

# Memorandum

**To:** ISO Board of Governors

**From:** Keith Casey, Vice President, Market & Infrastructure Development

**Date:** January 2, 2015

**Re:** **Decision on modification to EIM administrative charge design**

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***This memorandum requires Board action.***

## EXECUTIVE SUMMARY

The energy imbalance market (EIM) administrative charge is the mechanism the ISO uses to recover ongoing operational costs from EIM market participants. The objective of the EIM administrative charge design was to charge ISO market participants and EIM market participants the same cost for similar real-time market services. In addition, the EIM administrative charge provisions include a minimum charge to ensure ongoing operational costs can be recovered independent of EIM imbalance volumes.

Since go-live with PacifiCorp, Management has observed that EIM administrative charges have exceeded revenue expectations. Based on the current level of charges, the annual payments to the ISO would surpass four times the budgeted revenue. Management expected the minimum EIM administrative charge, except in rare cases, to exceed the EIM administrative charges the ISO allocates to EIM market participants based on energy imbalances.

Management proposes to temporarily modify the EIM administrative charge to only apply the minimum EIM administrative charge and allocate this cost solely to the EIM entity scheduling coordinator. The long term redesign of the EIM administrative charge will occur within the EIM year 1 enhancements stakeholder initiative. This will provide stakeholders with the opportunity to evaluate a long term solution consistent with the original policy objectives of similar treatment to both ISO and EIM market participants.

***Moved, that the ISO Board of Governors approves the modification to the EIM administrative charge design proposal, as described in the memorandum dated January 2, 2015; and***

***Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.***

## DISCUSSION AND ANALYSIS

### *Background*

The ISO's grid management charge is used to recover the ISO's operating costs from ISO market participants. The energy imbalance market (EIM) administrative charge is a similar mechanism to recover the operating cost attributable to the real-time market by EIM market participants. The EIM administrative charge provisions include a minimum charge to insure ongoing operational costs are recovered independent of imbalance volume in an EIM balancing authority area.

Currently, the ISO's grid management charge is made up of three components or services: (1) market services, (2) system operations and (3) congestion revenue rights (CRR) services. The market services charge encompasses all activities involved with clearing supply and demand in both the day-ahead market and real-time market. The system operations charge encompasses all activities in dispatching energy on the grid and balancing area activities such as transmission planning. Both the market services charge and system operations charge are allocated to load, generation, imports and exports. The third component, CRR services, encompasses activities surrounding CRRs and is allocated to CRR holders.

The EIM administrative charge is a single per MWh rate applied to gross imbalances based on deviations from base schedules that occur into and within the EIM entity balancing area. Conceptually the EIM administrative rate is similar to the ISO's grid management charge by combining elements of two components: (1) the real-time market portion of the ISO market services charge and (2) the real-time dispatch portion of ISO system operations charge.

However, instead of maintaining two rates, a single EIM administrative rate was established. Since the energy imbalance market only includes the ISO's real-time market, the cost of service study was expanded to break down the grid management charge components into their associated real-time market activities. The costs attributable to real-time market activities were then used to calculate a percentage of the ISO market services pro forma rate and ISO system operations pro forma rate that is applicable to EIM market participants. The ISO pro forma rates are calculated during the cost of service study by dividing total costs by estimated billing determinant volumes. The portion of the market services rate and the system operations rate were then combined to derive a single EIM administrative rate of \$0.19/MWh. Table 1 on the following page shows the percentage of costs for each of the ISO grid management charge rates attributable to real-time market activities used to comprise the EIM administrative rate.

Table 1 - Summary of EIM Administrative Rate for 2015-2017

Category	Net costs (K\$)	Cost of real time activities	Percentage share of costs	Pro forma 2013 ISO rate	EIM rate
Market Services	\$47,625	\$28,911	61%	\$0.09	\$0.06
System Operations	\$136,731	\$60,932	45%	\$0.29	\$0.13
CRR Services	\$5,430	-	-	\$0.01	-
<b>Total</b>	<b>\$189,786</b>	<b>\$89,843</b>	<b>47%</b>		<b>\$0.19</b>

During the 2013 stakeholder process to design the energy imbalance market, some stakeholders expressed concern that absent an ongoing minimum charge to EIM entities the future revenue may not warrant additional ongoing operational costs not recovered directly from the one-time implementation fee. Such a concern would be realized if there were significantly lower imbalance volume than anticipated, thus limiting the total EIM administrative payments to the ISO.

Unlike the ISO’s grid management charge, the EIM administrative rate is established once every three years and does not change if volumes or total costs change during the three year period. For example, if volumes in the ISO market were lower than the forecasted values used to establish the pro forma market services rate or system operations rate, the ISO rates would be increased to ensure the total costs are recovered. To address this concern and maintain a simplified structure, a minimum EIM administrative charge of 5% load and exports plus 5% generation and imports was adopted. The difference between the minimum EIM administrative charge and the EIM administrative costs allocated directly by EIM market participants is allocated to the EIM entity scheduling coordinator. This approach, as well as the single rate, were intended to simplify the overall approach to recovery of the ISO’s administrative costs.

Since implementation of the energy imbalance market with PacifiCorp, Management has observed that total EIM administrative charges have exceeded revenue expectations. Management believed, prior to the start of the energy imbalance market, that the minimum EIM administrative charge, except in rare cases, to exceed the EIM administrative cost allocated to imbalances of EIM market participants. Table 2 below compares the actual EIM administrative charge and the minimum EIM administrative charge for November 1-13.

Table 2 - Comparison of Actual and Minimum EIM Administrative Charge

Administrative Charge (\$)	PACE	PACW	Total
Actual	\$99,144	\$118,741	\$217,885
Minimum	\$45,772	\$29,157	\$74,929

In addition, by applying a single EIM administrative rate to all imbalances in an EIM balancing authority area, the costs allocated to EIM market participants is greater than the charge that would have been allocated for the same services to ISO market participants. The difference occurs because the billing determinants volumes used for the ISO market services rate and system operations rate are lower than the EIM

administrative rate billing determinant. Table 3 below compares the actual EIM administration charge and the estimated grid management charge to ISO market participants for the same real-time market services.

*Table 3 - Comparison of EIM Administrative Charge and ISO Grid Management Charge*

Administrative Charge (\$)	PACE	PACW	Total
Actual EIM Charge	\$99,144	\$118,741	\$217,885
ISO GMC Charge	\$59,158	\$87,030	\$146,188

***Proposed modification to EIM administrative charge design***

Management proposes to modify the EIM administrative charge to only apply the minimum EIM administrative charge and allocate this cost solely to the EIM entity scheduling coordinator. This interim measure will be in effect during the redesign of the EIM administrative charge through the EIM year 1 enhancement stakeholder initiative. The EIM administrative rate will not be applied to the gross imbalances by EIM market participants. As illustrated in Table 2, under the proposed change, the EIM entity scheduling coordinators would be allocated \$74,929. The EIM entity scheduling coordinator would not be allocated an EIM administrative charge for imbalances from load and non-participating resources, including imports and exports. Likewise, EIM participating resource scheduling coordinators would not be allocated an EIM administrative charge for imbalances of EIM participating resources.

***Comprehensive redesign within EIM year 1 enhancements stakeholder initiative***

Management proposes to include a redesign of the EIM administrative charge within the EIM year 1 enhancements stakeholder initiative. This will provide stakeholders with the opportunity to evaluate a long term solution consistent with the original policy objectives. Management currently plans to bring phase 1 items of the EIM year 1 enhancements to the Board for decision in March 2015. Redesign of the EIM administrative charge will be included in the phase 1 items.

**STAKEHOLDER PROCESS**

Management did not hold a stakeholder process for the proposed changes to the EIM administrative charge. As the current charges to EIM market participants based on gross imbalances at the single EIM administrative rate of \$0.19/MWh exceeds the expected revenue necessary for operation of the EIM, Management believes this is inconsistent with the objectives of the policy that was developed with input from stakeholders during the original 2013 EIM design initiative. Management proposes that only the minimum EIM administrative charge should be in effect at this time. This will ensure that the ISO remains revenue neutral and will end the ISO's current over-collection while it develops a long term solution.

## **CONCLUSION**

Management requests Board approval to modify the EIM administrative charge design. The current design of the EIM administrative charge is resulting in a cost allocation to EIM market participants above expectations and inconsistent with the policy objectives discussed during the 2013 stakeholder process to design the energy imbalance market. Management will continue working with stakeholders on a long term solution as part of the EIM year 1 enhancements stakeholder initiative, currently on track for Board for decision in March 2015.