

Decision on EIM Transition Period Proposal

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Management recommends a twelve month EIM transition period for all new EIM entities

- Gain experience operating balancing authority area using market paradigm in all seasons
- Identify and improve operational procedures and business processes needed under market paradigm
- Increase EIM participating resources as market participants gain experience in market

Management proposes to apply the EIM transition period to PacifiCorp effective November 1, 2014

- FERC approved waiver request effective November 14
 - Waiver expires February 14
- FERC strongly encouraged long term measures to be filed prior to expiration of existing waiver
- December 15 informational report shows progress, but unknown issues may arise when system conditions change in spring and summer

Originally, Management proposed a transition period with two elements

1. When modeled constraints are relaxed, energy priced on marginal economic bid
2. Energy bid cap will start at \$250/MWh and gradually increase over the year as follows:

Time Period	Bid Cap
Months 1 – 6	\$250/MWh
Months 7 – 9	\$500/MWh
Months 10 – 12	\$750/MWh
Beyond transition period	\$1,000/MWh

Based on stakeholder feedback Management has modified the proposal

- Only include the first element: when modeled constraints are relaxed, energy priced on marginal economic bid
- The graduated bid caps will be discussed further in the EIM year 1 enhancements stakeholder initiative

For twelve month transition period, use of marginal bid is appropriate because market may not incorporate actual system conditions

- Delays in information from EIM entity, prevent market from being informed of actual system conditions
- Market optimization must relax modeled constraints using relaxation parameters to create feasible solution
- \$1,000/MWh relaxation parameter is not consistent with actual system conditions
- Marginal economic bid is consistent with available supply to meet actual system conditions

In stakeholder initiative, need to seek increased liquidity without undermining use of marginal bid

- Economic bids for imports/exports at EIM external interties provides additional liquidity
 - Allows independent load serving entities to hedge imbalance charges by EIM entity
- EIM external intertie bids are not subject to market power mitigation
 - \$1,000/MWh unmitigated bid would undermine lower relaxation parameter in EIM balancing authority area
- Stakeholder initiative will consider graduated energy bid caps or other measures

Stakeholders generally support providing additional time beyond the tariff waiver but assert ...

- EIM transition period should not apply to all new EIM entities
 - A long term design, if appropriate, should be considered in a comprehensive stakeholder initiative.
- Twelve month duration is too long

Management removed graduated energy bid caps due to stakeholder concerns of unintended consequences

In summary, Management recommends approval of the EIM transition period:

- To provide EIM entities with sufficient operating experience under the new market based paradigm
- Will minimize pricing anomalies which do not reflect actual physical conditions on the system in all cases