Memorandum

To: ISO Board of Governors
From: Anna McKenna, Interim Head of Market Policy and Performance
Date: December 9, 2020
Re: Decision on real-time settlement review proposal

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management proposes to modify how the ISO allocates the costs for real-time market bid cost recovery uplift payments between balancing authority areas to be more consistent with cost causation principles. Management proposes to allocate these costs based on each balancing authority area’s load, exports, and EIM transfers, rather than also considering uninstructed imbalance energy and unaccounted for energy as it does today.

This proposed change resulted from a stakeholder process that the ISO initiated following last-year’s Real-Time Market Neutrality Settlement stakeholder process to review ISO market real-time settlement rules to identify any potential inappropriate cost shifting, particularly between balancing authority areas.

This recent Real-Time Settlement Review stakeholder process resulted in three other proposed settlement rule changes that Management presented to the EIM Governing Body at their December 2, 2020, meeting. The EIM Governing Body approved these changes under their primary approval authority and they are included on the Board of Governors’ consent agenda. These changes addressed imbalance energy settlement resulting from schedule changes to transfer schedules between EIM balancing authority areas and addressed “unaccounted for energy” settlement for EIM entities.1

The EIM Governing Body also voted to provide an opinion, under their advisory role, to support the bid cost recovery payment cost allocation change proposed in this memorandum.

Management proposes the following motions:

Moved, that the ISO Board of Governors approves the real-time settlement review proposal as described in the memorandum dated December 9, 2020; 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 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.

PROPOSAL

The ISO and stakeholders recently completed a stakeholder process, titled Real-Time Settlement Review, to review ISO market real-time settlement rules to identify any potential inappropriate cost shifting, particularly between balancing authority areas. As a result of this review, Management proposes to modify how the ISO settlement process allocates costs between balancing authority areas for real-time market bid cost recovery uplift payments to resources.

The ISO bid cost recovery settlement rules ensure resources dispatched by the market recover their bid costs when energy market revenues based on market prices are not sufficient to cover their bid-in costs. For example, energy payments at the locational marginal price may not be sufficient to cover the start-up and minimum load costs of a resource the market starts. The bid cost recovery settlement rules provide for a make-whole payment in the event market revenues do not cover bid-in costs.

The ISO settlement rules generally allocate these real-time market bid cost recovery payment costs to the balancing authority area in which the resource they are paid to is located. The ISO allocates bid cost recovery payment costs incurred for the ISO balancing authority area to load and exports. Energy imbalance market entities allocate bid cost recovery payment costs in their balancing authority areas pursuant to their open access transmission tariffs.

The ISO settlement rules also allocate a portion of these bid cost recovery payment costs between balancing authority areas in the western energy imbalance market to account for bid cost recovery payment costs incurred to support energy transfers between balancing authority areas. This allocation between balancing authority areas is currently based on energy transfer quantities as well as each balancing authority area’s uninstructed imbalance energy and unaccounted for energy quantities.

Management proposes to no longer consider uninstructed imbalance energy and unaccounted energy in this allocation between balancing authority areas and proposes instead to base it on the quantity of energy transferred out of a balancing authority area.
compared to its demand. This approach is more consistent with cost causation principles because a balancing authority area’s transfer out quantities compared to its demand reflect the portion of bid cost recovery payment costs incurred in its balancing authority area to support energy transfers to another.

Specifically, Management proposes to reduce the allocation of bid cost recovery payment costs to a balancing authority area in proportion to the ratio of the transfers out of the balancing authority area to the sum of the balancing authority area’s demand (load and exports) and transfers out. The existing rules, which will remain in-place, then allocate these costs to other balancing authority areas based on the ratio of each balancing authority area’s transfer in quantity to the quantity of all balancing authority areas’ transfers in combined.

Uninstructed imbalance energy does not directly result in real-time market bid cost recovery payment recovery payment costs in one balancing authority area to serve another. Rather, the proportion of the bid cost recovery costs that are attributable to energy transfers to other balancing authority areas are captured by the transfers out of a balancing authority area compared to its overall demand.

Similarly, unaccounted for energy does not result in bid cost recovery payment costs, as it does not result in the real-time market committing or dispatching resources. Unaccounted for energy is a post-market accounting of energy that merely accounts for differences in load meters reported to the ISO and the energy dispatched to serve load in a service area.

STAKEHOLDER POSITIONS

Stakeholders including the ISO Department of Market Monitoring, support Management’s proposal, stating it is an improvement that better reflects cost causation.

CONCLUSION

Management requests the ISO Board of Governors approve Management’s proposed change to the settlement rules for allocating bid cost recovery payment costs among balancing authority areas, as it will provide for more equitable allocation of these costs in a manner that better reflects cost-causation.