

# **Consolidated EIM Initiatives from 2017 Roadmap Issue Paper**

**Department of Market Monitoring  
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## **Summary**

DMM appreciates the opportunity to comment on the Consolidated EIM Initiatives Issue Paper. In the Issue Paper, the ISO presents the possibility of allowing third parties transmission providers to make transmission available for use by the EIM. Should the ISO allow this, market design must address the fact that third party transmission providers may sometimes be incentivized to strategically withhold EIM transfer capacity in order to increase congestion revenues. Additionally, the Issue Paper presents the possibility of introducing a net wheeling charge for EIM. DMM plans to closely monitor the policy development and proposals in this area with the goal of maintaining an efficient market design.

### **I. Third party transmission contributions**

In the Issue Paper, the ISO presents the possibility of allowing third parties to offer transmission for use in the EIM. This proposal is put forth in response to third party transmission owners who have expressed an interest in providing unused transmission capacity to facilitate EIM transfers. Third parties offering transmission capacity to the EIM would not receive an explicit payment for making transmission available to the EIM. Compensation would occur through market congestion revenues.

Although EIM participants may benefit from additional EIM transfer capacity offered by third parties, the potential for strategic withholding of such transmission creates a concern that should be addressed. This concern would arise in cases where a third party initially offered transmission for EIM transfers and then later reduced the quantity of transmission offered, as described below.

The ISO market solves using multi-interval optimization. The optimization uses the best available information at a given point in time, and considers a time horizon multiple hours into the future to determine real-time dispatch and unit commitments. A third party transmission provider which is able to offer transfer capacity to the EIM could exploit the multi-interval optimization to inflate congestion revenues. This may occur if a third party offers transmission capacity for a stated number of hours, unit commitments are made based on optimization assuming the availability of this capacity, and the third party provider subsequently reduces the offered capacity later in the time horizon. This can result in changes to market solutions and may ultimately create congestion and congestion revenues to the benefit of the third party transmission provider.

Concerns similar to those described above were raised in the EIM Year 1 Enhancements Phase 2 stakeholder process in 2015. The concern at that time was the potential for EIM entities (rather than third parties) to withhold EIM transfer capacity in order to increase congestion revenues. DMM evaluated these concerns and determined that in the current environment, EIM entities were not likely to have incentive to withhold EIM transfer capacity, and that this situation likely did not warrant mitigation. DMM presented these points in public stakeholder comments<sup>1</sup>:

*DMM believes the ISO's current proposal does not need to include measures to mitigate potential withholding of EIM transfer capacity ... our current understanding is that in current and prospective EIM balancing areas, the parent company of the EIM entity will generally control most of the generation that would be dispatched up in real-time to support the real-time transfers that create the real-time congestion revenues. Therefore, increases in congestion revenues from withholding of EIM transfer capacity would likely be offset by decreased prices received by the parent company's generators. As a result, we do not currently anticipate conditions arising with the magnitude and predictability that would incent EIM entities to develop a strategy of withholding EIM transfer capacity.*

DMM reached this conclusion as part of a discussion of potential transfer capacity withholding by EIM entities. Third party transmission providers which may offer EIM transfer capacity do not have the same disincentive to withhold EIM transfer capacity. These entities may have only the incentive to create congestion revenues through withholding of EIM transfer capacity. Third party transmission providers may be less likely to have ownership interest in generation resources which would be impacted by market prices. Therefore, there may be a greater concern of third party transmission providers offering and subsequently withholding EIM transfer capacity to increase congestion revenues.

DMM recommends that if the ISO allows third party providers to offer transmission capacity for EIM transfers, the market rules should be designed to prevent the strategic withholding of EIM transfer capacity as discussed above. One potential way to accomplish this would be to restrict the ability of third party transmission providers to reduce offered transmission quantities once offered to the EIM. Reductions to offered transmission would not be allowed within the longest time horizon of the real-time market optimization (4.5 hours) from the time the transmission was offered to the EIM. This would eliminate the possibility of a third party offering an amount of transmission to the EIM and subsequently reducing the offered amount in order to alter market outcomes to create congestion revenues. Such a restriction would likely only be needed

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<sup>1</sup> Department of Market Monitoring Stakeholder Comments - Energy Imbalance Market Year 1 Enhancements Phase 2, Draft Final Proposal:  
[http://www.caiso.com/Documents/DMMComments\\_EIMYear1EnhancementsPhase2-DraftFinalProposal.pdf](http://www.caiso.com/Documents/DMMComments_EIMYear1EnhancementsPhase2-DraftFinalProposal.pdf)

for the reduction of EIM transfer capacity. The restriction would likely need not apply to the ability to increase the amount of transmission offered beyond the initial amount as additional transfer capacity may relieve congestion and facilitate additional EIM transfers.

## **II. Net wheeling charge**

In the Issue Paper, the ISO introduces the idea of creating a net wheeling charge for EIM BAAs. This charge would serve compensate EIM BAAs for wheeling EIM transfers, even in the absence of congestion. DMM intends to closely follow the policy development in this area, with the goal of maintaining efficient market design as the ISO seeks to address concerns of equity.