

WESTERN ENERGY IMBALANCE MARKET

Decision on Real-Time Settlement Review Proposal

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EIM Governing Body Meeting

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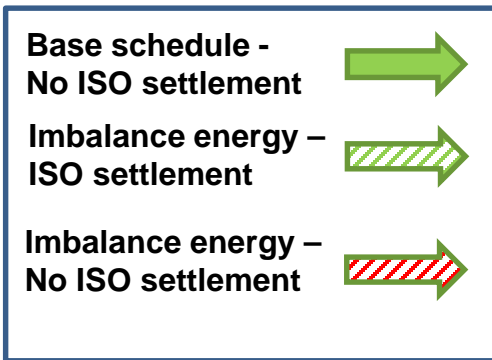
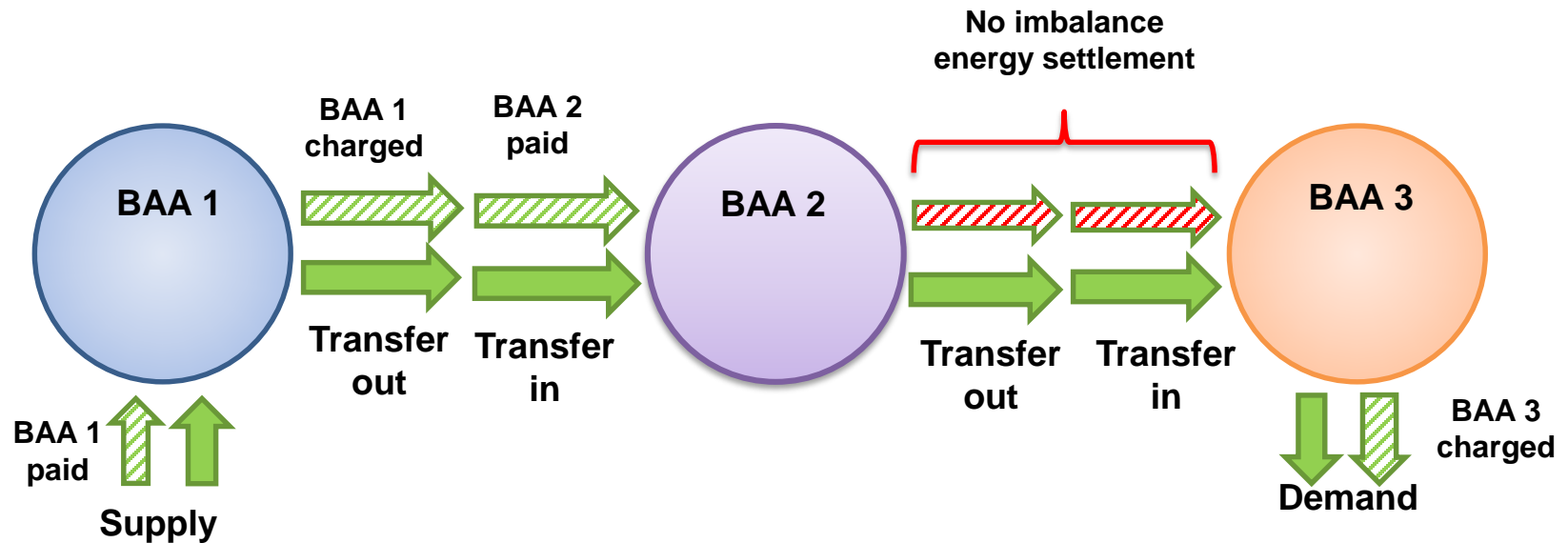
Management proposes several limited settlement rule changes resulting from ISO's *Real-Time Settlement Review* stakeholder process

- Management committed to this initiative at the end of last year's *Real-Time Market Neutrality Settlement* initiative
- ISO developed metrics and reviewed issues stakeholders highlighted to identify potential inappropriate cost-shifting

Proposed settlement rule changes address inappropriate cost-shifting in real-time market settlement

- The first two changes are to the rules for settling imbalance energy associated with energy transfers between EIM balancing authority areas (BAAs)
 - EIM Governing Body primary approval authority
- The third change is to make unaccounted for energy settlement optional for EIM entities
 - EIM Governing Body primary approval authority
- The fourth change is a modification to the allocation of real-time market bid cost recovery costs between BAAs
 - EIM Governing Body advisory role

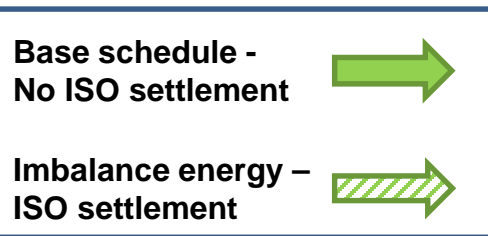
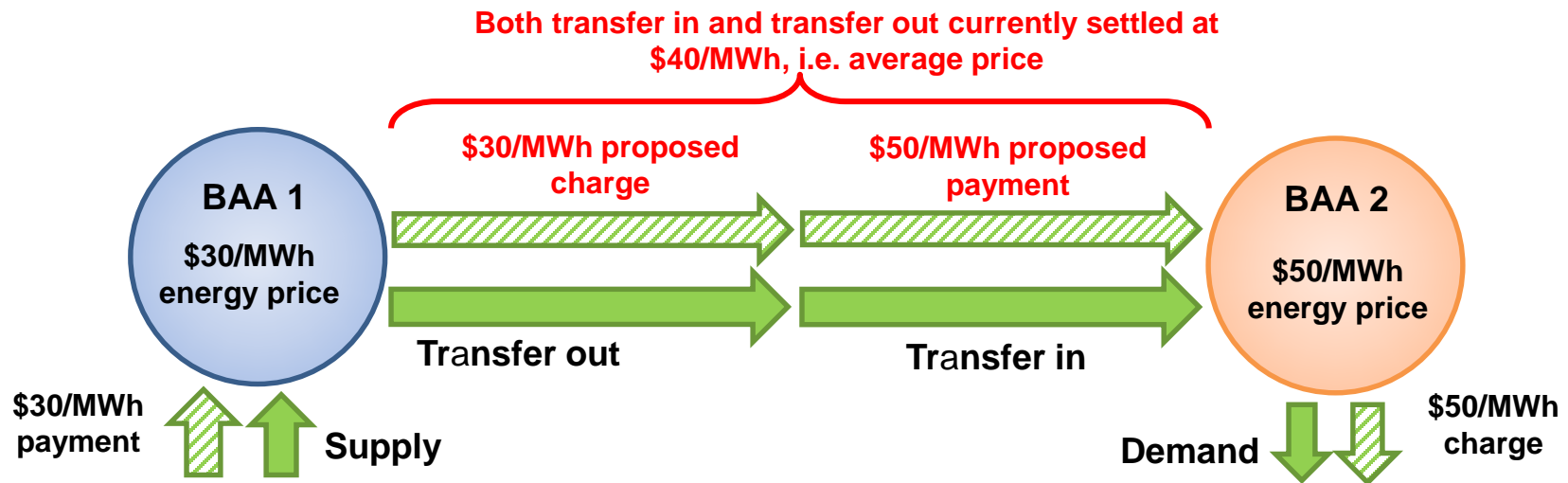
Management proposes that it no longer be optional to have the ISO settle imbalance energy resulting from base schedule changes for transfers between BAAs



Costs can inappropriately be shifted between BAAs if the ISO does not settle both legs of a wheeling schedule change

- BAA2 would be paid imbalance energy without a corresponding charge
- BAA3 would receive imbalance charge without a corresponding payment

Management proposes to change the price for settling imbalance energy resulting from base schedule changes due to transfers between BAAs



- ISO currently settles transfer schedule imbalance energy at a ratio of BAA1 and BAA2's prices, e.g. the average price, \$40/MWh
 - Results in cost-shifting between BAAs
- Propose to settle at locational marginal price
 - Eliminates cost shifting

Management proposes to make unaccounted for energy settlement optional for EIM entities that calculate their load based on supply rather than load meters

- Unaccounted for energy is a charge/credit that accounts for differences between an area's energy supply, modeled transmission losses, and metered load
- There is no remaining unaccounted for energy if an EIM entity calculates load based on supply and assumed losses
 - The ISO's unaccounted for energy equation also accounts for losses, leading to double counting losses
 - Settling unaccounted for energy for an EIM entity that does not use load meters can result in cost-shifting

Management proposes to modify the allocation of real-time market bid cost recovery costs between balancing authority areas

- Bid cost recovery is a payment to resources to the extent market payments do not cover their bid-in costs
- Costs are currently allocated to the balancing authority area in which they are incurred, with a portion allocated to other balancing authority areas based on energy transfers, uninstructed imbalance energy, and unaccounted for energy
- Management proposes to only consider demand and transfers in the allocation of bid cost recovery costs between balancing authority areas
 - Transfers account for bid cost recovery costs incurred to send energy to another balancing authority area

Stakeholders support Management's proposal

- Management provided examples that show there can be cost-shifting between BAAs in response to Powerex's initial comments that it may be unnecessary to require imbalance energy settlement for transfers related to base schedule changes
- Management committed to providing EIM entities the ability to calculate settlement with and without unaccounted for energy as part of market simulation in response to Arizona Public Service and Idaho Power request for additional information on the impact of not settling unaccounted for energy

Management requests the EIM Governing Body approve the proposed settlement rule changes addressing transfer change imbalance energy and unaccounted for energy settlement, and support its bid cost recovery cost allocation proposal

- Proposals will enhance the EIM settlement process and address inappropriate cost-shifting
- Proposals reflect Management's commitment to address cost-shifting in the real-time market
- Stakeholders support the proposal