



California ISO
Shaping a Renewed Future

Energy Imbalance Market Go-Live Enhancements

Draft Final Proposal

June 9, 2014

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1 Introduction

The ISO has requested that on June 20, 2014, the Federal Energy Regulatory Commission (FERC) approve the proposed Energy Imbalance Market effective September 23, 2014 for an October 1, 2014 implementation or “go-live.” The ISO will comply with the directives included in FERC’s order in accordance with FERC’s procedures. This draft final proposal is intended to address two separate matters:

- The first, whether EIM transfer limits should be included in the market power mitigation procedures, was identified and filed as part of the EIM tariff. The proposed tariff leaves the ISO Board of Governors to make a final determination prior to go-live as to whether EIM transfer limits should be included in the market power mitigation procedures.
- The second, involving transition costs for coal-fueled generators that will be modeled as multi-stage generation (MSG) resources, was identified during implementation but not included in the filed EIM tariff. Therefore, it will require separate authorization by the Board and a separate FERC tariff filing.

2 Plan for Stakeholder Engagement

Item	Date
Post Draft Final Proposal	June 9, 2014
Stakeholder Meeting	June 16, 2014
Stakeholder Comments Due	June 23, 2014
Board of Governors Decision	July 17-18, 2014

3 Recommend Subjecting EIM Transfer Limits to LMPM

The ISO has requested that on June 20, 2014, the Federal Energy Regulatory Commission (FERC) approve the proposed Energy Imbalance Market effective September 23, 2014 for an October 1, 2014 implementation or “go-live”. The ISO will comply with the directives included in FERC’s order in accordance with FERC’s procedures. Whether EIM transfer limits should be included in the market power mitigation procedures was identified and filed as part of the EIM tariff. The proposed tariff leaves the ISO Board of Governors to make a final determination prior to go-live as to whether EIM transfer limits should be included in the market power mitigation procedures.

The ISO Department of Market Monitoring (DMM) conducted a structural competitiveness assessment of the Energy Imbalance Market, which is included as Attachment A. ISO management concurs with the DMM and will recommend to the Board that the EIM transfer limits into the EIM BAA should be subject to the LMPM process. This will address potential structural market power on a balancing authority area (BAA) level.

Potential structural market power may exist because:

- Since participation by resources in the EIM is voluntary with no must offer obligations the depth of market bids is uncertain at the start of the EIM.

- Transmission capacity to support EIM transfer limits is voluntarily provided on an hourly basis.
- Incremental EIM transfer limits into an EIM BAA can be restricted when the EIM Entity fails the flexible ramping up test of the resources sufficiency evaluation.

Subjecting EIM transfer limits to market power mitigation process does not automatically mitigate the bids of EIM participating resources. As with internal constraints within the ISO and within the EIM BAA, EIM transfer limits will test for mitigation in the event the EIM transfer limits are constrained. Only in the event that the three pivotal supplier tests fail, will bids be mitigated in the EIM BAA.

ISO management also agrees with DMM's recommendation to continue to pursue options for reducing unnecessary mitigation. The structural competitiveness assessment should be performed again in one year utilizing the first 12 months of actual EIM data. In addition, future enhancements to the LMPM process could be made such as developing automated dynamic approach based on actual EIM transfer in capacity made available for each operating hour.

4 Multi-Stage Generation Model for Coal Resources

The proposed amendment below is intended to address MSG transition costs for EIM participating resources following the mandatory MSG implementation on May 1, 2014. The current tariff only contemplates transition costs for natural gas combined cycle MSG resources since there are no coal resources within the ISO. EIM entities are planning to use MSG for modeling coal resources; therefore, the tariff must be modified to allow for transition costs to be calculated using a fuel source other than natural gas. For MSG resources that use a fuel source other than natural gas, the EIM participating resource must negotiate a transition cost multiplier with ISO in consultation with the Department of Market Monitoring.

The proposed tariff language is as follows:

29.30 Bid and Self-Schedule Submission for CAISO Markets. The provisions of Section 30 that are applicable to the Real-Time Market shall apply to EIM Market Participants, except that EIM Participating Resources that are also Multi-Stage Generating Resources may negotiate a Transition Cost multiplier with the ISO, in consultation with Department of Market Monitoring, consistent with the procedures in section 39.7.1.3 in the event that the monthly Thousand British Thermal Units (MMBtu) Gas Price Index does not account for the fuel source of the Generating Unit.

The ISO will file the proposed tariff language with FERC shortly after the July Board of Governors meeting and seek an effective date of September 23, 2014 so that it can be implemented at the start of the EIM on October 1, 2014.

5 Next Steps

The ISO plans to discuss this draft final proposal with stakeholders during a conference call to be held on June 16. The ISO requests comments from stakeholders on the proposed market design described in this draft final proposal. Stakeholders should submit written comments by June 23 to EIM@caiso.com.