

Exh. SJK-3

WUTC DOCKET: UE-200900 UG-200901 UE-200894

EXHIBIT: SJK-3

ADMIT W/D REJECT

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-20 _____

EXH. SJK-3

SCOTT J. KINNEY

REPRESENTING AVISTA CORPORATION



December 11, 2019

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Filing of CAISO Rate Schedule No. 6037**

Docket No. ER20-____-000

Dear Secretary Bose:

The California Independent System Operator Corporation (“CAISO”) submits for filing and acceptance an agreement (“Implementation Agreement”) dated April 25, 2019, between the CAISO and Avista Corporation (“Avista”).¹ The Implementation Agreement sets forth the terms under which the CAISO will extend its existing real-time energy market systems to provide imbalance energy service to Avista, pursuant to the CAISO’s Energy Imbalance Market (“EIM”) tariff.² Under the Implementation Agreement, Avista will compensate the CAISO for its share of the costs of system changes, software costs, and other configuration activities. The CAISO requests that the Commission accept the Implementation Agreement effective April 1, 2020, so that the extension of the real-time energy market to include Avista may proceed towards implementation no later than April 1, 2022.³

I. Background

The EIM provides other balancing authority areas the opportunity to participate in the real-time market for imbalance energy that the CAISO operates in its own balancing authority area. PacifiCorp’s balancing authority areas (PacifiCorp East and PacifiCorp West) were the first two to join the EIM. The EIM market rules went into effect on October 24, 2014, for the first trading day

¹ The CAISO submits the Implementation Agreement pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d.

² The EIM tariff provisions are set forth primarily in Section 29 of the CAISO Tariff.

³ See Implementation Agreement, Section 1; see *also* CAISO Tariff, Section 29.2(b).

Honorable Kimberly D. Bose
 December 11, 2019
 Page 2

November 1, 2014.⁴

The EIM has continued to develop and attract the interest of a diverse array of participants throughout the Western Interconnection. NV Energy joined on December 1, 2015, Puget Sound Energy Inc. and Arizona Public Service Company began participation on October 1, 2016, Portland General Electric Company followed on October 1, 2017, and the Idaho Power Company joined concurrently with Powerex Corp. on April 4, 2018. The Balancing Authority of Northern California (“BANC”) commenced phase 1 EIM participation in April 2019. Also, the Salt River Agricultural Improvement and Power District and the City of Seattle, by and through its City Light Department (“Seattle City Light”) intend to commence EIM participation in April 2020. NorthWestern Energy, the City of Los Angeles Department of Water and Power, Public Service Company of New Mexico, and the Turlock Irrigation District intend to commence EIM participation in April 2021, concurrent with BANC phase 2. Other entities, including the Bonneville Power Administration, Tucson Electric Power, and Tacoma Power, will commence EIM participation along with Avista in the spring of 2022.⁵

II. The Implementation Agreement

The Implementation Agreement details the contractual terms, including the scope of work and the agreed-upon fee, under which the CAISO will take the steps necessary to incorporate Avista into the EIM consistent with the identified key milestones and associated payment provisions.⁶ The Implementation Agreement is modeled after implementation agreements previously accepted by the Commission and, therefore, adopts provisions substantially similar to those which have been filed with and accepted by the Commission.⁷

Under the Implementation Agreement, the CAISO and Avista must complete a variety of project tasks necessary for implementation by April 1, 2022.

⁴ See *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,005 (2014).

⁵ EIM participation materials are at <https://www.westerneim.com/Pages/About/default.aspx>.

⁶ See Implementation Agreement, Sections 3-4 and Exhibit A.

⁷ See *Cal. Indep. Sys. Operator Corp.*, 143 FERC ¶ 61,298 (2013); *Cal. Indep. Sys. Operator Corp.*, 147 FERC ¶ 61,200 (2014), *Cal. Indep. Sys. Operator Corp.*, 151 FERC ¶ 61,158 (2015), *Cal. Indep. Sys. Operator Corp.*, 152 FERC ¶ 61,090 (2015), *Cal. Indep. Sys. Operator Corp.*, 154 FERC ¶ 61,020 (2016); *Cal. Indep. Sys. Operator Corp.*, 155 FERC ¶ 61,311 (2016); Commission Letter Order, Docket No. ER17-868-000 (Mar. 14, 2017); Commission Letter Order, Docket No. ER17-1300-000 (May 18, 2017); Commission Letter Order, Docket No. ER17-2120-000 (Sept. 7, 2017); *Cal. Indep. Sys. Operator Corp.*, 160 FERC ¶ 61,058 (2017); Commission Letter Order, Docket No. ER17-2559-000 (Nov. 16, 2017); Commission Letter Order, Docket No. ER19-1080-000 (Apr. 5, 2019); Commission Letter Order, Docket No. ER20-95-000 (Dec. 4, 2019).

Honorable Kimberly D. Bose
 December 11, 2019
 Page 3

The parties chose this date to provide sufficient time for completion of all expected activities based on the size, complexity, and compatibility of Avista, including filing a certification of readiness with the Commission. The specific tasks may be modified by mutual agreement of the parties.⁸

The Implementation Agreement specifies that Avista will pay a fixed implementation fee of \$300,000, subject to completion of six specific milestones for recovery of the portion of the costs attributable to the CAISO's effort to configure its real-time market systems and incorporate Avista into the EIM.⁹ The methodology that the CAISO used to determine the implementation fee for Avista is the same methodology that the CAISO used to determine all of the previously accepted implementation fees for the other EIM participants described above.

The implementation fee is based on the CAISO's estimate of the costs it will incur to configure its real-time energy market to function as the EIM available to all balancing authority areas in the Western Electricity Coordinating Council ("WECC").¹⁰ The components of that estimate are described in the Declaration of April D. Gordon, the CAISO's Director of Financial Planning and Procurement, which is included with this filing as Attachment B, and are summarized below.

| Implementation Costs (in thousands of dollars) | |
|---|-----------------|
| Licenses | 12,150 |
| Energy management system upgrades | 1,000 |
| Data storage | 2,000 |
| Hardware upgrades | 500 |
| Production software modifications | 1,000 |
| Network configuration and mapping | 500 |
| Integration | 500 |
| Testing | 1,500 |
| System performance tuning | 250 |
| Training and operations readiness | 150 |
| Project management | 100 |
| Total | \$19,650 |

Using this estimate, the CAISO derived a rate that allocates the \$19.65 million to potential entrants into the EIM according to their proportionate share of the total WECC load (excluding the CAISO's load), using updated data reported

⁸ Implementation Agreement, Section 3.

⁹ *Id.*, Section 4.

¹⁰ The total estimated cost is a projection assuming the total work effort remains stable. Implementations either completed or underway are not considered in this estimate.

Honorable Kimberly D. Bose
December 11, 2019
Page 4

to WECC. The CAISO then applied this fee to Avista's share of the updated WECC load (exclusive of the CAISO) to account for the Avista implementation fee.

The \$300,000 implementation fee is just and reasonable because it allocates a portion of the overall cost to Avista in an amount proportionate to Avista's share of the benefits that will ensue from the EIM, as measured by usage. In addition, as explained in Ms. Gordon's declaration, the CAISO confirmed the reasonableness of the resulting allocation by comparing it with an estimate of the costs the CAISO projects it will incur to configure its real-time energy market to function as the EIM that serves both the CAISO and Avista. This comparison confirmed that the fee reasonably represents those costs, even though certain costs may not be triggered by the Avista implementation but may instead be incurred by the CAISO to incorporate other entrants. In future implementations, the CAISO will confirm that the rate is reasonable by conducting a similar comparison of the total implementation costs with the individual entity costs.

The Implementation Agreement also provides for adjustment of the fixed implementation fee by mutual agreement of the parties in the event that the CAISO's actual or expected costs exceed the estimate that forms the basis of the implementation fee.¹¹ This provision allows for appropriate consideration of the allocation of costs associated with incorporation of Avista into the EIM. At the same time, the requirement for Avista to agree to any increase in the implementation fee ensures that Avista's share of those costs remains reasonable. The Implementation Agreement therefore reflects a reasonable balance of the parties' interest in preserving a level of cost certainty for Avista, while appropriately allocating the costs of implementing the EIM.

The Implementation Agreement represents a binding commitment of the parties. As such, it provides a workable framework for the parties to resolve any differences and to make course corrections along the way. On the other hand, the Implementation Agreement recognizes that the parties are entering into the agreement on a voluntary basis and circumstances may arise that interfere with the incorporation of Avista into the EIM through the planned process. Accordingly, the Implementation Agreement allows either party to terminate the agreement for any or no reason, provided it has first entered into good-faith discussions for 30 days in an effort to resolve any differences.¹² This and other

¹¹ Implementation Agreement, Section 4. See also Commission Letter Order, Docket No. ER14-1350-000 (Apr. 8, 2014) (accepting amendment to EIM implementation agreement between the CAISO and PacifiCorp, to increase the PacifiCorp implementation fee to cover additional scope identified in the stakeholder process). PacifiCorp's request for additional scope is the only instance thus far where an amendment of the implementation fee has been necessary.

¹² Implementation Agreement, Section 2.

Honorable Kimberly D. Bose
December 11, 2019
Page 5

related provisions mean that the parties must work closely together to achieve the goal of implementing Avista into the EIM in a timely manner.

The Implementation Agreement also includes general provisions that round out the parties' commitments. These general provisions address confidentiality (Section 5), limitations of liability (Section 6), representations and warranties (Section 7), general provisions such as those regarding notices, amendments, *etc.* (Section 8), venue (Section 9), communication (Section 10), and dispute resolution (Section 11).

III. Next Steps

Following the Commission's acceptance of the Implementation Agreement, the CAISO will incorporate Avista into the EIM. Avista's implementation will be subject to the CAISO tariff readiness requirements and the filing of a certificate of readiness with the Commission.¹³ The CAISO will also take into consideration lessons learned from the prior implementations, as the readiness criteria represent the baseline for measuring the readiness of each new EIM entity's processes and systems for EIM participation.

Avista will continue to engage with its customers prior to participation in the EIM. The CAISO expects that Avista will make any necessary modifications to its open access transmission tariff in advance of the implementation date. The CAISO recognizes that this effort will involve Avista working with interested parties to facilitate implementation of the EIM, and the CAISO will engage in that effort as Avista considers it appropriate.

IV. Effective Date

The CAISO requests that the Implementation Agreement be made effective on April 1, 2020.

V. Request for Waivers

The CAISO submits that the filing substantially complies with the requirements of section 35.13 of the Commission's rules applicable to filings of this type.¹⁴ The CAISO respectfully requests waiver of any such requirement to the extent this filing does not satisfy that requirement. In particular, the CAISO requests waiver of the requirement to submit Period 1 and Period 2 schedules, because the implementation fee is a one-time fee that is not based on historical data in Period 1 schedules or on the projections in Period 2 schedules. In any event, good cause exists to waive filing requirements that are not material to the

¹³ See CAISO Tariff, Section 29.2(b).

¹⁴ 18 C.F.R. § 35.13.

Honorable Kimberly D. Bose
December 11, 2019
Page 6

Commission's consideration of the Implementation Agreement.

VI. Service

The CAISO has served copies of this filing upon all scheduling coordinators, Avista, the California Public Utilities Commission, and the California Energy Commission. In addition, the CAISO has posted the filing on the CAISO website.

VII. Contents of Filing

The following attachments, in addition to this transmittal letter, support the instant filing:

| | |
|--------------|--|
| Attachment A | Implementation Agreement; and |
| Attachment B | Declaration of April D. Gordon, Director of Financial Planning and Procurement |

VIII. Correspondence

Pursuant to Rule 203(b)(3) of the Commission's Rules of Practice and Procedure,¹⁵ the CAISO requests that all correspondence, pleadings, and other communications concerning this filing be served upon the following:

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¹⁵ 18 C.F.R. § 385.203(b)(3).

Honorable Kimberly D. Bose
December 11, 2019
Page 7

IX. Conclusion

The CAISO respectfully requests that the Commission accept this filing and permit the Implementation Agreement, CAISO Rate Schedule No. 6037, to be effective April 1, 2020, as requested. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

By: /s/ John C. Anders

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