# Briefing on intertie deviation settlement proposal

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# Management proposes to revise the intertie transaction non-delivery charge to provide increased assurance that market participants deliver imports and exports

- Charge applies to ISO intertie transactions with other balancing authority areas
  - Does not apply to transfers resulting from EIM dispatches
  - EIM Governing Body advisory role
- Non-delivery affects reliability and pricing
- Existing charge is ineffective
- Revised charge provides increased incentive to deliver intertie energy
  - Will yield more accurate market inputs and increase reliability

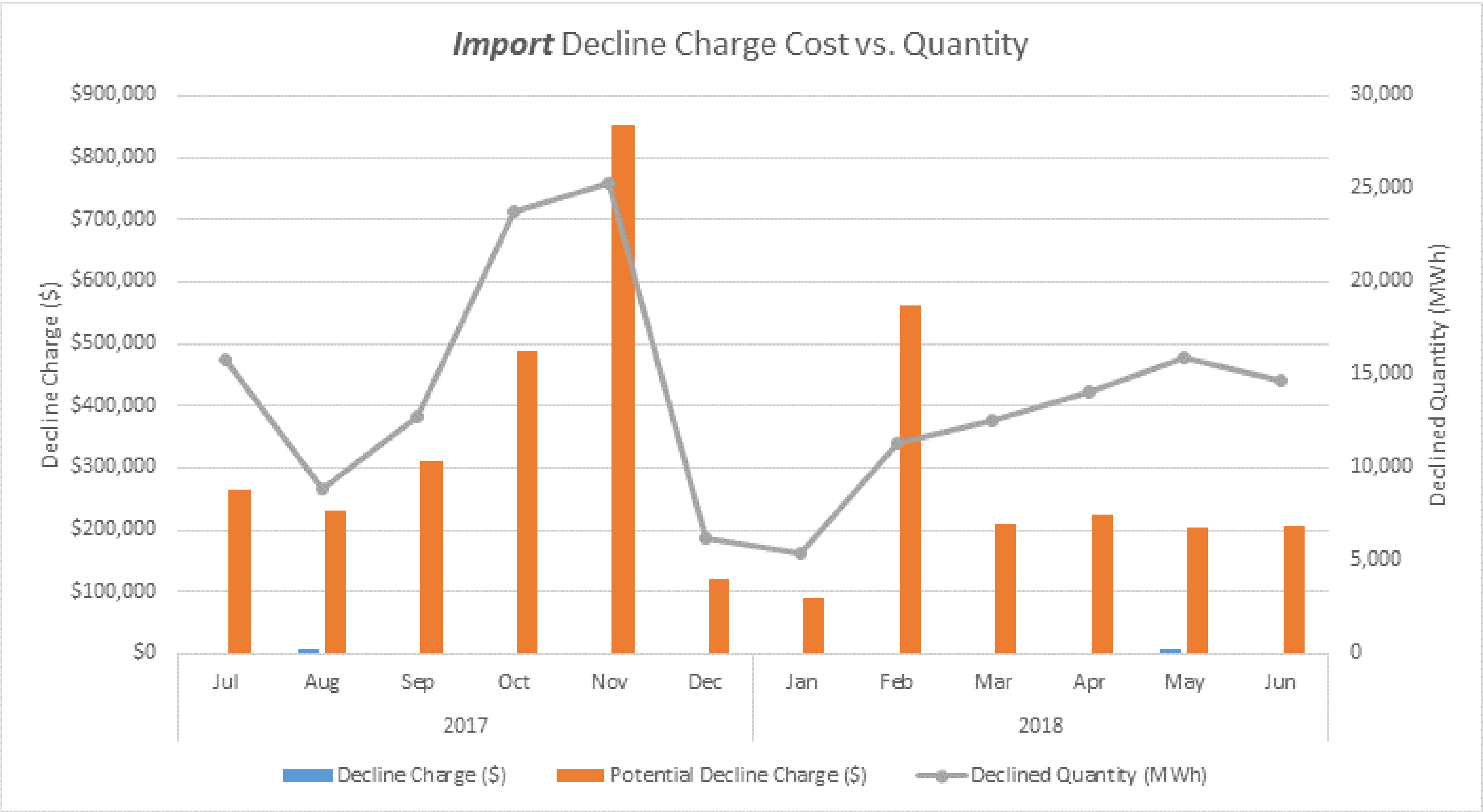
# Background: Intertie schedules account for a significant amount of the ISO balancing authority area's supply cleared in the real-time market

- ISO schedules intertie transactions in the hour-ahead scheduling process and the 15-minute market
  - The hour-ahead scheduling process at the top of the hour initially schedules both hourly block and 15-minute intertie transactions for the next hour
  - The 15-minute market produces final schedules and prices 22.5 minutes before each 15-minute interval
  - Final delivery accomplished by market participant completing E-Tag at 20 minutes before the operating hour or 15-minute interval
  - Imbalance energy charges may apply if not delivered
- Intertie schedules can account for up to approximately 25% of the ISO balancing authority area's supply

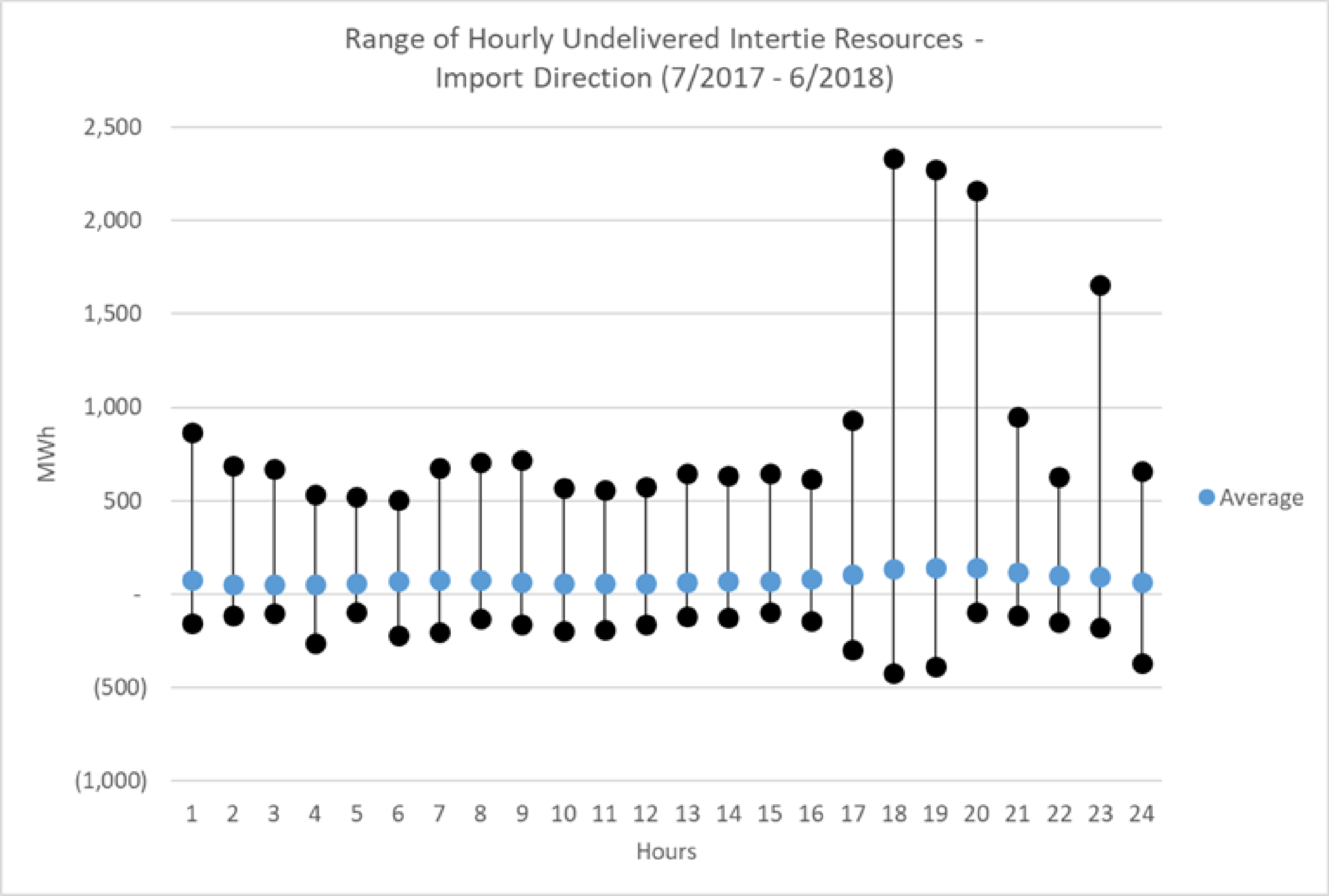
# Undelivered intertie transactions adversely impact ISO grid stability and market pricing

- Non-deliveries affect reliability because supply the market is counting on does not materialize
  - The market cannot clear additional intertie transactions until the next hour
  - Within the 15-minute interval, the 5-minute real-time dispatch must compensate for the additional energy with less available supply
- Non-deliveries are detrimental to the market
  - Result in higher prices for all market participants because the market has to replace the undelivered energy
  - Undelivered intertie transactions displace other intertie bids from the hour-ahead scheduling process that could have been delivered
  - Undelivered exports can cause intertie congestion

# The existing non-delivery charge is ineffective because of a monthly 10% threshold, which is rarely exceeded



# Undelivered imports can reach significant amounts, especially during the peak load hours



# Proposed non-delivery charge strengthens incentives to deliver intertie transactions

1. Curtailed schedules will be excluded from the non-delivery charge, which allows for removing the 10% threshold
2. The non-delivery charge will be evaluated in each fifteen-minute interval
3. 15-minute market schedules will be based on preliminary E-Tag with “transmission profile” submitted before 15-minute market runs
4. Non-delivery will be subject to a charge equal to 50 percent of the maximum of the 15-min market or the 5-min real-time dispatch LMP, with a $10/MWh minimum, plus any imbalance energy charges

# Most stakeholders support the proposal, stating it will:

- Reduce “speculative bidding” behavior
- Increase operational awareness and enhance reliability
- Improve the accuracy of EIM resource sufficiency test

# Some stakeholders question the need for separate non-delivery charge in addition to imbalance energy settlement

- Intertie energy is “surplus energy” and is not needed for reliability because the ISO has resource adequacy requirements
  - Response: intertie resources that economically clear the ISO market are needed for reliability as they can displace resource adequacy capacity from being available in real-time (e.g., RA imports and uncommitted internal RA resources).
- Intertie resources should be treated like internal generation that just pays the 5-minute price for deviations
  - Response: intertie schedules require the use of transmission capacity that is reserved on an hourly basis

# Market Surveillance Committee (MSC) supports charge framework, but believes the ISO must also address market inputs that affect real-time market intertie prices

- High hour-ahead scheduling process prices and lower 15-min and 5-min prices may provide incentive to not deliver
- MSC urges further analysis of role of operator load forecast adjustments and intertie exceptional dispatches in intertie pricing
- Management commits to analyzing and addressing intertie pricing in conjunction with implementing non-delivery charge
  - Management believes non-delivery charge should be implemented hand-in-hand with process improvements

# Management recommends the EIM Governing Body support this intertie deviation settlement proposal

- Non-delivery charge provides greater assurance that intertie schedules will be delivered
  - Reduces the need for operator load forecast adjustments and intertie exceptional dispatches
  - Improves accuracy of market pricing
- New fifteen-minute market logic and non-delivery charge improve accuracy of EIM resource sufficiency evaluation inputs
  - Intertie schedules will only count towards passing the flexible ramping test if preliminary E-Tag with “transmission profile” is submitted
  - Scheduled imports will be more likely to be delivered