

January 14, 2015

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: California Independent System Operator Corporation  
Docket No. ER15- \_\_\_\_-000**

**Tariff Amendment to Eliminate Fixed Energy Imbalance Market  
Administrative Charge and Request for Waiver of Notice  
Period**

Dear Secretary Bose:

The California Independent System Operator Corporation (“CAISO”) submits this tariff amendment to revise section 29.11(i) of the CAISO tariff regarding the fixed and minimum administrative charges assessed to participants in the Energy Imbalance Market (“EIM”).<sup>1</sup> The CAISO proposes to revise section 29.11(i) such that CAISO will no longer assess EIM market participants an administrative charge based on volumes of imbalance energy. Instead, the CAISO will assess the administrative charge only to EIM entity scheduling coordinators using the volumes of supply and demand that determine the existing minimum charge.

Since implementation of the Energy Imbalance Market on November 1, 2014, the current administrative charge structure has resulted in charges to EIM market participants considerably in excess of the amounts the CAISO anticipated. These unexpected assessments are inconsistent with the intended effect of the EIM administrative charge that the CAISO and stakeholders developed in the original 2013 Energy Imbalance Market design initiative. The CAISO, with its stakeholders, is developing a long-term redesign of the EIM administrative charge that the CAISO plans to submit to its Governing Board for approval in March 2015 and to implement pursuant to a future tariff amendment

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<sup>1</sup> The CAISO submits this filing pursuant to section 205 of the Federal Power Act, 16 U.S.C. § 824d.

filing. The amendment will prevent excessive collections during this interim period.

The CAISO requests that the Commission waive its notice requirements and permit this tariff amendment to become effective January 15, 2015, *i.e.*, one day after the date of this filing. Although the CAISO is not requesting either a shortened comment period or an expedited order on this filing as contemplated in the Commission's *Guidance Order on Expedited Tariff Revisions for Regional Transmission Organizations and Independent System Operators*, 111 FERC ¶ 61,009 (2005) ("Guidance Order"), the tariff revisions proposed in this filing meet the criteria in the Guidance Order. Therefore, the requested January 15 effective date is consistent with the Commission's policy, as set forth in the Guidance Order, of promptly revising market rules to assure that prices in independent system operator and regional transmission organization markets continue to be just and reasonable.

## **I. Background**

### **A. The EIM Administrative Charge**

The Energy Imbalance Market provides other balancing authority areas the opportunity to participate in the real-time market for imbalance energy that the CAISO operates in its own balancing authority area. PacifiCorp's balancing authority areas (PacifiCorp East and PacifiCorp West) are the first two to join the Energy Imbalance Market. The CAISO's market rules went into effect on October 24, 2014, for the first trading day November 1, 2014.<sup>2</sup>

The CAISO uses the EIM administrative charge calculated pursuant to section 29.11(i) of its tariff to recover the cost of providing Energy Imbalance Market services from EIM market participants. The CAISO and stakeholders intended the design of the EIM administrative charge to result in EIM market participants being charged an amount comparable to that paid by CAISO market participants for the same real-time market services. In addition, the CAISO designed the EIM administrative charge with a single billing determinant to simplify the rate structure for EIM market participants.

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<sup>2</sup> See *Cal. Indep. Sys. Operator Corp.*, 147 FERC ¶ 61,231 (2014) (conditionally accepting tariff revisions to implement Energy Imbalance Market); *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,058 (2014) (order denying requests for rehearing, granting in part and denying in part requests for clarification, and conditionally accepting tariff revisions on compliance with regard to order listed above); Letter Order, 149 FERC ¶ 61,005 (Oct. 2, 2014) (order granting CAISO request to extend effective date of Energy Imbalance Market tariff revisions from September 23, 2014, to October 24, 2014, for trading day November 1, 2014).

The CAISO currently charges EIM market participants a fixed EIM administrative rate of \$0.19/MWh applied to the sum of (i) the total gross absolute value of fifteen-minute market instructed imbalance energy, gross absolute value of real-time dispatch imbalance energy, and gross absolute value of uninstructed imbalance energy of the EIM market participant's supply; and (ii) the gross absolute value of uninstructed imbalance energy of the EIM market participant's demand.<sup>3</sup>

The CAISO also calculates a minimum EIM administrative charge to ensure that the CAISO can recover the cost of providing Energy Imbalance Market service regardless of the volume of instructed and uninstructed imbalance energy in the EIM entity balancing authority area. The CAISO calculates the minimum EIM administrative charge by applying the rate of \$0.19/MWh to the sum of (i) five percent of the total gross absolute value of supply of all EIM market participants; and (ii) five percent of the total gross absolute value of demand of all EIM market participants.<sup>4</sup>

To the extent that the amount of base EIM administrative charges is less than the amount of minimum EIM administrative charges, the CAISO allocates the difference to the EIM entity scheduling coordinator.<sup>5</sup> The CAISO applies revenues received from the EIM administrative charge against the costs to be recovered through the CAISO's grid management charge such that the CAISO remains revenue-neutral.<sup>6</sup>

The CAISO derived the single \$0.19/MWh rate currently used in the base and minimum EIM administrative charge calculations from two components of the grid management charge – the market services component and the system operations component.<sup>7</sup> The CAISO used three steps to derive the \$0.19/MWh

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<sup>3</sup> Tariff section 29.11(i)(1). Although the tariff refers to this base charge as a "fixed" charge, this is somewhat of a misnomer because it is actually the rate that is fixed and the charged amount can vary based on changing volumes of imbalance energy. The CAISO originally used the word "fixed" in section 29.11(i) to distinguish the structure of the EIM administrative charge from the grid management charge, which is a formula rate subject to true-up, and components of which are used in calculating the EIM administrative charge as discussed below. This filing generally refers to it as the base EIM administrative charge and revises section 29.11(i) to delete the word "fixed," because the other revisions proposed in this filing make use of that word unnecessary.

<sup>4</sup> Tariff section 29.11(i)(2).

<sup>5</sup> Tariff section 29.11(i)(3).

<sup>6</sup> Tariff section 29.11(i)(4); tariff appendix F, schedule 1, part A.

<sup>7</sup> The grid management charge comprises three components: (1) market services, (2) system operations, and (3) congestion revenue rights services. Each of these components recovers the costs of a different category of services from CAISO market participants through

rate. First, the CAISO multiplied the market services rate (\$0.09/MWh) by the percentage of market services costs (*i.e.*, total market services costs divided by estimated billing determinant volumes) attributable to the real-time market (61%), which equals \$0.06/MWh. Second, the CAISO multiplied the system operations rate (\$0.29/MWh) by the percentage of system operations costs (*i.e.*, total system operations costs divided by estimated billing determinant volumes) attributable to the real-time market (45%), which equals \$0.13/MWh. Third, the CAISO added the \$0.06/MWh and \$0.13/MWh amounts for a total of \$0.19/MWh.<sup>8</sup> The CAISO performs the cost of service study used to derive the rate for the EIM administrative charge every three years, with the next cost of service study to be performed in 2017.<sup>9</sup>

In determining the grid management charge, the CAISO applies different billing determinants to the market services rate and the system operations rate. However, the use of a single rate for the EIM administrative charge to represent the combined categories of service requires a single billing determinant. The CAISO identified what it thought to be the most representative billing determinant for the base charge using information known at the time the tariff was filed, but as discussed below, it now appears that the simplified structure and the use of a single billing determinant result in the assessment of excess EIM administrative charges. Because of that unanticipated result, the CAISO is proposing a change in the EIM administrative charge so the CAISO and stakeholders can revisit the design and align the rate with the underlying objective of charging for similar services similarly.

## **B. Experience with the EIM Administrative Charge Since November 1, 2014**

Since the Energy Imbalance Market was implemented on November 1, 2014, the CAISO has found that it has charged much more in EIM administrative charges than it had expected. Based on the total amount of EIM administrative charges billed through November 22, the CAISO anticipates that annual payments of such charges will exceed four times the amount of annual revenue

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their scheduling coordinators. Tariff section 11.22.2.5; tariff appendix F, schedule 1, part A. The CAISO did not include the congestion revenue rights services component in its calculation of the \$0.19/MWh rate because EIM market participants are not included in the allocation of congestion revenue rights.

<sup>8</sup> See CAISO 2015 Grid Management Charge Update Proposal, Docket No. ER15-66-000 at section IV.A and attachment B (Oct. 9, 2014). The Commission accepted that CAISO filing in *California Independent System Operator Corporation*, 149 FERC ¶ 61,232 (2014). The \$0.19/MWh rate was unchanged from the existing rate set forth in tariff section 29.11 and thus did not require a new tariff amendment filing to implement it.

<sup>9</sup> Tariff appendix F, schedule 1, part A.

the CAISO has budgeted for them. If allowed to persist, this would eventually result in a material cost shift from CAISO market participants to EIM market participants.

The CAISO also had originally expected that the amount of minimum EIM administrative charges would almost always exceed the amount of the base EIM administrative charges, and thus the EIM entity scheduling coordinator would be responsible for the difference. In fact, however, the amount of base EIM administrative charges has frequently exceeded the amount of minimum EIM administrative charges, with the result that EIM market participants have paid the entire amount of base EIM administrative charges. For example, Table 1 below compares the amounts of base and minimum EIM administrative charges allocated to PacifiCorp East and PacifiCorp West for November 1-13, 2014.

*Table 1 - Comparison of Amounts of Base and Minimum EIM Administrative Charges*

Administrative Charge	PacifiCorp East	PacifiCorp West	Total
Base EIM	\$99,144	\$118,741	\$217,885
Minimum EIM	\$45,772	\$29,157	\$74,929

In addition, due to applying a single \$0.19/MWh rate in the base and minimum EIM administrative charge calculations to all imbalances in an EIM entity balancing authority area, the CAISO has discovered that the costs allocated to EIM market participants pursuant to the EIM administrative charge have been higher than the costs that would have been allocated to CAISO market participants pursuant to the grid management charge for the same real-time market services provided during that period. The reason for the difference is that the estimated billing determinant volume used in the calculation involving the grid management charge market services rate and the separate estimated billing determinant volume used in the calculation involving the grid management charge system operations rate are each lower than the combined estimated billing determinant volume used in the calculation of the \$0.19/MWh rate. Table 2 below compares the amount of EIM administrative charges allocated to EIM market participants with the estimated amount of grid management charges that would have been allocated to EIM market participants for the same real-time market services for the same period, November 1-13, if they would have instead paid the grid management charge for such services.

*Table 2 - Comparison of Amounts of EIM Administrative Charges and Estimated Grid Management Charges*

Administrative Charge	PacifiCorp East	PacifiCorp West	Total
EIM	\$99,144	\$118,741	\$217,885
Grid management charge	\$59,158	\$87,030	\$146,188

The results shown in Table 2 are contrary to the CAISO's and stakeholders' intention in designing the EIM administrative charge, which was

that EIM market participants would pay an amount comparable to that paid by CAISO market participants for the same real-time market services. These tables together indicate that the grid management charge falls about halfway between the minimum and base EIM administrative rates, which means roughly that for equivalent periods of collection, the base rate and the minimum rate would equal the grid management charge rate assuming similar imbalance volumes.

### **C. Authorization to Submit this Tariff Amendment**

At its January 5, 2015, meeting, the CAISO Governing Board authorized the CAISO to submit this tariff amendment.<sup>10</sup> Before the Governing Board meeting, the CAISO also sought informal feedback on this matter from stakeholders that pay a significant portion of the grid management charge.

The CAISO did not, however, conduct a stakeholder process for the tariff amendment. The CAISO believes no stakeholder process was necessary because the unanticipated amounts and allocations of EIM administrative charges discussed above are inconsistent with the objectives of the policy that the CAISO developed with input from stakeholders during the original 2013 Energy Imbalance Market design initiative. Therefore, this tariff amendment will facilitate implementation of the policy objectives developed in 2013, not implement a new or different policy that stakeholders have not vetted, by changing the EIM administrative charge to equal the minimum charge agreed to with stakeholders and allowing additional time to redesign the rate.

## **II. Proposed Tariff Revisions**

To prevent a recurrence of the unanticipated amounts and allocations of EIM administrative charges discussed above, the CAISO proposes to revise its tariff such that CAISO will no longer assess EIM market participants an administrative charge based on volumes of imbalance energy. Instead, the CAISO will assess the administrative charge only to EIM entity scheduling coordinators using the volumes of supply and demand that determine the existing minimum charge.<sup>11</sup>

The CAISO expects that these tariff revisions will reduce the amount of EIM administrative charges to a level closer to what the CAISO anticipated

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<sup>10</sup> Materials related to the Board's January 5 meeting are available on the CAISO website at <http://www.caiso.com/informed/Pages/BoardCommittees/Default.aspx>. These materials include a memorandum to the Board regarding the proposal in this tariff amendment from Keith Casey, Vice President, Market & Infrastructure Development, which is also provided in attachment C to this filing.

<sup>11</sup> Revised tariff section 29.11(i)(1).

before November 1. For instance, as shown in Table 1 above, the amount of minimum EIM administrative charges was approximately one-third the amount of the base EIM administrative charges for November 1-13, 2014. This tariff amendment should result in similar reductions. As a result, the tariff revisions will facilitate the CAISO's revenue neutrality by reducing the amount of EIM administrative charges it receives.

The CAISO also proposes to clarify in the calculation of the minimum EIM administrative charge that the five percent of the total gross absolute value of supply and five percent of the total gross absolute value of demand of all EIM market participants means the percentages in the EIM balancing authority area.<sup>12</sup> These tariff revisions will make the calculation more transparent.

The CAISO plans to discuss redesigning the EIM administrative charge with stakeholders in the ongoing Energy Imbalance Market enhancements initiative.<sup>13</sup> This will provide the CAISO and stakeholders with the opportunity to develop a long-term solution that implements the intended results of the EIM administrative charge. The stakeholder initiative currently has two phases. Redesign of the EIM administrative charge will be included in phase 1, which the CAISO plans to submit to its Board for approval in March 2015 and to implement it pursuant to a subsequent tariff amendment filing. Although the CAISO is planning implementation in the fall of 2015, the CAISO may propose a retroactive effective date. This would allow time for implementation while minimizing the timeframe in which the interim rate proposed in this amendment remained in effect, *i.e.*, implementation would be in the fall of 2015 with resettlement back to the requested effective date. The fall implementation is necessary to account for the time required to reconfigure the CAISO and market participant settlement systems.

### **III. Effective Date and Request for Waiver**

The CAISO requests that the Commission waive its notice requirements for the proposed amendment, accept it for filing, and permit it to become effective January 15, 2015, *i.e.*, one day after the date of this filing.<sup>14</sup> Good cause exists for granting this waiver. As explained above, the tariff revisions contained in this

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<sup>12</sup> Revised tariff sections 29.11(i)(1)(A)-(B).

<sup>13</sup> Materials related to the stakeholder process are available on the CAISO website at <http://www.caiso.com/informed/Pages/StakeholderProcesses/EnergyImbalanceMarketYear1Enhancements.aspx>.

<sup>14</sup> Specifically, pursuant to Section 35.11 of the Commission's regulations (18 C.F.R. § 35.11), the CAISO requests waiver of Section 35.3 of the Commission's regulations (18 C.F.R. § 35.3) in order to permit this effective date.

filing are necessary to prevent the assessment of excessive EIM administrative charges, which are contrary to the intended design of the EIM administrative charge. Therefore, the tariff revisions contained in this filing should be made effective as soon as practicable.

The Commission has recognized that certain rules and tariff flaws may require prompt revision to assure that prices in wholesale markets continue to be just and reasonable.<sup>15</sup> In the Guidance Order, the Commission stated that a request by a regional transmission organization or independent system operator for expedited treatment of a tariff revision should clearly demonstrate that a rule change is required due to a flaw, why action is necessary in the market, and that the proposed tariff revision will correct the flaw.<sup>16</sup> The tariff revision qualifies for the use of expedited tariff revision procedures if the flaw meets the following criteria:

- (1) it materially adversely impacts the market (due to the unanticipated workings of the tariff or unanticipated actions by market participants);
- (2) it requires prompt action to prospectively revise the tariff to remove the ability to cause such material adverse impacts; and
- (3) it is susceptible to a clear-cut revision or interim tariff revision or market rule.<sup>17</sup>

The proposed amendment meets these criteria. First, the unanticipated amounts and allocation of EIM administrative charges have a material and adverse impact on the real-time market due to unanticipated workings of the tariff. Prompt action is necessary to revise the tariff prospectively to eliminate that material and adverse impact. Lastly, the flaw is susceptible to the clear-cut interim tariff revision proposed in this filing.

If the Commission were to accept the amendment, the CAISO is prepared to implement the required resettlement in a timeframe aligned with its 2015 spring release. The resettlement will require some charge code reconfiguration

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<sup>15</sup> Guidance Order at P 1.

<sup>16</sup> *Id.* at P 2.

<sup>17</sup> *Id.* See also *Cal. Indep. Sys. Operator Corp.*, 135 FERC ¶ 61,110, at PP 24, 26 (2011) (granting expedited treatment and waiver of prior notice requirement pursuant to Guidance Order to accept tariff revisions modifying bid cost recovery settlement rule); *ISO New England Inc.*, 111 FERC ¶ 61,184, at PP 1, 10 (2005) (granting expedited treatment and waiver of prior notice requirement pursuant to Guidance Order to accept tariff revisions ending use of market-based reference levels for units that run out-of-merit more than 50 percent of the time).



and associated business practice manual changes, as well as some potential changes in the shadow settlements of EIM market participants. Accordingly, the CAISO requests that the Commission allow flexibility with respect to the implementation date of its order so that the CAISO can conduct the resettlement in a timely and orderly manner. Although not required by the Federal Power Act or Commission rule, the CAISO would submit an informational filing in this docket specifying the implementation date if that would assist the Commission.

#### **IV. Communications**

Correspondence and other communications regarding this filing should be directed to:

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#### **V. Service**

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with scheduling coordinator agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

#### **VI. Contents of Filing**

In addition to this transmittal letter, this filing includes the following attachments:

Attachment A	Clean CAISO tariff sheets incorporating this tariff amendment
Attachment B	Red-lined document showing the revisions contained in this tariff amendment

Attachment C      Board memorandum

**VII. Conclusion**

For the reasons set forth in this filing, the CAISO respectfully requests that the Commission grant waiver of its notice requirements and accept the tariff revisions proposed in the filing effective as of January 15, 2015.

Respectfully submitted,

/s/ John C. Anders

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Counsel for the California Independent System Operator Corporation

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA this 14<sup>th</sup> day of January, 2015.

/s/ Sarah Garcia  
Sarah Garcia

**Attachment A – Clean Tariff Records**

**Tariff Amendment to Eliminate Fixed Energy Imbalance Market Administrative Charge**

**California Independent System Operator Corporation**

**29.11. Settlements And Billing For EIM Market Participants.**

\* \* \*

(i) **EIM Administrative Charge.**

- (1) **In General.** The CAISO will charge EIM Entity Scheduling Coordinators an EIM Administrative Charge equal to the product of \$0.19/MWh and the sum of—
  - (A) five percent of the total gross absolute value of Supply of all EIM Market Participants in the EIM Entity Balancing Authority Area; plus
  - (B) five percent of the total gross absolute value of Demand of all EIM Market Participants in the EIM Entity Balancing Authority Area.
- (2) **Application of Revenues.** The CAISO will apply revenues received from the EIM Administrative Charge against the costs to be recovered through the Grid Management Charge as described in Appendix F, Schedule 1, Part A.

**Attachment B – Marked Tariff Records**

**Tariff Amendment to Eliminate Fixed Energy Imbalance Market Administrative Charge**

**California Independent System Operator Corporation**

## 29.11. Settlements And Billing For EIM Market Participants.

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### (i) EIM Administrative Charge.

- (1) **In General.** The CAISO will charge EIM Entity Scheduling Coordinators~~Market Participants~~ an fixed~~EIM Administrative Charge~~ equal to the product of \$0.19/MWh and the sum of—
  - ~~(A) — the total gross absolute value of FMM Instructed Imbalance Energy, gross absolute value of RTD Imbalance Energy, and gross absolute value of Uninstructed Imbalance Energy of the EIM Market Participant's Supply, and~~
  - ~~(B) — the gross absolute value of Uninstructed Imbalance Energy of the EIM Market Participant's Demand.~~
- ~~(2) — **Minimum EIM Administrative Charge.** The CAISO will calculate the minimum EIM Administrative Charge as the product of \$0.19/MWh and—~~
  - (A) five percent of the total gross absolute value of Supply of all EIM Market Participants in the EIM Entity Balancing Authority Area; plus
  - (B) five percent of the total gross absolute value of Demand of all EIM Market Participants in the EIM Entity Balancing Authority Area.
- ~~(3) — **Allocation of Minimum EIM Administrative Charge.** To the extent that the full amount charged pursuant to Section 29.11(i)(1) is less than the amount calculated under Section 29.11(i)(2), the ISO will allocate the difference to the EIM Entity Scheduling Coordinator.~~
- (24) **Application of Revenues.** The CAISO will apply revenues received from the EIM Administrative Charge against the costs to be recovered through the Grid Management Charge as described in Appendix F, Schedule 1, Part A.

**Attachment C – Board Memorandum**

**Tariff Amendment to Eliminate Fixed Energy Imbalance Market Administrative Charge**

**California Independent System Operator Corporation**



# 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.



**Board of Governors**

**January 5, 2015**

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

**Motion**

**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.**

**Moved: Olsen      Second: Galiteva**

Board Action: <b>Passed</b>	Vote Count: <b>4-0-0</b>
Bhagwat	Y
Galiteva	Y
Mullin	Y
Olsen	Y

**Motion Number: 2015-01-G2**