



Memorandum

To: ISO Board of Governors and Western Energy Markets Governing Body
From: Anna McKenna, Vice President Market Design and Analysis
Date: September 19, 2024
Re: **Decision on Inter-SC Trades in Regional Markets**

This memorandum requires ISO Board of Governors and WEM Governing Body action.

EXECUTIVE SUMMARY

Management proposes to enhance the Extended Day-Ahead Market (EDAM) and the Western Energy Imbalance Market (WEIM) to include functionality that offers the ability to reflect bi-lateral energy arrangements between scheduling coordinators through the ISO settlement process. Separate from the energy purchases and sales made through the EDAM or WEIM, market participants may have bi-lateral contractual arrangements for the purchase and sale of energy, with associated payment obligations. The inter-SC trades functionality can be used to transfer monies associated with such obligations between parties through the ISO settlement services based on locational marginal prices cleared through the markets.

The inter-SC trades functionality is an optional settlement feature or service between scheduling coordinators. The settlements of such instruments do not affect the market optimization, market scheduling or dispatch of resources. This functionality is currently available to scheduling coordinators for trades within the ISO balancing area, but is not a feature currently available for trades within the WEIM or the EDAM.

Extending the functionality for inter-SC trades for energy to WEIM and EDAM balancing areas will provide market participants additional tools, options, and value to support settlement of bilateral contracts between scheduling coordinators in the WEIM and EDAM. The proposal was not opposed by any stakeholder. The extension of this functionality would be enabled in 2026.

Management recommends the following motion:

Moved, that the ISO Board of Governors and the WEM Governing Body approve the proposed extension of the inter-SC trades for energy feature to WEIM and EDAM areas, as described in the memorandum dated September 19, 2024, and

Moved, that the ISO Board of Governors and WEM Governing Body authorize Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the change proposed in this memorandum, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.

BACKGROUND

Transactions for supply across the West are often executed through bilateral contracts, across different timeframes and at specified locations where the energy is exchanged, to support reliable load service. These bilateral arrangements, such as power purchase agreements between a generator and a load serving entity, may contain provisions about the disposition of market revenues associated with the bilateral transaction to the extent that the generation is bid in the market. When generation or load is offered in the market, the ISO provides market settlement with the respective scheduling coordinator representing the generation or load in the market.

Inter-SC trades serve as a settlement mechanism or service within the ISO's markets that can facilitate contractual arrangements, such as bilateral power purchase agreements, between scheduling coordinators by offsetting ISO settlement charges against contractual payment responsibilities. Through an inter-SC trade, the scheduling coordinator party to that trade may indicate to which scheduling coordinator and which locational price the market settlement should flow, in support of the out-of-market bilateral arrangements the parties may have in place.

Inter-SC trades are an optional market settlement feature or service. Scheduling coordinators are not required to effectuate inter-SC trades and can otherwise bilaterally and mutually settle any aspects of their bilateral contracts between themselves outside of the market. Importantly, inter-SC trades have no effect on market optimization, market scheduling or the dispatch of resources.

Currently, inter-SC trades and associated functionality is only supported for locations within the ISO balancing authority area and is not a feature for locations within the WEIM or future EDAM areas.

Some stakeholders have encouraged the ISO to consider extension of the inter-SC trade of energy functionality, including WEIM entities evaluating EDAM participation and respective settlement with their customers. Through a stakeholder process conducted this year, stakeholders showed that within the WEIM areas, inter-SC trades for energy provide an opportunity for market participants to effectuate inter-SC trades associated with participating resources and provide an optional tool to direct market settlement supporting bilateral power purchases. In EDAM, all resources in the balancing area are settled and offering the supply in the market along with load being able to bid in the market. Inter-SC trades of energy can provide further value to support settlements associated with bilateral contracts that may be in place between parties represented by scheduling coordinators.

For locations within the ISO balancing area, in addition to inter-SC trades for energy, the ISO also supports inter-SC trades for ancillary services and day-ahead load uplift obligations. At this time, Management is not proposing an extension of these types of inter-SC trades to EDAM or the WEIM locations. The market does not currently co-optimize ancillary services with energy, neither within the WEIM nor with EDAM at launch, so inter-SC trades of ancillary services are not useful outside of the ISO area. Management proposes to consider the extension of such inter-SC trades when evaluating co-optimization of ancillary service with energy within WEIM and EDAM. Management understands that inter-SC trades of the day-ahead load uplift obligation may be useful for EDAM participants. However, the extension of such service requires more extensive system changes, which Management remains open to consider beyond 2026.

Because the extension of inter-SC trades for energy to the WEIM and EDAM does not require significant system changes and can be incorporated within the scope of the EDAM implementation activities, Management expects this feature would be available to WEIM and EDAM areas in 2026. Through the implementation process, stakeholders will have the opportunity to thoroughly test the inter-SC trade for energy functionality, along with other EDAM features, during the extended market simulation period prior to EDAM implementation.

POSITIONS OF THE PARTIES

ISO staff prepared and posted a straw proposal and a draft final proposal and held stakeholder calls to review and discuss both. Stakeholders also submitted written comments on both the straw proposal and the draft final proposal.

Stakeholders support the proposal to extend this optional functionality of inter-SC trades for energy to WEIM and EDAM balancing areas. In written comments, all stakeholders including the Department of Market Monitoring, supported this proposed direction. Stakeholders noted that enabling inter-SC trades for energy within WEIM and EDAM areas will provide value as it will help facilitate settlement of certain aspects of bilateral contracts; that the functionality can support different business needs and market participation structures; and that inter-SC trades can help further integrate bilateral markets in the West.

Management appreciates the extensive stakeholder support for the proposal.

CONCLUSION

Management proposes to extend the inter-SC trades for energy to the WEIM and EDAM areas. All stakeholders support or do not oppose the proposed changes. Management recommends that the ISO Board of Governors and WEM Governing Body approve the proposal and related tariff changes as described in this memorandum.