

Memorandum

To: Energy Imbalance Market Governing Body

From: Anna McKenna, Vice President, Market Policy and Performance

Date: September 1, 2021

Re: Decision on Western EIM Sub-Entity Scheduling Coordinator Role

This memorandum requires EIM Governing Body action.

EXECUTIVE SUMMARY

Management proposes a new category of western energy imbalance market (EIM) market participant, the “EIM sub-entity.” The proposal allows utilities located within a balancing authority area controlled by a separate EIM entity to financially settle load and non-participating resource imbalance energy directly with the ISO instead of with the EIM entity. EIM sub-entities will also submit base schedules directly to the ISO, and subject to each EIM entity’s rules, potentially submit forecast, outage, and network model information directly to the ISO. Management’s proposal establishes a new EIM sub-entity scheduling coordinator relationship through contractual and tariff provisions that separate the EIM sub-entity functions from the EIM entity functions.

In addition to being applicable throughout the EIM, the EIM sub-entity category is an important provision for implementing the Public Service of Colorado (PSCo) balancing authority area into the EIM. The proposal allows PSCo to preserve the existing commercial arrangements that most of the various utilities in its balancing authority area operate under.

Management’s proposed changes fall under the EIM Governing Body’s primary approval authority. The new EIM sub-entity participation category will only be available to entities operating in balancing authority areas outside of the ISO.

Management proposes the following motion:

Moved, that the EIM Governing Body approves the proposal to create the EIM sub-entity market participation category as described in the memorandum dated September 1, 2021

Moved, that the EIM Governing Body authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposal described in the memorandum, including any filings that implement the overarching initiative policy but

contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.

BACKGROUND

Under the current EIM rules, the ISO financially settles load imbalance energy at the balancing authority area level. This settlement is with the EIM entity, which operates the balancing authority area participating in the EIM. Utility loads in the balancing authority area are settled with the EIM entity under its open access transmission tariff.

As part of the EIM implementation agreement with PSCo, the ISO committed to a stakeholder process to develop a new category of EIM market participant to enable utilities within a balancing authority area operated by another entity to directly settle load and non-participating supply resource energy imbalances with the ISO. The intent was to develop an EIM load imbalance settlement mechanism through a stakeholder process consistent with the settlement arrangements that exist for utilities in the PSCo balancing authority area under existing agreements. This proposal is the result of that stakeholder process.

PROPOSAL

Management proposes to establish a new category of EIM market participant, the EIM sub-entity that will financially settle load and non-participating resource imbalances directly with the ISO. Current market rules allow market participants that are not EIM entities to directly settle participating resources' imbalances with the ISO. Subject to each EIM entity's rules, Management also proposes that EIM sub-entities be allowed to elect to submit forecast, outage, and network model information directly to the ISO.

Load Settlement

To settle load imbalances directly with the ISO, Management proposes to define a load zone for each EIM sub-entity. The EIM sub-entities would then submit base schedules for this load directly to the ISO. Base schedules are the load and supply schedules that reflect EIM participants' planned operation and are used as the baseline against which imbalance energy is settled in the EIM.

The ISO will model each sub entity's load in the market as a customized distributed load aggregation point. This will enable the ISO to use existing practices to settle directly with the sub-entity. The direct imbalance energy settlement will enable EIM sub-entities to settle load imbalance energy at ISO real-time market prices reflective of conditions in the area in which the load is served. Under the current EIM rules, third party utilities' load imbalances are settled at prices specified in the open access transmission tariff for the balancing authority area in which the third party is located. These prices are generally different than and less granular than ISO real-time market prices.

Settling imbalance energy at ISO real-time market prices rather than at the prices specified in an EIM entity's open access transmission tariff is intended to provide consistent treatment for load serving utilities located in balancing authority areas that operate under existing commercial arrangements outside of an open access transmission tariff. These utilities currently purchase energy in the bilateral energy market and usually do not purchase it from the EIM entity.

Management proposes that other financial settlement categories besides imbalance energy that are currently calculated and settled at an EIM entity level will generally continue to be allocated to EIM entities. These generally include cost and revenue allocations such as bid cost recovery costs and neutrality allocations. EIM entities will continue to allocate these amounts pursuant to their open access transmission tariffs or other existing agreements.

Other EIM Sub-Entity Responsibilities

In addition to direct imbalance energy settlement and base schedule submission, Management proposes that an EIM sub-entity will be eligible to fulfill certain other roles. However, because these roles may affect balancing authority area operation, which remains the responsibility of the applicable EIM entity, Management proposes that an EIM sub-entity can only take on these roles if doing so is approved by the EIM entity operating the balancing authority area in which the sub-entity is located. This EIM entity approval is appropriate so that EIM entities can consider their balancing authority area's specific operational circumstances. These potential additional roles for an EIM sub-entity include:

- Selection of the variable energy resource and load forecast provider that will develop the EIM sub-entity's forecasts used by the ISO market (the load forecaster provider can be either the ISO or another entity);
- Development of the network model for the EIM sub-entity's system used by the ISO market;
- Submission of generation and transmission outages to the ISO; and
- Manual dispatch instructions issued to the EIM entity's resources.

Management proposes that the EIM resource sufficiency evaluation capacity and flexible ramping tests, which ensures balancing authority areas participating in the EIM participate with sufficient resources, will continue to be conducted at the balancing authority area level. However, Management proposes to allocate any penalties at the EIM sub-entity level if the test is failed at the balancing authority area level. The balancing test is intended to penalize intentional over or under scheduling load and resources to profit from imbalance energy settlement at different locational prices.

Functions and responsibilities that are part of balancing authority area operation remain under the purview of the EIM entity that operates each balancing authority area. Consequently, Management proposes EIM entities will have the ability to modify base

schedules submitted by EIM sub-entities located in their balancing authority area to ensure they accurately reflect the balancing authority area's operational plans and forecasts. This will enable EIM entities to continue to perform their supply and demand balancing function. This is also appropriate as these schedules affect the results of the resource sufficiency evaluation capacity and flexible ramping tests. Failure of these tests results in the ISO real-time market limiting energy transfers into or out of an entire EIM balancing authority area.

Management proposes to charge EIM sub-entities the costs associated with establishing them as a sub-entity. The charge would be the actual costs the ISO incurs to establish and configure each sub-entity based on an established rate. However, because the PSCo EIM implementation agreement contemplated establishing EIM sub-entities, which the ISO is completing as part of onboarding the PSCo balancing authority area into the EIM, parties within the PSCo balancing authority area will not be charged separately for being set-up as an EIM sub-entity as part of the PSCo onboarding effort.

Finally, Management proposes that an EIM sub-entity qualify as or secure representation of a scheduling coordinator and enter into the associated service agreements to facilitate market interaction.

Eligibility for sub-entity participation

Management proposes eligibility criteria for EIM sub-entities to limit it to larger utilities that operate a distribution system or transmission system and serve load. The criteria ensure that sub-entities have resources to serve their load and a well-defined service territory bounded by distribution-transmission interfaces. A well-defined distribution-transmission interface is required to accurately define an EIM sub-entity's load which facilitates accurate forecasting, modeling, and scheduling.

The criteria are also intended to tend to limit the number of sub-entities. An excessive number of sub-entities has the potential to impose a large administrative burden on the ISO to implement without corresponding benefits. The criteria narrow eligibility for the EIM sub-entity role to electric utilities embedded within an EIM entity's balancing authority area that, due to their relationship with their EIM entity, would be likely to utilize the EIM for the procurement of imbalance energy.

Specifically, Management proposes that the EIM sub-entity role will be limited to entities that meet the following criteria:

- Are an electric utility embedded within an EIM entity balancing authority area that do not receive long-term wholesale full requirements services from the EIM Entity;
- Own a distribution system or transmission facilities directly connected to the transmission system of the EIM entity for the purpose of (a) providing regulated

- electric service to eligible retail or wholesale customers, or (b) serving eligible customers in its capacity as a local publicly owned electric utility; and
- Own or control one or more resources for the primary purpose of serving its eligible customers.

In addition to these criteria, establishment as an EIM sub-entity is subject to the approval of the EIM entity that operates the balancing authority area in which the potential sub-entity is located. Such approval may be based on existing and accepted contractual or tariff-based practices for imbalance energy accounting within its balancing authority area that distinguishes among its transmission service customers in a manner that includes sub-entity like characteristics. An example of such an agreement could be a utility operating within a balancing authority area with grandfathered transmission service agreements that differ from standard transmission service offered under an EIM entity's open access transmission tariff. It is appropriate for an EIM entity to possess the authority to determine EIM sub-entity eligibility as it needs to ensure sub-entity participation is consistent with its balancing authority area's operational and business practices.

STAKEHOLDER POSITIONS

In general, stakeholders strongly support Management's proposals. The policy reflects stakeholder input received during the policy development process in a number of areas. The proposal clearly defines the eligibility to become an EIM sub-entity based on suggestions offered by stakeholders to address concerns about a proliferation of the new EIM sub-entity role, and its potential to create significant operational and financial burdens for EIM entities.

Management also proposed new functionality to ensure EIM entities' ability to function as a balancing authority is not compromised. An example of this is the proposal to allow EIM entities to review and modify an EIM sub-entity's base schedules to enable them to continue to perform their supply and demand balancing function.

Some stakeholders expressed concern regarding the proposal's omission of rules governing how intra-balancing authority area transfers will be accounted for and settled. After careful consideration, Management intentionally did not address intra-balancing authority area transfers as it is outside of the scope of this initiative; the ISO as a practice does not model intra-balancing authority area transfers.

CONCLUSION

Management requests the EIM Governing Body approve the proposed EIM sub-entity market participant role described in this memorandum. The proposal provides a new EIM participation category that will help to maintain the commercial arrangements of utilities embedded within a balancing authority area operated by another entity.