

## Memorandum

**To:** ISO Board of Governors

**From:** Valerie Fong, Chair, EIM Governing Body

**Date:** March 20, 2019

**Re: EIM Governing Body advisory input - Decision on local market power mitigation enhancements proposal**

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### **EIM Governing Body decision on local market power mitigation enhancements proposal**

The local market power mitigation enhancements proposal includes one element over which the Energy Imbalance Market (EIM) Governing Body has primary authority and several additional elements over which the EIM Governing Body has advisory authority. At its March 12 meeting in Albuquerque, the EIM Governing Body unanimously voted to approve the optional feature to limit the western EIM from dispatching additional energy from resources in balancing authority areas outside of the ISO in the event of bid mitigation, as described in ISO Management's memorandum dated March 5, 2019. The EIM Governing Body also voted to recommend to the ISO Board of Governors that the remaining elements of the proposal be approved without modification as recommended by Management. The EIM Governing Body wishes to thank ISO Management and staff for its efforts to address stakeholder concerns and to move to an expeditious and fair recommendation.

### **The EIM Governing Body approves the element under its primary authority**

The EIM Governing Body voted unanimously to approve the optional feature to limit the western EIM from dispatching additional energy from resources in balancing authority areas outside of the ISO in the event of bid mitigation. This feature is relatively unique in the design of wholesale electricity markets but is necessary given the nature of parallel opportunities for hydro resources to sell their output. If these hydro resources are not participating in the western EIM, they are instead participating in the bilateral wholesale market or in intertie bidding. Neither of these are subject to market power mitigation, nor central dispatch instructions that cause a dispatch of output beyond what the hydro resources' owners are willing to sell. While a few stakeholders expressed concern with this feature of the proposal, the EIM Governing Body was not convinced that the feature should be removed from the package of enhancements because this is a "backstop" solution and the EIM Governing Body expects that as the market grows and expands, this mitigation would rarely be used. The EIM Governing Body particularly appreciates the care taken by the Market Surveillance Committee (MSC) to carefully evaluate each of the possible unintended consequences that may occur under this feature to limit dispatch under special circumstances. The EIM Governing Body

agrees with the MSC, ISO Management and the Department of Market Monitoring (DMM) that this feature is an appropriate protection.

**The EIM Governing Body recommends all enhancements recommended by Management be approved as a package without modification**

The enhancements included in the proposal will bring significant benefits to all western EIM participants and their customers by addressing a barrier that has limited the participation of resources in the EIM. Northwest hydro resources in particular have limited their participation to date because market mitigation procedures do not reflect the opportunity costs associated with dispatching hydro resources due to their water limitations. Management's memo, the Market Surveillance Committee opinion and the Department of Market Monitoring comments identify factors that contribute to the mismatch between hydro resources' opportunity costs and the current default energy bid.

While all acknowledge that there is no perfect solution, the EIM Governing Body supports the enhancements as recommended by Management as a package. The significant benefits offered by increased participation of flexible, clean hydro resources is one compelling reason recognized by the EIM Governing Body in the March 12 deliberation. In addition, the EIM Governing Body was persuaded that the default energy bid as it exists today does not induce economically efficient participation of hydro resources in the EIM because the default energy bid does not adequately recognize the bilateral sales opportunities forgone by hydro resources with water limitations.

The EIM Governing Body also appreciates that DMM is confident of its ability to protect consumers under this proposed package of enhancements. DMM affirmed for the Governing Body on March 12 that the imperfections in the proposal pose a small value at risk relative to the much larger benefits associated with economically efficient participation of hydro resources in the EIM. Further, DMM affirmed that the enhancements use metrics that are relatively simple and will be straightforward to monitor and mitigate.

**The EIM Governing Body commends ISO staff for delivery of this proposal**

The EIM Governing Body appreciates the effort that ISO staff exerted to reach out to northwest entities, listen to concerns and flexibly respond with the solution that was ultimately crafted. The EIM Governing Body was alerted to this potential barrier to northwest hydro participation more than two years ago and has observed staff address the problem with diligence and urgency. The EIM Governing Body was impressed with the testimonials made by stakeholders in support of staff on March 12.

Public comments made on March 12 commended staff for:

- Establishing a series of workshops prior to crafting a proposal so that stakeholder concerns could be heard in an open and transparent setting;
- Being flexible and adapting to a multi-faceted set of enhancements to address the issue when simply adjusting the hydro default energy bid alone was not sufficient to induce an economically efficient participation of resources; and,
- Listening to concerns from different perspectives and crafting an enhancements package that has very broad support.

The EIM Governing Body commends staff for effectively engaging stakeholders and crafting a proposal that promises to benefit all EIM participants and their customers.

In summary, the EIM Governing Body supports all of the proposal elements as presented and urges the ISO Board of Governors to accept and approve the proposal as well.