



## STAKEHOLDER COMMENT FORM

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ISSUE: [NV Energy Proposed EIM Tariff Revisions](#)

In its move to participate as an EIM Entity in the organized market operated by the CAISO, NV Energy must take steps to ensure CAISO's EIM will not encroach on NV Energy OATT Transmission Rights.

### OATT REFERENCES:

- Tariff Section 1 Definitions
- Tariff Sections 9.2 and 9.3, 10.2, and Section 12
- Schedules 4, 9 and 10
- Proposed Attachment P

### COMMENTS:

Powerex appreciates and welcomes the opportunity to provide comments to NV Energy as it engages in its stakeholder process to develop tariff provisions that permit it to operate its BAA as an EIM Entity within the CAISO's Imbalance Energy Market.

While NV Energy's stakeholder process has been ongoing for some weeks, it was only recently, in CAISO's January 8 EIM Year 1 Enhancement stakeholder meeting in Portland, Oregon, that CAISO revealed its approach to implementing the EIM on a going-forward basis in BAAs that—like that of NV Energy—operate transmission facilities pursuant to a FERC-approved *pro forma* OATT.

A key challenge in implementing CAISO's EIM within the NV Energy BAA and "on top of" its existing OATT framework is the need to ensure that the existing and future long-term investments that support the maintenance and expansion of NV Energy's transmission facilities are respected, and not

undermined. As NV Energy evaluates how the CAISO EIM will be implemented within its OATT structure, it is critical that it support solutions that maintain the rights of its network and long-term firm point-to-point transmission rights holders. Moreover, NV Energy has an obligation under its tariff to continue to ensure its long-term Firm transmission customers maintain the scheduling and priority service rights they have already committed to pay for under their existing contracts, many of which extend years into the future.

At this stage in its process, Powerex believes NV Energy has a viable array of options available that can protect both its Firm transmission rights holders and the transmission revenues it receives that contribute to the maintenance and efficient expansion of its grid.

Powerex's comments are focused on two specific topics discussed during the CAISO's January 8, 2015 stakeholder meeting that have particular significance in NV Energy's own EIM implementation process:

1. ***Operation of the CAISO EIM Implementation in the PacifiCorp BAAs, which like NV Energy's BAA operate their transmission facilities under an OATT structure, has resulted in the premature expiry and confiscation of Firm OATT rights at T-57. This result is harmful and unnecessary, and should be avoided in NV Energy's EIM implementation.*** There are critical interactions between the real-time EIM and the existing OATT framework of transmission rights in the service territories of entities participating in the EIM. As implemented in PacifiCorp's BAAs, it has recently become clear that those interactions are undermining the firm transmission rights of transmission customers, effectively causing those rights to "expire" prematurely (at T-57<sup>1</sup>). This exposes Firm OATT transmission customers to the very re-dispatch (*i.e.*, congestion) costs that investment in Firm OATT rights is intended to protect against. Under PacifiCorp's current T-57 practice, this problem is compounded by PacifiCorp's application of the per MWh cost of re-dispatch to *all* post T-57 transmission usage quantities, which often greatly exceed the quantities of re-dispatch required and performed.
2. ***CAISO's proposed use of ATC for EIM Transfers going forward, in the NV Energy BAA and beyond, provides the potential for significant benefits over the "donation approach" used by PacifiCorp, but as proposed it will result in the premature expiry and confiscation of Firm OATT rights, removing such rights from OATT-based allocation and shifting them to the CAISO for EIM dispatch after T-40.*** The use of otherwise-unused transmission capacity instead of exclusive set-asides for EIM transfers provides significant opportunity to increase the efficient use of transmission rights, by eliminating the stranding of transmission capacity (and associated reduction in economic efficiency) that has occurred since the PacifiCorp EIM went live. However, the CAISO proposed implementation will effectively expire all Firm OATT rights at T-40, treating them thereafter as a social good (*i.e.* as EIM ATC) for least cost dispatch. This approach is highly confiscatory, reduces the incentives for Firm OATT customers to make efficient decisions about the use of their rights and, ultimately, undermines the incentives for long-term investment in OATT transmission.

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<sup>1</sup> Under PacifiCorp's implementation, transmission customers must submit interchange and/or intrachange schedules by T-57 in order for these to be included in the EIM "base schedules," notwithstanding the CAISO Tariff establishing a deadline of T-40 for final EIM Entity base schedules.

The problematic outcomes described above can be addressed through financial settlements that ensure that the real-time value of transmission is appropriately returned to the Firm OATT customer, while enabling least-cost economic dispatch of resources in the EIM.

Powerex believes that a successful EIM implementation can expand, rather than restrict, the opportunities to utilize NV Energy transmission. Achieving this outcome requires specific attention to the treatment of OATT service ***within the real-time timeframe*** in which the EIM will operate, including both dynamic and 15-minute use of Firm OATT rights. This is vital both to avoid an improper encroachment on OATT service that has already been committed, and to ensure the ongoing viability of NV Energy's OATT framework as the basis for funding the embedded costs of NV Energy's significant transmission investments. Powerex therefore urges NV Energy to convene a stakeholder discussion specifically on this topic.

### **Discussion: NV Energy Must take steps to ensure CAISO's EIM will not Encroach on NV Energy OATT Transmission Rights**

A key expected benefit of a real-time organized market such as the CAISO EIM is achieving least-cost economic dispatch of available generation resources, subject to transmission and other constraints. Powerex strongly supports the objective of making the most efficient use of available generation and transmission. Where intra-hour organized markets are implemented as a complement to bilateral transactions using physical transmission rights under the OATT priority-based framework, the interaction between these two frameworks must be carefully designed. Initial experience with implementation of the CAISO EIM in PacifiCorp's BAAs demonstrates adverse impacts on OATT transmission customers. Critically, the market design choices resulting in these adverse outcomes is not necessary for successful implementation of an intra-hour energy market with centralized dispatch, such as the CAISO EIM. By ensuring that corrective action is taken in PacifiCorp and that future implementations avoid these and other adverse impacts on existing transmission rights, CAISO and EIM participating BAs can help increase the acceptance of voluntary imbalance energy markets in the West and eliminate existing disincentives (and introduce positive incentives) to participation in those markets by resources with Firm OATT transmission rights.

#### **A. NV Energy's Firm OATT Customers Should Not Be Improperly Charged for Scheduling Using their Existing Rights, Including For Dynamic and Fifteen Minute Scheduling**

Under the EIM implementation in PacifiCorp's BAAs, any interchange or intrachange transactions that are submitted or modified after the deadline for submitting "base schedules" (*i.e.*, after T-57 minutes) are considered "imbalances" and are charged for any congestion between point of delivery (POD) and point of receipt (POR) based on the difference in LMPs. This financial settlement applies to *all* schedules that are not included in "base schedules," regardless of the priority of OATT transmission service associated with the schedule.

Powerex believes it is important that NV Energy make different implementation decisions if it wishes to preserve the existing rights of its OATT customers.

An integral and well-established attribute of Firm transmission rights under the *pro forma* OATT is that Firm customers are *not* charged any additional costs associated with providing transmission service on the reserved path. Instead, under the OATT framework, *network loads* bear the cost of any re-dispatch, including re-dispatch necessary to prevent curtailments to both Firm Network and Firm Point-to-Point service.<sup>2</sup> This fundamental attribute of firm transmission rights in PacifiCorp's BAAs has been effectively eliminated by the PacifiCorp EIM implementation.

For example:

Consider a transmission customer that has invested in a 100 MW Long-Term Firm Point-to-Point reservation. The customer submits an interchange transaction for 100MW of transmission, with an initial energy profile of 20 MW prior to T-57 (*i.e.*, its base schedule is 20 MW). After T-57, it increases the energy delivery to the full 100 MW of its reserved transmission capacity. Due to a de-rate, however, the transmission path can only accommodate a total of 95 MW of schedules, not the full rating of 100 MW. To accommodate the transaction, 5 MW of generation will need to be re-dispatched, with 5 MW of generation reduced ("DECed") at the POR or equivalent, and 5 MW of generation increased ("INCed") at the POD. Under the OATT framework, this 5 MW re-dispatch cost would be spread across all network load. Under, the EIM, the LMP at the POD will be set by the accepted INC offer of, say, \$50/MWh, while the LMP at the POR will be set by the accepted DEC offer of, say, \$10/MWh.<sup>3</sup> In this scenario, under PacifiCorp's implementation, the transmission customer would be charged the LMP difference of \$40/MWh on the 80 MW that were scheduled after T-57, for a total charge of \$3,200.

The above example illustrates several important adverse consequences of EIM implementation for customers who have invested in Firm transmission rights in PacifiCorp's BAAs:

*First*, treating transmission usage changes after T-57 as "imbalances" results in directly charging Firm transmission customers the cost of re-dispatch, which is contrary to the OATT framework. Had this same example occurred prior to EIM implementation in PacifiCorp's BAAs, the Firm transmission customer would have incurred no re-dispatch-related charges, and the re-dispatch costs would have been spread across PacifiCorp's network loads.

*Second*, the implementation of the EIM introduces a temporal "break" at T-57. Had the additional 80 MW been submitted at T-58, the transmission customer would have avoided all re-dispatch-related charges. Re-dispatch would still be necessary, but its cost would be allocated to PacifiCorp network loads. Instead, by increasing the energy delivery just a few minutes later, the same re-dispatch occurs but the Firm transmission customer, and not PacifiCorp's network load, pays the re-dispatch-related charges. Transmission customers that invested in Firm OATT transmission rights in order to be able to deliver energy on congested paths must now know,

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<sup>2</sup> For Non-Firm service, the transmission provider may curtail schedules instead of incurring a re-dispatch cost, but for Firm PTP service the transmission provider cannot choose to curtail service instead of re-dispatching unless it is willing to also curtail Firm Network service on an equal basis with Firm PTP service

<sup>3</sup> For purposes of illustration, this example ignores marginal losses.

and schedule their precise intra-hour energy deliveries on those rights prior to T-57; after that time, the Firm rights are effectively worthless.

*Third*, the financial settlement goes well beyond merely recouping the cost of re-dispatch, and in fact over-collects these costs. As shown above, the transmission customer is charged the \$40/MWh LMP price difference on the *entire* 80 MW schedule change submitted after T-57, even though only 5 MW of re-dispatch was actually needed to accommodate the schedule. The actual re-dispatch cost in this example is just \$200, not the \$3,200 charged to the Firm customer.<sup>4</sup> The difference between the \$3,200 charged to the Firm transmission customer and the \$200 of actual net re-dispatch cost will be received by PacifiCorp as “Real Time Congestion Imbalance Offset” and, under PacifiCorp’s revised tariff, distributed to PacifiCorp’s “measured demand.” Instead of PacifiCorp network loads incurring the *cost* of re-dispatch, under the EIM they will reap a windfall by over-collecting actual re-dispatch costs from customers that use their Firm OATT rights after T-57.

In this example, the transmission customer will have already paid to reserve transmission capacity on a Firm basis, but will nevertheless be charged again when it actually schedules on that reserved capacity, and the charge will be *sixteen times higher* than the actual re-dispatch cost necessary to accommodate that use. These outcomes are particularly damaging to transmission customers whose interchange or intrachange transaction volumes may not be known until shortly before the applicable scheduling deadlines for hourly and/or sub-hourly transactions. This includes transmission customers that invested in Firm transmission rights in order to serve load obligations (including self-supplying generation or load imbalances after T-57); to schedule the output of Variable Energy Resources; or to participate at CAISO interties in its Fifteen Minute Market and/or Five Minute Dispatch. The EIM, as implemented by PacifiCorp, effectively deprives customers investing in Firm OATT priority rights from being able to use them for 15-minute scheduling or dynamic scheduling, and even static hourly schedules must now be finalized well before the WECC scheduling deadline of T-20 minutes to avoid these additional charges.

The long-term ramifications of continuing with this approach in the PacifiCorp BAAs, and expanding it to other BAAs, such as NV Energy’s BAA, will be profound:

*First*, Firm OATT customers are undeniably directly and materially harmed, through the premature expiration and confiscation of their pre-existing Long Term Firm transmission investments. This will not only create significant resistance to the expansion of the CAISO/PAC specific implementation of an EIM in other regions, but it will also reduce dispatch efficiency, as Firm OATT customers seek to use all of their OATT rights prior to T-57 to avoid re-dispatch costs, even if the most efficient use of such rights may be after T-57.

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<sup>4</sup> Actual re-dispatch cost are 5 MW \* \$50/MWh (the INC offer) minus 5 MW \* \$10/MWh (the DEC offer), for a net re-dispatch cost of \$200.

*Second*, the effective expiry of OATT rights after T-57 will undermine the incentives to invest in Long Term Firm OATT transmission rights in the first place. In regions where the CAISO/PAC version of the EIM is implemented, customers must now weight the benefits of restricted Firm OATT rights that effectively expire after T-57 against the costs of those potential investments.

*Third*, the expiry of OATT rights after T-57 directly undermines the policy objectives of FERC's recent Orders, including Order No. 764 promoting 15-minute scheduling and Order 784 promoting competitive ancillary service markets. Customers who seek to utilize 15-minute schedules and/or to sell or self-provide ancillary services such as generation and load imbalance services will face significant economic barriers to doing so, since these activities will no longer be appropriately treated as use of pre-existing transmission rights (that have already been paid for) but rather will be settled as imbalance energy injections and withdrawals, resulting in EIM re-dispatch related costs being applied.

Powerex strongly urges CAISO and NV Energy to work together to revise this critical aspect of the CAISO's proposed EIM implementation. As explained below, a framework for financial settlement of Firm OATT rights used in the EIM presents an effective, workable and reasonable solution.

**B. CAISO's Proposal to Use ATC instead of PacifiCorp's Donation Approach for EIM Transfers Has the Potential to be Effective, But As Designed, Will Be Confiscatory to NV Energy Firm OATT Rights**

PacifiCorp's EIM implementation uses a donation of its merchant's transmission rights to facilitate *potential* EIM Transfers; this approach has stranded scarce transmission capacity on the COI that would otherwise be released for use by all transmission customers, *reducing* economic efficiency. By setting aside scarce dynamic transmission capability on the COI for the *exclusive use* of potential EIM Transfers to or from CAISO, a substantial volume scarce transmission capacity on the COI is rendered unavailable for transactions other than EIM Transfers. Notably, PacifiCorp's dynamic set-aside *is not accompanied* by any dedication of an equivalent or similar volume of resources for dynamic deliveries to the CAISO. In other words, EIM Transfers from PacifiCorp West to CAISO will make use of the set-aside capacity only when (1) prices in the CAISO BAA are higher than the offer price of resources in the PacifiCorp West BAA; *and* (2) there are unused PacifiCorp resources beyond what is needed to meet imbalance needs in the PacifiCorp West BAA. In contrast, dynamically scheduled resources to the CAISO (outside of the EIM) are dedicated to the CAISO real-time market for the respective hour—they will be dispatched if CAISO prices are above the offer price of the respective resource(s); they will *not* be "called back" to meet intra-hour needs in the source BAA, which is the practical effect of the second condition for EIM Transfers from PacifiCorp West to CAISO. The end result is that the efficient utilization of scarce transmission capacity and scarce dynamic transfer capability on the COI has been materially reduced through PacifiCorp's donation arrangement, resulting in an overall **loss** in economic efficiency.

As a part of its Year 1 EIM Enhancements, CAISO has proposed the use of residual Available Transfer Capability (ATC) instead of donated or set-aside transmission capacity to manage EIM Transfers. This approach would extend to the NV Energy BAA, and Powerex believes it offers much promise for EIM

transfers to actually improve efficient utilization of transmission. Specifically, through centralized visibility and coordination, EIM Transfers could be facilitated on transmission capacity that would otherwise be unused, preventing the need to set aside any transmission capacity for exclusive EIM use at all. EIM Transfers could also potentially utilize transmission capacity held by Firm OATT customers in a more efficient manner than today, if appropriate and efficient financial settlement mechanisms are established to promote efficient use and compensation for the use of Firm OATT rights by the EIM. Powerex strongly supports such an approach, and believes that the use of ATC for EIM Transfers should not only be pursued in future implementations such as Nevada's, but it should replace the highly inefficient donation approach to EIM Transfers currently implemented by PacifiCorp.

However, as further described below, the specific ATC implementation approach proposed by CAISO will prematurely expire Firm OATT transmission rights at T-40 in an effort to "create" unencumbered ATC for EIM Transfers. Without appropriate compensation measures, which have not yet been developed or proposed by CAISO, such an approach is confiscatory, with many of the same serious ramifications described in the previous section.

#### *EIM use of Transmission Must Compensate OATT Firm Customers that Reserved it*

A key challenge in implementing CAISO's EIM "on top" of NV Energy's OATT framework is to ensure that the existing and future long-term transmission investments made within the OATT framework are not ignored or undermined in the EIM timeframe.

Up to this point, CAISO has chosen a path that disregards existing OATT structures, policies, and rights. In its January 8 presentation to stakeholders, CAISO explained how it has chosen to implement a design that successfully nullifies the priority of external Firm OATT rights as it relates to hourly and fifteen-minute deliveries in CAISO markets, and how it intends to extend this approach to the EIM. While Powerex recognizes that the CAISO's over-arching objective is to achieve efficient dispatch, such disregard for existing investments in OATT transmission rights and the priority-based framework only serves to create disincentives to join or participate in the EIM. These disincentives extend not only to OATT transmission customers but also to OATT transmission providers as they increasingly realize that CAISO's EIM implementation threatens their core business: the funding of current and future transmission investments through the sale of Long Term Firm transmission service.

Fortunately, there are solutions available that both enable the efficient use of transmission in the EIM while also ensuring the economic value of, and incentives to continue to invest in, Firm OATT transmission service. Powerex urges NV Energy to work with stakeholders to develop solutions that achieve both of these objectives.

A critical question that needs to be addressed is therefore how to compensate NV Energy customers that own Firm OATT rights when the EIM least-cost economic dispatch utilizes the transmission capacity that Firm OATT rights holders have reserved and paid for. Under the current EIM rules implemented by CAISO and PacifiCorp, all net congestion revenue collected from real-time EIM dispatch is paid by CAISO to the EIM Entity BAA (*i.e.*, PacifiCorp), and PacifiCorp allocates these amounts—positive or negative—on the basis of measured demand. In other words, *none* of the congestion revenue realized as a result

of the use of OATT-subscribed transmission facilities in the EIM is returned directly to transmission customers that invested in the Firm OATT rights associated with a given path.

This is not only inequitable, but also inefficient. The implementation of the CAISO EIM in NV Energy's BAA—which sells and allocates transmission service under the OATT framework—results in two mutually exclusive uses of the same transmission capacity: it can either be used to support a bilateral transaction according to the OATT priority-based framework, or it can be used to support least-cost centralized dispatch under the EIM. While it might be socially optimal for transmission capacity to be used for its highest value purpose, a transmission customer with Firm OATT rights will determine whether or not to use those rights based solely on its own *private* incentives. Absent a framework that permits the transmission customer to realize the value of making the transmission available in the EIM (*i.e.*, the value of *not* using the OATT rights to support a bilateral transaction), a rational transmission customer would seek to utilize their OATT rights for bilateral transactions whenever possible.<sup>5</sup>

*Dynamic use of Firm OATT Rights under CAISO's ATC Proposal Abrogates the Rights of NV Energy OATT Transmission Customers*

The above discussion highlights that CAISO's model provides no incentives for NV Energy's Firm OATT transmission customers to choose to leave their transmission rights available for potential EIM use whenever it is economically efficient to do so. This discussion assumes that the efficiency problem is limited to a lack of affirmative *incentives* to leave transmission for EIM use, and that NV Energy's transmission customers' ability to utilize their Firm OATT transmission rights is not also *impaired* by introduction of the EIM itself. In at least two circumstances, this is not the case. First, as previously discussed, the current implementation of the EIM by PacifiCorp demonstrates that the CAISO's current market design effectively eliminates the value of Firm OATT reservations after the base scheduling deadline of T-57. Transmission customers that invested in long-term rights to facilitate transactions closer to real-time will be unable to use those rights for their intended purpose. Instead, the opportunities to receive the economic benefits of Firm OATT rights will be limited to transactions that can be arranged prior to the base schedule deadline. The value of Firm OATT rights after that time is effectively confiscated by the EIM Entity BAA, in direct violation of FERC's recognition that OATT rights extend through the operating hour for which the rights were awarded. This will further encourage participants to seek to utilize their rights ahead of the T-57 timeline.

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<sup>5</sup> Consider, for example, a transmission customer that has invested in Long Term Firm OATT rights across the service territory of a BAA that participates in the CAISO EIM. For instance, the transmission customer may have an opportunity to use those rights to physically wheel energy across the BAA to make a bilateral sale to a participant outside the EIM footprint, and realize a transaction margin of \$2/MWh. But if that transmission were not used, the available capacity could be utilized for EIM dispatch where it realized a value of \$5/MWh.<sup>5</sup> Under the current EIM implementation, however, that \$5/MWh would not be returned directly to the transmission customer with the Firm OATT rights, but socialized to all PacifiCorp measured demand. Those incentives ensure the Firm OATT customer will always elect to use the transmission for the lower-value bilateral schedule from which it *does* benefit than leave it available for the higher-value EIM use, from which it does not.

A second form of confiscation of OATT rights after T-57 can occur if, as proposed by CAISO, EIM participation changes the way that dynamic schedules on Firm OATT rights are treated by participating BAAs. Specifically, the CAISO appears to support confiscating Firm OATT rights that are scheduled dynamically prior to T-57, to the extent the energy profile at T-57 is less than the transmission profile on the associated dynamic e-Tags, in order to create additional EIM ATC.<sup>6</sup> CAISO can achieve this only by requiring that prospective EIM-participating BAAs modify their transmission procedures such that all ATC calculations are based on the e-Tag energy profile, even for dynamic schedules. Such procedures allow Firm OATT transmission that is currently set aside for the respective Firm OATT customer's dynamic flows to instead be used by the CAISO to support EIM dispatch from a different participant's resource, including in circumstances where the Firm OATT transmission customer's offer was otherwise economic. When applied to a BAA under an OATT framework, like NV Energy, the CAISO's approach is highly problematic, and will shift the value of transmission investments away from the entities that pay for them (*i.e.*, NV Energy's Firm OATT rights holders) and socialize that value.<sup>7</sup>

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<sup>6</sup> At the January 8 stakeholder meeting, CAISO explained its view that dynamic schedules encumber transmission based on the energy profile. A Bonneville representative corrected CAISO's description of how a dynamic schedule affects the calculation of transmission commitments, which Bonneville (and other OATT transmission providers) perform based on the transmission allocation profile (*i.e.*, the maximum quantity offered to CAISO) and *not* on the energy profile.

<sup>7</sup> Consider, for example, a market participant that has invested in 100 MW of Firm OATT transmission from a generator's POR to a CAISO intertie, and it uses those Firm rights to participate dynamically in CAISO's real-time markets, including the 5-minute market. Assume that the resource is offered at \$40/MWh, and in a given 5-minute interval the value of energy inside the CAISO is \$50/MWh. The CAISO will dispatch the dynamic resource up to the 100 MW offered, and it will receive the intertie LMP of \$50/MWh, as the intertie is not congested in the 5-minute market. This example describes how dynamic scheduling is used to offer external resources in CAISO's real-time market at present.

Now consider that the BAA where the external generator is located participates in the EIM, and changes its transmission allocation procedures according to CAISO's proposal. That is, it no longer sets aside the maximum amount of energy that can be delivered on a dynamic schedule (*i.e.*, based on the transmission allocation), but instead it sets aside transmission only for the energy profile, which is equal to the HASP advisory award, issued prior to T-57. The HASP advisory award is not based simply on comparing the dynamically-scheduled generators offer (\$40/MWh) against the value of energy inside the CAISO (\$50/MWh), but also against the offers of EIM participating resources. If EIM participating resources are available at, say, \$35/MWh, then the HASP advisory award of the dynamically-scheduled resource, offered by the transmission customer with Firm OATT rights, will be *zero*. And, under CAISO's proposal, the EIM BAA will not set aside *any* transmission capacity to be able to deliver the dynamic resource to the CAISO intertie. Thus, even though the dynamic resource was economic relative to the value of energy inside the CAISO, and even though the Scheduling Coordinator offering that resource had invested in Firm OATT service to be able to deliver that energy to CAISO dynamically, the generator will not be dispatched. Instead, EIM resources will be dispatched, and will flow as EIM Transfers to CAISO on the transmission that had been reserved under the OATT framework *by a different customer*. Critically, the transmission customer that reserved and paid for Firm OATT service will not receive any value from its investment in transmission rights, and instead that value will be collected as congestion rents and socialized among the EIM BAA's loads.

Such an outcome is inequitable, as it effectively prevents the NV Energy transmission customers that have invested in Firm OATT service from using their priority rights. Firm OATT transmission customers will soon realize that they will not receive any value from using their Firm OATT rights to participate in the CAISO markets as a dynamic resource. Instead, Firm OATT transmission customers will have a greater incentive to seek to use their rights to support other transactions that do provide some value, such as bilateral transactions to other participants in the Western Interconnection. This will result in the loss of dynamic participation in the CAISO operated markets. Such a result would clearly be a step backwards in terms of efficient use of transmission and in terms of CAISO real-time market liquidity.

### **C. CAISO and NV Energy Should Develop a Framework for Financial Settlement of Firm OATT Rights used in the EIM**

The above discussion lays out multiple ways in which the current implementation of the EIM has the potential to create an abrupt discontinuity between the physical transmission rights under NV Energy's OATT framework and the treatment of transmission in the EIM. Certain of these examples reflect an unjustified encroachment or confiscation of transmission value, whereas others reflect the lack of incentives to encourage efficient use of transmission.

Most importantly, while the examples are varied, all the issues raised in the discussion above can be effectively addressed through the same solution, which is to credit existing OATT transmission customers for any positive difference in the congestion component of EIM LMPs for the quantity of Firm OATT rights that they did not utilize. This is a solution that NV Energy can insist be part of the EIM market design going forward.

Such a credit mechanism will address each of the problematic conditions identified above:

1. A credit for unused Firm OATT rights (as of the base schedule deadline) provides a direct hedge against the congestion component of imbalance charges on schedules submitted or adjusted after the base scheduling deadline, thus preserving the core OATT principle that the cost of any re-dispatch necessary to accommodate the use of Firm OATT rights is not allocated to the Firm PTP customer.
2. A credit for unused Firm OATT rights provides an appropriate financial incentive for transmission customers to choose between using those rights to support a bilateral transaction and leaving the transmission unused, in which case it would be available to support EIM dispatch. This promotes the efficient use of transmission by making scarce transmission capability available for its highest-value use.
3. A credit for unused Firm OATT rights provides appropriate compensation to customers whose transmission is effectively re-allocated by the CAISO's market awards to resources that do not have transmission rights. Appropriate compensation ensures that customers with Firm OATT rights continue to receive the economic value of the underlying facilities that their Firm OATT investments fund, and that they do not have an incentive to attempt to protect themselves against confiscation by simply avoiding the CAISO and EIM markets altogether.

A financial credit framework will help ensure that implementation of the EIM does not abrogate the rights of transmission customers that have made long-term investments in the transmission system of

the participating BAA.<sup>8</sup> This will avoid undermining sales of transmission service under the OATT framework, upon which participating transmission provider will continue to rely for recovery of the embedded cost of their transmission assets and to fund capital upgrades and expansion of those facilities. A properly designed mechanism for recognizing and returning the value of Firm OATT rights to the transmission customers that invested in them can reduce opposition to BAAs joining the EIM, and can encourage active participation in that market.

#### TARIFF - SUGGESTIONS/COMMENTS:

Consistent with the foregoing discussion, Powerex believes NV Energy's OATT should be revised to institute an appropriate crediting mechanism. Providing credits will protect the rights of NV Energy transmission customers whose final scheduled usage is consistent with their existing firm transmission rights – rights that they have already paid for. These credits will also ensure that customers with firm transmission rights are appropriately compensated when the EIM utilizes the transmission capacity associated with their firm rights to dispatch a different customer's resource in a manner inconsistent with the priority order established, and paid for, under the NV Energy OATT framework.

The importance of *carefully and clearly* revising NV Energy's OATT to implement a crediting mechanism in a manner that provides clear notice to customers of the settlement implications of the EIM cannot be overstated. The experience of Powerex and other transmission customers with PacifiCorp's decision to join the CAISO EIM highlights the importance of providing clear notice to customers and the pitfalls of failing to do so. In particular, PacifiCorp's existing OATT customers are now being charged under PacifiCorp Schedules 4 and 9 any time they submit or adjust schedules after T-57, even when their final scheduled use is consistent with the firm transmission rights they have already paid for (and they have no actual generation or load imbalance). Because neither the application of the T-57 deadline nor its settlement implications were clearly set forth in the PacifiCorp OATT, this outcome was not at all clear at the time PacifiCorp first proposed its tariff amendments, with some customers only receiving notice of these additional charges when they received their first billing statements following implementation of the EIM.

In order to ensure that the tariff language implementing a crediting mechanism is as clear as possible, and to provide adequate notice to customers, Powerex asks that NV Energy either incorporate the drafting of a crediting mechanism into its current, ongoing EIM stakeholder process, or convene a separate process to expedite the development of appropriate tariff language. Powerex is committed to working with NV Energy and other stakeholders to develop a mechanism that provides an efficient and workable solution.

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<sup>8</sup> Powerex recognizes that developing a framework to allocate real-time congestion revenues based on Firm OATT reservations that were not used in the base schedules is primarily the responsibility of transmission providers of BAAs that choose to implement the EIM. Nevertheless, CAISO has considerable influence in shaping the manner and mechanisms adopted by participating BAAs to implement the EIM. Moreover, CAISO has explicitly required certain provisions to be adopted (or avoided) by EIM Entity BAAs, and is currently considering requiring that participating BAAs permit bidding at their interties.