In Support of Consumer Benefits and Participatory Multi-State Governance as Essential Elements of Any Western Regional Market Expansion

In November 2014, the California Independent System Operator Corporation (CAISO) began operating an Energy Imbalance Market (EIM) within the CAISO and PacifiCorp Balancing Authority Areas (BAAs). The EIM provides a platform for the real-time purchase and sale of power imbalances by participating BAAs in the Western Interconnection. A primary driver for the development of the EIM was improved integration of variable renewable resources through a wider area dispatch of power that would incorporate greater diversity of loads and resources. For example, excess solar generation in one part of the EIM could be absorbed by load that exceeds generation in another. Additional drivers of the EIM were the achievement of efficiencies in market dispatch, lower electricity costs, and improved reliability. Thus far, CAISO analyses have shown a reduction in power production cost compared to what would have occurred in the absence of the EIM.

The EIM has expanded since its initial inception with the addition of NV Energy in 2015, Puget Sound Energy and Arizona Public Service in 2016, and Portland General Electric in 2017. Idaho Power and Powerex are scheduled to begin their participation in 2018. A number of publicly owned utilities (POUs) that operate existing BAAs in the West have undertaken analyses showing net benefits from EIM participation. As a result, the following public power utilities have signed agreements to participate in the EIM between 2019 and 2020: Seattle City Light; the Balancing Authority of Northern California and its member, Sacramento Municipal Utility District; Salt River Project; and Los Angeles Department of Water and Power.

Risks of joining the EIM are mitigated by the fact that participation is voluntary, as are resource participation decisions within the EIM market structure on a day-to-day basis; balancing authorities are required to ensure their own resource adequacy without depending on the EIM for resources; and exiting the EIM can be accomplished within a reasonable time frame without an exit fee.

The EIM has a five-member governing body, nominated by a stakeholder committee, which has been delegated authority from the CAISO Board of Governors on rules specific to participation in the EIM. In addition, the EIM charter established a Body of State Regulators (BOSR) and a Regional Issues Forum (RIF). The BOSR provides a forum for state regulators to learn about the EIM, and may express a common position in the CAISO stakeholder process or to the EIM governing body on EIM issues. The
RIF includes ten self-selected sector liaisons that facilitate input and participation on issues, and may produce documents or opinions for the EIM governing body, CAISO Board of Governors, and CAISO.

Beyond EIM expansion, CAISO and PacifiCorp have been evaluating full market integration and consolidation of PacifiCorp’s two BAAs into the CAISO BAA. At this time, there has not been any movement on regionalization of CAISO. As was the case with development of the EIM, supporters of full regionalization argue that the primary benefit is access to a greater diversity of both loads and resources across a broader operational and market footprint which will help manage the variability of renewable resources.

Full regionalization of CAISO would require a change in CAISO’s governance from the current model in which the CAISO board is appointed by California’s governor to an independent board structure, perhaps representative of the states and regional interests within an expanded CAISO, with no political dependency on any single state. Such a governance change would require action by the California legislature, but no proposal has yet garnered enough support to win passage of new statutory language. It is still possible that such an effort will move forward, but its success is uncertain.

Full regionalization could entail risks to public power and consumers resulting from greater exposure to market prices, transmission costs, and potential adverse impacts on POU arrangements for supplying electricity to their customers. Furthermore, POUs in the West recommend the ISO’s board recognize the entities that fund, or have funded, transmission facilities, and consider how economic benefits are distributed. The American Public Power Association has long supported a policy of ensuring that wholesale market creation, expansion or augmentation provide benefits to consumers and not impede the public power business model.

NOW, THEREFORE, BE IT RESOLVED: As with other organized wholesale markets, the American Public Power Association (APPA) urges that evaluation of any proposals to expand the California Independent System Operator (CAISO) and augment the Energy and Balance Market (EIM) consider primarily whether such proposal would positively impact consumer welfare and avoid impediments to the public power business model; and

BE IT FURTHER RESOLVED: APPA views full participatory governance as essential to any regionalization of CAISO-operated markets, with such governance including an independent board representative of regional interests and views of market participants and consumers; a standing committee
providing a forum for market participants, including public power, to provide direct input to the board; and full transparency of stakeholder and board processes; and

BE IT FURTHER RESOLVED: APPA supports a thorough evaluation of the EIM and any future augmentation to ensure that the potential benefits of the EIM or other market options sought by public power are maximized while the risks are managed and mitigated.