

Memorandum

To: ISO Board of Governors

From: Valerie Fong, Chair, Western EIM Governing Body

Date: January 30, 2019

Re: Western EIM Governing Body Advice in Support of Intertie Deviation Settlement Proposal

This memorandum does not require Board action.

On January 24, 2019, the intertie deviation settlement proposal to reform and increase certain penalties assessed against those who are awarded energy bids for delivery across the interties into the ISO footprint, but who then fail to deliver, was presented to the Western Energy Imbalance Market (EIM) Governing Body. The members of the EIM Governing Body unanimously support the proposal.

In addition to a briefing by Management and an opinion from the Members of the Market Surveillance Committee (“MSC Members”), the EIM Governing Body considered input from the Department of Market Monitoring and Carrie Bentley, representative from the Western Power Trading Forum.

During its deliberations, the EIM Governing Body discussed the following concerns:

- Real-time energy prices ideally should work to send an economic price signal that is sufficient to dissuade delivery failures at the interties. Management cites the fall 2017 heat wave as a particularly instructive example of a period of system stress where awarded intertie bids failed to deliver.¹ Yet as the MSC Members note, during most hours of this event, the real-time price was very low, and lower than the day-ahead price.² Prices which do not reflect real-time system conditions create perverse incentives, including signaling to awarded intertie bidders that avoiding deliveries in real-time is an economic strategy. While a penalty-based approach may remedy the singular issue of intertie deviation, it would not address the underlying concern.³

¹ *Draft Final Proposal: Intertie Deviation Settlement* (Dec. 12, 2018), pp. 35-36.

² J. Bushnell, S. Harvey, B. Hobbs, Members of the ISO Market Surveillance Committee, “Opinion on Intertie Deviation Settlements” (Jan. 16, 2019), p. 9.

³ Management explained that real-time prices were low because out-of-market operator commitments and load biasing during periods of expected system stress effectively depress those prices. Management observed that it has an ongoing process to identify the root

- ISO rules on the timing of bid submissions and e-tagging deadlines should be compatible with the wider Western market and should not in effect restrict external resources which have other options in terms of selling their energy.⁴

The EIM Governing Body also observed the following positive aspects of the proposal:

- As a result of the proposed changes, the resource sufficiency test for the EIM is expected to be improved by requiring intertie resources to be tagged with transmission before they are counted for resource sufficiency.
- More transparency and improved information makes it possible to more narrowly target intertie deviations on a 15-minute basis.

With the briefing, opinions, and because the proposal represents an improvement over the current system penalizing non-deliveries at the interties, the EIM Governing Body advises the ISO Board of Governors to support the intertie deviation settlements proposal.

cause of these operator activities as part of the larger initiative associated with resource adequacy.

⁴ Several entities provided comments along these lines in response to the *Draft Final Proposal*, e.g., Comments of Mike Evans for Shell Energy (Jan. 8, 2019).