

# SPP's Western Energy Imbalance Service (WEIS) Proposal

## WAPA Customer Feedback

### General Feedback Summarized by Theme:

- Support for an Energy Imbalance Market
  - There seems to be wide support for bringing an energy imbalance market to the WACM and WAUW BA's, with disagreements on whether SPP or CAISO is the better vehicle to do so.
    - Which RTO provides better net benefits is a focal point of disagreement. Those entities focused more on long term benefits lean toward SPP, while those entities focused on immediate benefits desire a study to see if SPP's cost/benefit ratio is superior to CAISO's cost/benefit ratio.
    - One commenter requested a study to demonstrate which RTO would be superior in integrating high levels of intermittent resource.
  - EI market benefits highlighted in entities' comments include: efficient energy resource dispatch; reduction of both regulation and flex reserves; and integration of higher levels of renewable resources.

WAPA Response: WAPA appreciates the numerous comments received during SPP WEIS meetings, during one-on-one discussions, and during our Markets meeting held in Phoenix this last April. We also appreciate and agree with many of the concerns that advise caution. We generally agree that energy imbalance markets are a worthwhile step for the WACM BA, especially given the reality that our Mountain West attempt to bring a day-2 market into the West ended up not being successful. Regarding the comments on doing a cost/benefit comparison study between market operators, see below.

- Desire for a cost/benefit study
  - A number of entities encourage WAPA to do an extensive cost/benefit study to specifically compare the SPP WEIS against the option of WACM joining the CAISO EIM, especially to evaluate the SPP WEIS without PSCO.
  - One commenter questioned why WACM was taking a different approach than WALC regarding studying options.

WAPA Response: WAPA is mindful not to spend unnecessary resources on analyses that will not yield new information needed to make decisions. Considering that WAPA-UGP is already a transmission owning member in SPP, and considering that the Mountain West Transmission Group analysis for LAP and CRSP already compared SPP to other potential RTO's interested in the West,

WAPA feels a detailed cost/benefit study between these options will not yield significant enough, or certain enough, results to impact the decision. As is true for many modeling efforts, any study conducted would result in assumptions about the future, which are hard to realistically predict. A number of factors make SPP a desirable option irrespective of CAISO/SPP energy imbalance benefit comparison studies. These broader issues related to our decision include:

- SPP's stakeholder governance structure, with their independent board of directors;
- UGP's current membership in SPP, with LAP's financial integration with UGP;
- LAP's eastern interconnection load located within SPP in KS and NE;
- LAP's transmission system, some of which is located in the eastern interconnection within the SPP BA;
- Opportunity to maintain the potential option for LAP and CRSP to obtain a Federal Service Exemption within SPP if a day-2 market develops similar to what UGP negotiated when becoming a member;
- Having an energy imbalance market operator who also is our reliability coordinator.

With factors like these in the background, the value of conducting a benefit study is somewhat limited.

- Long term market potential
  - Many entities commented that a day-2 market is the desired end state, and that getting to that type of market will produce significant benefits. Entities that support the SPP proposal cite SPP's ability to initiate a day-2 market in the Western Interconnection as a significant benefit of establishing the WEIS. These entities view the WEIS as an intermediate step that will enable the footprint to work toward more significant long term benefits in a day-2 market. Entities that oppose the SPP WEIS proposal agree that SPP has demonstrated a willingness to work with the West to establish a full market, but question whether it can be achieved within the next 10 years. Commenters also advised WAPA to keep a long term view of economics.

WAPA Response: WAPA has and continues to consider the development of a day-2 market. WAPA is also very cautious regarding cost impacts and a favorable cost/benefit ratio before taking such an important step. We believe that a long-term economic view is critical, and it is part of our approach.

- Scale of benefits
  - Entities that feel WAPA should study the CAISO-EIM for the WACM BA cite the expectation that CAISO's expansive EIM provides a scale that would provide larger benefits than is likely for the SPP WEIS. These commenters question the

likelihood of SPP being able to expand the WEIS beyond the Mountain West footprint, and describe the general trend of entities outside the Mountain West considering CAISO but not SPP.

**WAPA Response:** WAPA acknowledges the concerns made regarding the possibility for expansion of the SPP WEIS. Although WAPA understands this concern, its position is that a second market operator in the West will be generally beneficial, that the WEIS will likely result in a adequate footprint, and that a long term view toward eventual day-2 markets should be a consideration.

- Concern for Sustainability of BA
  - Some comments center on a concern that WACM will not be able to successfully integrate and balance for the level of renewables planned in the near future.
  - One comment expressed the conclusion that “business as usual” is not an option.

**WAPA Response:** WAPA completely agrees with these important considerations, and believes that participation in an Energy Imbalance Market will be an important component of BA sustainability

- Concern regarding BA Costs
  - Several Commenters noted that the WEIS would not require the BA to facilitate the EIM settlements function, as is required in the CAISO EIM, which could result in significant cost savings to the BA.
  - Other Entities stated that they believed the limited cost of withdrawal from the CAISO EIM, instead of a 4 year commitment under the WEIS, was a benefit.

**WAPA Response:** WAPA appreciates the SPP WEIS model that allows market participants to directly interface with the market operator for certain aspects without the BA acting as an intermediary. We are also cost-sensitive to being subject to the SPP implementation costs if we were to exit the WEIS early. Alternatively, we also appreciate that the CAISO model has no exit fee, but also understand that any BA structures put in place to run a CAISO EIM within the BA would be stranded costs if an exit from the CAISO EIM took place. After considering the structural differences associated with both of these alternatives, WAPA feels that the SPP WEIS is the better alternative due to the additional factors noted above.

- Concerns with cost shifts and benefits to customers external to the WACM BA
  - Several commenters expressed concerns with incurring costs through the FES rate as external customers to the WACM BA. These concerns pointed out that the benefits that result from LAP and CRSP WEIS membership would only be received by customers within the BA and all customers would incur the costs. CRSP customers, of which 75% reside outside of the BA, are particularly

concerned with SPP WEIS costs that seem to benefit the 25% of CRSP customers within the BA.

WAPA Response: For LAP customers, the majority of load resides within the WACM BA and SPP WEIS costs would be incurred by the majority of these LAP customers. For CRSP customers, the majority of SPP WEIS costs have been shifted to another large potential WEIS participant within the BA. This follows cost-causation principles and results in a substantial discount to start-up and on-going administrative costs for participation by CRSP. Both CRSP and LAP acknowledge that external BA customers receive indirect benefits from a market based energy imbalance service that include system reliability and balancing for WAPA generation and transmission assets within the WACM BA used to deliver external FES schedules. Any benefit of market participation that may occur from WAPA generation offered into the WEIS or from more economically efficient energy imbalance transactions would benefit all customers whether internal or external through the FES rate.

- Concerns with FES schedule and WRP impacts to customers external to the WACM BA
  - Several CRSP customers external to the WACM BA have expressed concerns with financial and/or operational impacts to FES schedules and WRP service provided outside of the WACM BA and SPP WEIS footprint.

WAPA Response: Because the SPP WEIS is a limited energy imbalance market confined to intra-hour transactions and actual transmission available at the lowest priority, WAPA anticipates no financial or operational impacts to hourly fixed schedules, either AHP or WRP, to any customer, whether internal or external to the WACM BA. The bilateral market would continue to provide WRP energy to customers as today, whether internal or external to the WACM BA.

- General like/dislike for SPP
  - Some entities expressed a general like for SPP, in particular: stakeholder driven governance; transparency; record on successful renewable integration; operational expertise; low energy costs; a proven proactive versus reactive approach; experience with effective transmission planning processes; and member-centric culture.
  - Some entities expressed a general dislike for SPP, in particular: SPP's governance; past practice in negotiating terms; and concerns about east/west cost-shift.

WAPA Response: As a member of SPP, and after 5 years of Mountain West negotiation with SPP, WAPA believes that SPP's governance approach, customer service, and stakeholder centric culture are strong reasons to utilize SPP for its energy imbalance service.

- Desire for large energy imbalance footprint
  - There is a consensus that a large footprint is desirable, and that CAISO already has that established.

WAPA Response: WAPA agrees that a large footprint is desirable. WAPA also believes that having market options and competition is beneficial and that the SPP WEIS is more likely to ultimately result in a Day-2 Market. WAPA believes that facilitating an environment where a Day-2 Market can develop is more important than footprint size at this stage of market development in the Western Interconnection.

- Importance of SPP federal service exemption for the future
  - Comments cited the value of the Federal Service Exemption (FSE) that SPP granted UGP, and planned to grant RMR and CRSP under the Mountain West effort, and encouraged LAP and CRSP to keep options open to also obtain this benefit in the future. This FSE included an exemption from certain regional cost allocation and has proven to be a significant cost avoidance for WAPA's UGP region.

WAPA Response: WAPA completely agrees with this important point.

- FES Rate Impacts
  - Preference customers commented that any option that includes costs should have offsetting benefits for the project, either immediate or in the long term, and not adversely impact the project rates.
  - Comments included concerns that WAPA stay true to cost causation rate making principles.

WAPA Response: WAPA completely agrees with these important points.

- BA Customers being forced into market
  - Several commenters voiced concern that if the BA participates in an EIM, it effectively forces an energy imbalance environment on entities that remain in the BA without them choosing to be a market participant. Concerns were voiced on the impact and the role of state regulators in such situations.

WAPA Response: WAPA is sensitive to this situation, and struggles when consensus does not exist. However, we also understands that the BA has to make a determination of whether to participate in energy imbalance market constructs to enable entities within the BA to become Market Participants. Although our desire is for unanimous support for decisions, we are sometimes in the undesirable situation of having to make decisions when disagreements exist.

- Decision Process and Timing Concerns

- One commenter felt that a public process should be utilized to create the BA criteria for participation.
- One commenter stated that more time is needed for market participants to evaluate benefits once they know their BA is planning to participate, and that a BA wide study should follow to enable market participants to estimate benefits.
- One commenter felt that only the BA's should be subject to the SPP Sept. 3<sup>rd</sup> deadline, since a market participant needs to know if their BA is participating in order to evaluate their options.
- Several commenters suggested that SPP push the Sept. 3 deadline back for several more months to allow more evaluation to be done.

WAPA Response: WAPA agrees with SPP's attempt to be responsive to expressed interest in an energy imbalance market and set a timeline that brought resolution in a fairly limited amount of time. Many have expressed that the Mountain West effort took too long and should have followed a far more aggressive timeline. However, at the same time, WAPA was also struck with how aggressive SPP's WEIS timeline was. Listening to customer feedback, WAPA requested and obtained a one month extension, which many appreciated. It should be noted, that SPP does have a timeline out toward the end of October for entities to choose to sign the WJDA and become Market Participants on the initial day of market operations. Further, SPP has structured a staggered start for incorporating new Market Participants each future year. Given these factors and the time constraints necessary to establish an energy imbalance market, WAPA felt that its approach to gather as much customer input and feedback was a sufficient public process.

- SPP Proposal Concerns

- Several Comments were received concerning the development of the WJDA and WEIS tariff. One commenter felt that the WJDA and WEIS tariff should be negotiated through a stakeholder process prior to any decision deadline. A second comment was similarly made questioning whether WJDA development was done with a limited number of entities rather than more transparently.

WAPA Response: From WAPA's perspective, SPP was transparent in its process, while also pursuing a fairly aggressive schedule. Although SPP staff developed the first draft WJDA and the draft tariff language, they immediately sent those drafts out and seemed to be listening to a wide array of comments. Even before the proposal was sent out, SPP used two meetings among potentially interested parties to listen to feedback and make fairly significant adjustments to their initial proposal. When WAPA suggested changes to the WJDA, SPP was very responsive.

- One commenter felt that market participants should not be subject to imprudently incurred costs, and that the current agreement should be revised to include provisions that would require SPP to bear the risk of such costs being incurred.

WAPA Response: Although this seems desirable, such contract terms might be difficult to establish. Also, such a provision with a cost based, revenue neutral entity like SPP would simply move the risk to other customers in SPP including WAPA's UGP region to bear the cost which would also be viewed as unfair.

- One commenter expressed concern regarding the multi-year commitment required to enable SPP to recover the implementation costs.

WAPA Response: WAPA agrees this is a concern, but would also be concerned about stranded BA setup costs that are often a large cost component for BAs that participate in the CAISO EIM.

- Several Commenters questioned why a quick start unit provision couldn't be integrated into the WEIS market on day one, rather than exploring incorporating this functionality after the WEIS has begun operation.

WAPA Response: WAPA agrees and has encouraged SPP to give this consideration. It is WAPA's understanding that SPP is actively considering how to incorporate this functionality.

- SPP Governance Concerns

- Some comments expressed the concern that the WEIS governance gave too much weight to large entities, and too little voice for smaller transmission dependent utilities.

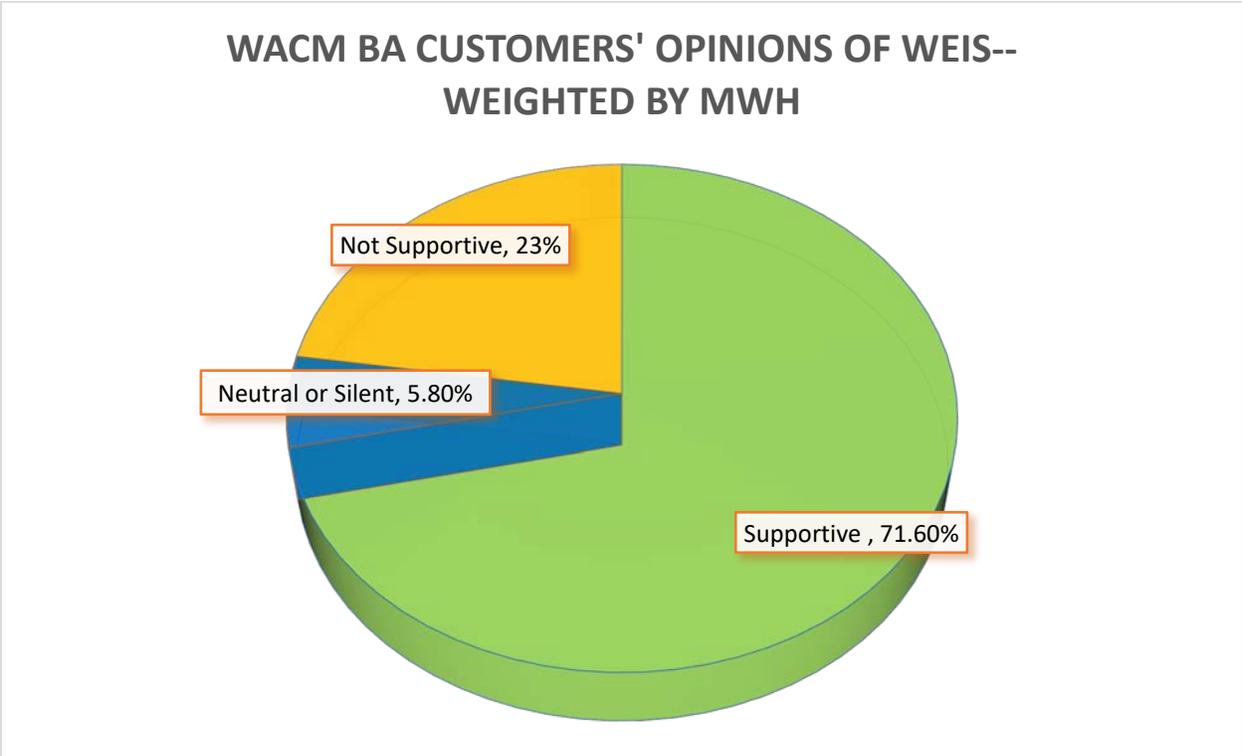
WAPA Response: WAPA understands that SPP might be considering a proposal that addresses this concern, and will likewise consider reasonable ideas as part of SPP's stakeholder approach in continuing to develop the WEIS.

## Summary for each BA

- **WACM BA**

Within the WACM BA, weighting by load, a clear consensus exists for participation in the WEIS. Interestingly, there doesn't appear to be much of any opposition to initiating an energy imbalance market, but rather differing opinions center on the pros and cons of SPP verses CAISO and whether or not more time should be taken to evaluate the future expected benefits with each market operator. The largest preference customers and a

majority of the load within the BA supports SPP’s proposal and desires to not only implement the SPP WEIS but continue conversations to explore expanding the WEIS to a day-2 market. The non-preference customers with load in WACM also seem to desire an energy imbalance market for the BA, but voiced their belief that the CAISO-EIM may have a better EI market cost/benefit ratio, and would prefer WACM to study CAISO versus SPP. Many of the small entities either neutrally support, or have been silent regarding WACM joining the SPP WEIS.



- **WAUW BA**  
WAUW BA has three entities with load in the BA including WAPA itself. One customer with load in the WAUW BA is working with UGP to form the SPP WEIS, and is supportive of UGP's effort. The other customer with load in WAUW had announced they will join the CAISO EIM since they market most of their energy to the West and their counterparties on the western border of their own BA are joining CAISO EIM. That customer is neutral to UGP's decision to join the SPP WEIS.

**WAUW BA CUSTOMERS' OPINIONS OF WEIS--  
WEIGHTED BY MWH**

