000 and EL15-53-000.

⁸ CAISO Tariff Amendments to Implement an Energy Imbalance Market, transmittal letter, p. 9, dkt. No. ER14-1386 (Feb. 28, 2014).

⁹ *Id.* at 10.

¹⁰ By "third-party" WPTF refers to both independent third-party owned resources as well as resources owned by load serving entities in adjacent Balancing Area Authorities ("BAAs"), as well as Transmission Service Providers ("TSPs"), who have not to date joined as an EIM.

and more flexible than resources currently in the EIM, has prevented them from providing liquidity, diversity, and price stability to the EIM.

While the CAISO has on one occasion solicited stakeholder feedback on market policies related to intertie liquidity in its FMM,¹¹ largely the CAISO and the EIM Entities have resisted addressing the necessary adjustments that would be required within their practices to incorporate external resources in the EIM with efficient, flexible market-based mechanisms.¹² The CAISO has for the most part provided no initiative in this regard, other than during the small window surrounding the initial price spike periods in the PacifiCorp EIM.

Now, in its Phase 2 Filing, the CAISO has effectively proposed to prohibit external party participation in the EIM indefinitely by creating a procedural black hole: the CAISO proposes to “not move forward with mandatory fifteen-minute bidding at the interties until appropriate rules and procedures are in place” while at the same time stating “it would be inappropriate to establish a definitive timeframe by the which the CAISO must resolve these issues” and putting the burden of proof for the need to address these issues in its ineffective CAISO Stakeholder Catalog initiative.

It is unclear how, if the CAISO’s Phase 2 filing is approved by the Commission, the participation of third parties would ever be addressed by the CAISO or brought before the Commission for consideration. For this reason, it is imperative that the Commission go beyond

¹¹ Partially at WPTF’s request, the CAISO held a workshop on October 6, 2015 to explore import and export liquidity issues with the 15-minute market. Materials from the meeting can be found at: <http://www.caiso.com/informed/Pages/MeetingsEvents/MiscellaneousStakeholderMeetings/Default.aspx>

¹² EIM Entities including PacifiCorp, NV Energy, Puget Sound Energy and Arizona Public Service Company have declined to allow all but a limited subset of external resources to participate in the EIM. PacifiCorp, NV Energy and Puget Sound require external resources to implement a pseudo-tie to participate in the EIM, while APS will allow pseudo-ties and dynamic schedules that meet certain technical requirements to participate in the EIM.

its previous encouragement of EIM Entities to explore participation by third parties¹³ and instruct the CAISO in this proceeding to begin a stakeholder process with the explicit goal of developing the appropriate rules and procedures, including amendments to the EIM Tariff and EIM Entity Tariffs, to allow external resources to participate in the EIM.

V. LIMITED PROTEST

WPTF has been an active participant in the EIM development process since the initial design phase and has worked with the CAISO to develop effective improvements to the EIM model as it has matured. WPTF is generally supportive of the EIM initiative and the market-based solutions it offers entities in the Western Interconnect. Further, WPTF is generally supportive of the CAISO's goal of maintaining consistency of market functions across all EIM Entities, and therefore does not take issue with the CAISO's maintaining responsibility for developing a new EIM policy in this area rather than promoting the development of one-off intertie bidding policies by EIM Entities.

However, as indicated above, WPTF is compelled to protest one aspect of the CAISO's Phase 2 filing, namely the CAISO's proposal to effectively prohibit third party bidding at the EIM interties without any workable intention or timeline for changing this policy.¹⁴

The CAISO's attempt to codify this effective roadblock to market evolution through the Phase 2 filing is not reasonable and is discriminatory against third party economic participation in the EIM. It therefore should be dismissed by the Commission until it includes a plan to include EIM intertie bidding at some date certain. WPTF strongly believes the Commission should take this opportunity to actively direct the CAISO to "identify, develop, and implement

¹³ For example: Commission Order ER16-923 dated April 29, 2016, at 147.

¹⁴ WPTF's experience with the CAISO Stakeholder Catalog Process suggested in the Phase 2 Filing does not lend it any confidence that this initiative will receive the attention it deserves; rather, WPTF believes relegating this initiative to the CAISO's Stakeholder Catalog essentially ensures that this issue will never receive the attention it deserves.

the market rules necessary to enable intertie bidding” through an open and transparent stakeholder process, and commit to implement appropriate changes within one year.

A. The CAISO has not supported its new position on EIM intertie participation.

The CAISO’s position on EIM intertie participation has changed significantly in the past two years without adequate explanation to stakeholders. In 2014 and 2015, the CAISO recognized the importance of the EIM intertie participation,¹⁵ attributing the price spikes in the PacifiCorp EIM at least partially to the lack of liquidity at the EIM interties. Following that period of prices spikes, the CAISO proposed to *require EIM Entities to allow* intertie participation not later than one year after their go-live date, asserting its belief that external intertie bidding would increase liquidity in the FMM.¹⁶ But the CAISO has since drastically changed its position on intertie bidding in the EIM.

The CAISO has not published analysis supporting its assertion that EIM intertie participation is infeasible and has only explained that “additional issues relevant to a decision” have “come to light.”¹⁷ As a result, WPTF is left to speculate as to why the CAISO’s position has changed. Potentially the CAISO is concerned that allowing EIM intertie participation would reduce incentives for neighboring BAAs to join as EIM Entities themselves, or perhaps some EIM Entities are concerned about external competition.

¹⁵ In its Waiver Request the CAISO reported: CAISO understands that Pacificorp intends to...engage stakeholders in a process to explore enabling economic participation at the Pacificorp interties, which will further expand the pool of resources available to the Energy Imbalance Market. These efforts will improve the overall supply and further contribute to price stabilization. (P. 10). The CAISO reiterated this position in its Transition Pricing proposal (P. 17.) and in its Year 1 Enhancement Draft Final Proposal the CAISO supported economic bidding on EIM external interties (P. 19) (http://www.caiso.com/Documents/DraftFinalProposal_EnergyImbalanceMarketYear1Enhancements.pdf)

¹⁶ EIM Year 1 Enhancements Phase 2, Issue Paper and Straw Proposal, June 30, 2015, p. 19. (http://www.caiso.com/Documents/IssuePaper-StrawProposal_EnergyImbalanceMarketYear1Enhancements-Phase2.pdf)

¹⁷ CAISO Energy Imbalance Market Year One Enhancements – Phase 2, transmittal letter, p. 20, April 28, 2016.

B. The CAISO's current proposal fails to recognize the costs and risks parties bear absent the ability to bid at the EIM interties.

Even though a handful of additional balancing authorities in the Western Interconnect are actively working to join the CAISO market as EIM Entities, and a few others have expressed unofficial interest, there will continue to be seams with the rest of the Western markets for the foreseeable future. If the CAISO does not have a FERC mandated commitment to open the markets to EIM intertie participation, the West's balancing authorities and regional markets will continue to be sub-divided into EIM factions and non-EIM factions in a geographical/topological fashion that disregards whether the EIM consists of contiguous areas or disparate hubs and spokes. As a result, the non-EIM factions will be marginalized.

Under the current EIM regime, non-EIM market participants are effectively limited to making hourly transactions on a bilateral basis, regardless of their resource characteristics.¹⁸ This limits the pool of flexible capacity resources capable of integrating variable energy resources at least cost or relieving congestion in the EIM; an outcome that seems diametrically at odds with the CAISO's current market needs given its periodic oversupply conditions and the shortage of flexible capacity witnessed in the CAISO's balancing authority and, at times, in those of the EIM Entities.

The mismatch in market timing and scheduling practices further exacerbates the societal costs of maintaining strict separations between the bilateral markets and EIM. Prior to the EIM, for example, a party could procure transmission through a transmission provider's Open Access Transmission Tariff ("OATT"), schedule its transfers up to 20 minutes in advance of the flow hour ("T-20"), and for the most part have firm, price certain transport of energy to or from the

¹⁸ Some resources are able to participate in the CAISO's fifteen-minute market at the CAISO's interties; however, access to that market is highly constrained by transmission access and is challenged by the CAISO's current market policies.

counterparty with whom they transacted. With the EIM, however, a third party is now required to submit a financially binding base schedule to the EIM at T-57, well in advance of the still-standing time requirements of the Western Energy Coordinating Council (“WECC”). This disconnect has begun to severely limit hourly and sub-hourly resource transactions and optimizations across the West, effectively forcing the overall market timeline for completing and scheduling the transactions to be pushed back as much as an hour. Especially for variable energy resources in a bilateral market balancing authority area, committing to deliver a firm hourly schedule to an EIM party at T-57 is highly costly and inefficient as the forecast error for variable resources increases significantly the further out the estimate is made.

Further, third parties are subject to congestion charges within the EIM party’s balancing authority area at a cost that is essentially entirely outside their control.¹⁹ This uncertainty drives up the cost of power, prohibits efficient price formation, and reduces the EIM and bilateral market liquidity.

Until the CAISO’s filing, such parties presumed that in the near future these seams would be dealt with in a way that targeted uniting entities across the EIM boundaries and reducing transactional inefficiencies in the West. With the CAISO’s Phase 2 filing, however, such parties see no prospects on the horizon for remedying what has become a significant barrier to both efficient EIM and efficient bilateral transacting outside of the EIM.

C. The CAISO’s Stakeholder Catalog process provides no option for market participants to elevate market efficiency stakeholder processes for consideration.

By pointing, in its filing, to the CAISO’s Stakeholder Initiative Catalog Process, the CAISO implies that the discussions the CAISO views as necessary for EIM intertie participation

¹⁹ A non-EIM party wishing to flow through an EIM balancing authority like PacifiCorp’s cannot, at this time, submit a bid that allows them to express the price at which they would prefer to not flow the energy and therefore become price-takers for any congestion charges.

has a possibility of taking place. WPTF finds it surprising that the CAISO sees the Catalog process as sufficiently credible to mention as relevant in its filing. Quite simply, as a rule, initiatives that are desired by sets of stakeholders do not get attention at the CAISO – especially when they relate to market efficiency. The initiatives that do get attention are those that the Commission directs, those the CAISO can argue are needed for reliability, and other items the CAISO decides to do on its own accord.

Especially with the efforts on regionalization through EIM and the potential for an expanded market footprint, new initiatives that have been ranked highly in the Stakeholder Catalog Process have largely gone nowhere, and many of those market efficiency initiatives have all but stalled either to a crawl or a halt. WPTF could compile all number of statistics on the initiatives that have been ranked highly in the process and then not gotten CAISO attention and the numerous processes that have simply showed up in the CAISO’s list of stakeholder processes that never entered the Catalog Process. Yet doing so would waste time, and we hope that it is undisputed that the Stakeholder Catalog Process is not a viable venue for worthy initiatives to receive resource focus and date-certain processing by the CAISO.

As one example, in 2015, the CAISO entirely abandoned the Stakeholder Catalog Process, stating that: "Due to high volume of initiatives already planned, there is no room for additional discretionary initiatives resulting from a ranking process."²⁰ Some stakeholders were not particularly bothered by the CAISO’s decision, indicating for example that the decision not to conduct the ranking process "... relieves market participants from an obligation that has no

²⁰ Draft 2016 Stakeholder Initiatives Catalog and Road Map, Stakeholder Conference Call Presentation, October 15, 2015, p. 17. (http://www.caiso.com/Documents/Agenda_Presentation_Draft2016StakeholderInitiativesCatalog_Road_map.pdf)

bearing on anything.”²¹ Yet at the same time stakeholders in their comments frequently expressed concern that important issues were not getting the resources they need by the CAISO and in the Stakeholder Initiative Catalog process.²²

In summary, if the Commission approves the CAISO’s proposed tariff change to require a stakeholder process without a Commission approved schedule for its conduct, the Commission will effectively approve the CAISO’s intention to forever prohibit economic participation at the EIM external interties for every EIM.

D. The CAISO does not offer sufficient demonstration of the need to prohibit EIM intertie participation.

The CAISO offers that a few “issues” have “come to light” in justification for the CAISO’s proposed tariff language to prohibit EIM intertie transactions. Yet very little detail is offered. First, the CAISO points out that bidding in the 15-minute timeframe is challenging. WPTF agrees, but that does not provide a basis for preventing any parties who do have flexible schedules from offering bids, and certainly it does not prohibit the CAISO initiating a stakeholder process to develop solutions to the “challenges.” Second, the CAISO points to a lack of default energy bids (“DEBs”) for interties. In this concern is an implicit assumption that DEBs are needed for EIM intertie participation. However, neither the CAISO, nor its Department of Marketing Monitoring, have made any demonstration that there is market power at the EIM interties. Third, the CAISO points to the lack of the full network model to fully model all EIM interties. Clearly the CAISO represents in its model today the EIM, along with generators under their control that are physically located in non-EIM balancing authority areas

²¹ See for example the November 5, 2015 comments from NRG. (http://www.caiso.com/Documents/Agenda_Presentation_Draft2016StakeholderInitiativesCatalog_Road_map.pdf)

²² Stakeholder comments for the Stakeholder Initiatives Catalog process can be found here: <http://www.caiso.com/informed/Pages/StakeholderProcesses/StakeholderInitiativesCatalogProcess.aspx>.

and the bilaterally scheduled transactions that EIM parties enter into, which are included in their EIM base schedules. Including flexible schedules instead of base schedules should provide no more challenge to any lack of build out of the full network model. Fourth, the CAISO points to an ill-defined problem of possibly "...shift[ing] flows to some inerties."²³ The CAISO offers no detail on what would cause such a shift and why it would be problematic. WPTF sees increased market flows and liquidity as a benefit to the EIM and struggles to understand the CAISO's thinking here, which seems at odds with their public policy goals of expanding market access for California's low-cost renewable generation.

The Commission should not approve the CAISO's proposal to effectively indefinitely hold up more complete market participation because of such abstract "issues that have come to light."

E. Having a date-certain plan for resolving the EIM boundary issues and allowing participation is appropriate

WPTF has been waiting patiently for the processes that allow participation at the boundary of the EIM, and has been actively encouraging the CAISO to have the discussions with neighbors throughout the West to work on the issues associated with moving energy through the West under the spattering of paradigms (CAISO, EIM, Federal Transmission, non CAISO PTOs, etc.) that now exist in the West.

EIM boundary participation was a very energized topic at the recent CAISO-organized Regional Issues Forum held in Portland Oregon,²⁴ and WPTF is supportive of resolving any critical issues associated with intertie participation. Whereas market participants and other western stakeholders are urging the CAISO to progress on these seams issues, in the CAISO's

²³ Phase 2 Proposal, p. 21.

²⁴ See, for instance, the agenda for the first Regional Issues Forum. Available at: https://www.caiso.com/Documents/Agenda-EnergyImbalanceMarketRegionalIssuesForum-Apr6_2016.pdf

filing the CAISO is not only failing to progressing on these issues, it is further pushing these issues to processes for which no hope for resolution exists.

The Commission has recently offered guidance encouraging more open and participatory settings without undue limitations. In its order related to the Arizona Public Service (“APS”) filing to implement an EIM structure the Commission directed APS to file on compliance and remove burdens on external resources who wished to offer into the EIM by means of dynamic schedules and to not have such participation require an underlying commercial arrangement with APS.²⁵ Similarly, the Commission recently encouraged both APS and Puget Sound Energy to explore participation by third party resources because doing so would expand the benefits of the EIM to all customers.²⁶

WPTF applauds the Commission’s actions in these filings but is concerned that the actions do not go nearly far enough to compel action by the CAISO and its EIM Entities. In WPTF’s experience, pseudo-ties and dynamic-schedules are cumbersome, one-off contractual modes of moving physical generation between balancing authorities; the problem in question with EIM intertie participation is much larger and calls for a truly market-based fix.

VI. CONCLUSION

We urge the Commission to require the CAISO to actively address these seams issues that the CAISO itself through its market expansion is creating. To promote and develop EIM in the West without taking care about the business of those not yet supported by an EIM is simply not responsible on the part of the CAISO. WPTF requests that the Commission only accept the CAISO’s proposal to require a stakeholder process prior to allowing intertie participation in the

²⁵ Commission Order ER16-938 dated April 29, 2016, at 83 and 84.

²⁶ Commission Order ER16-923 dated April 29, 2016, at 147.

EIM under the condition that the CAISO begins such a process as soon as practicable and files within 12 months any tariff changes it believes necessary to allow EIM intertie participation.

WPTF respectfully requests that the Commission direct the CAISO to file upon compliance the results of the stakeholder process the CAISO indicates it needs before EIM intertie bidding can be enabled within 12 months of at which time the restriction to do so proposed by the CAISO can be amended appropriately.

Respectfully submitted,



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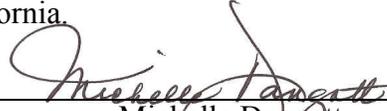
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May 19, 2016

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the *Motion to Intervene and Protest of the Western Power Trading Forum* on all parties of record in proceeding *ER16-1518-000* by serving an electronic copy on their email addresses of record and by mailing a properly addressed copy by first-class mail with postage prepaid to each party for whom an email address is not available.

Executed on May 19, 2016, at Calabasas, California.



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