



California ISO
Shaping a Renewed Future

Energy Imbalance Market Transition Period

Draft Final Proposal

December 15, 2014

**EIM Transition Period
Draft Final Proposal
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1 Transition Period Proposal

On November 13, 2014, the ISO requested that FERC grant a 90-day waiver of the applicability of section 27.4.3.2 and the second sentence of section 27.4.3.4 of the ISO tariff for constraints that are within balancing authority areas of PacifiCorp or affect Energy Imbalance Market (“EIM”) transfers between those balancing authority areas. These tariff provisions establish the price for energy in circumstances where the ISO’s market clearing software must resort to relieving modeled constraints, such as transmission or system balance constraints in order to clear the market using effective economic bids. The requested waiver prices energy in the EIM entity’s balancing authority area based on the marginal economic bid instead of the \$1000/MWh pricing parameter.

The ISO requested the waiver because during the initial implementation of the EIM, the market encountered transitional conditions that restricted the timing and amount of capacity available through the market clearing process. This caused the transmission and system energy-balance constraints to bind more frequently than expected, producing atypically high prices in the fifteen-minute and five-minute markets in the EIM entity’s balancing authority area. The ISO determined that system conditions, operations processes, the current level of EIM participating resources, and the new operating environment are complicating the timing of, and restricting the amount of, effective economic bids necessary to relieve the constraints. These anomalies are temporary as they are associated with the initial startup and transitional period of EIM operations, and do not necessarily reflect actual physical conditions on the system in all cases.

FERC granted the waiver on December 1, 2014. FERC strongly encouraged¹ the ISO to file any tariff revisions that might be necessary to deal with the identified issues beyond the term of the waiver sufficiently in advance of the expiration of the waiver in order to avoid any subsequent financial impacts to market participants. The ISO believes that an appropriate transition period is needed beyond the currently approved tariff waiver. The transition period design described below will be filed with FERC prior to the waiver expiring and will be applicable to all new EIM Entities as well as PacifiCorp.

The ISO proposes a twelve month transition period. During this period, the ISO will price energy in the EIM entity’s balancing authority area based on the marginal economic bid instead of the \$1000/MWh pricing parameter when modeled constraints must be relaxed, consistent with the December 1 approved tariff waiver. In order to effectuate the use of the marginal economic bid, the flexible ramping constraint relaxation parameter will be \$0/MWh in the pricing run during the transition period. At the end of the transition period, the \$1000/MWh pricing parameter and the standard flexible ramping constraint relaxation parameter will apply.

¹ See page 13 of the November 14, 2014 FERC Order available at <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=13698643>

In addition, the bid cap for EIM participating resources and imports/exports on EIM external intertie scheduling points will start at \$250/MWh and gradually increase over the year as follows:

Months 1 – 6	\$250/MWh
Months 7 – 9	\$500/MWh
Months 10 – 12	\$750/MWh
Beyond transition period	\$1000/MWh

The ISO believes that the graduated bid cap feature of the proposed twelve month EIM transition period is needed to address situations where an unmitigated bid (e.g., \$1,000/MWh) could potentially be the marginal economic bid used to set the price during a constraint violation. This risk is particular high for imports bids at EIM external intertie scheduling points as these bids are not subject to market power mitigation because the external intertie scheduling points are deemed competitive. Imports and exports, participating in the fifteen-minute market on EIM external interties scheduling points, are an additional source of market liquidity but participation may be limited during the first twelve months of EIM operation. The existing market power mitigation procedures will mitigate EIM participating resources within the EIM balancing authority area when constraints are binding. The graduated bid cap allows imports/exports to voluntarily participate in the EIM, while maintaining the effectiveness of the constraint relaxation parameter needed to address the potential of anomalous pricing results during the transition period.

This transition period proposal will be applicable to all new EIM entities and will apply to the PacifiCorp EIM based its November 1 deployment. Accordingly, upon FERC approval of the transition period proposal, the applicable bid cap for the PacifiCorp EIM will be based on the November 1 deployment date.

The ISO believes that the combination of the bid cap increases and constraint relaxation parameter will mitigate anomalous pricing that results from the EIM Entity gaining operational experience in EIM. By increasing the bid caps over time, the EIM Entity has incentives to implement needed operational and business process improvements quickly. In addition, increasing economic participation within the EIM Entity balancing authority area will provide additional capacity that would allow the market to clear without triggering constraint violations.

2 Plan for Stakeholder Engagement

Item	Date
Post Draft Final Proposal	December 15, 2014
Stakeholder Conference Call	December 19, 2014
Stakeholder Comments Due	December 31, 2014
Board of Governors Decision	January 5, 2015
FERC Filing	Week of January 5, 2015

3 Next Steps

The ISO plans to discuss this draft final proposal with stakeholders during a conference call to be held on December 19. The ISO requests comments from stakeholders on the proposed market design changes described in this draft final proposal. Stakeholders should submit written comments by December 31 to EIM@caiso.com.