



Real-Time Market Neutrality Settlement

Draft Final Proposal

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1. Purpose

The purpose of this initiative is to review proposed changes to the settlement of real-time market neutrality. Currently, real-time market neutrality is calculated as the sum of instructed imbalance energy, uninstructed imbalance energy, unaccounted for energy, and greenhouse gas (GHG) awards for both generation and load. To allocate any amounts owed or received from the real-time market neutrality, the CAISO calculates three offsets based on the components of the locational marginal price. There are currently three offsets: (1) real-time marginal loss offset, (2) real-time congestion offset, and (3) real-time imbalance energy offset. These offsets ensure that the market operator, who is settling the market, is revenue neutral.

2. Background & Issue

Idaho Power and PacifiCorp provided comments in the mid-year update to the market initiatives catalog requesting the ISO review the real-time imbalance energy offset. In response to these comments, the CAISO commenced an internal review of the issue identified in their comments. The CAISO believes the issues point to changes needed to address real-time market neutrality, not specifically the real-time imbalance energy offset.

When the original EIM design was developed, through the stakeholder process the CAISO concluded it best to address neutrality and uplift costs in a manner similar to the existing CAISO real-time market. These settlement accounts included the real-time congestion offset, the real-time marginal loss offset, real-time imbalance energy offset and the bid cost recovery allocation.

In order to incentivize EIM entities to submit base schedules that do not have unresolved congestion, through the stakeholder process the CAISO decided to calculate the real-time congestion offset by balancing authority area and allocate all charges/payments to that balancing authority area. Since the modeled losses vary based upon the transmission system of the balancing authority area, through the stakeholder process the CAISO also decided to calculate the real-time marginal loss offset by balancing authority area and allocate all charges/payments to that balancing authority area.

During the original EIM stakeholder process, it was determined that the real-time imbalance energy offset and the bid cost recovery cost allocation should have an additional step that moves a portion of these charges/revenues between balancing authority areas because these revenues/charges are the result of serving demand. Demand was defined as metered load within the balancing authority area, exports from the balancing authority area and EIM transfers out of the balancing authority area. For the bid cost recovery allocation, cost causation due to EIM transfers was considered to be more direct than the real-time imbalance energy offset. If in order to support an EIM transfer out of the balancing authority area it was economic to incur commitment costs, then to the extent the resource committed does not fully recover its costs, those EIM transfers out should be allocated a portion of the bid cost recovery payment to the resource. The cost causation is direct because this is an uplift cost, which is directly attributable to producing energy that happens to not be recovered through the locational marginal price.

On the other hand, neutrality amounts are different than an uplift as they do not simply represent costs not recovered through the locational marginal price. Neutrality amounts occur when payments and charges to scheduling coordinators do not net to zero in a settlement interval for various reasons that are described below. The real-time imbalance energy offset is one such neutrality charge. It results from the imbalance energy settlement of the system marginal energy cost and greenhouse gas marginal cost. Therefore, the cost causation for allocating the real-time imbalance energy offset to demand is indirect.

Real-time market neutrality occurs when there are deviations between the market results and actual metered energy. It has numerous causes that are based predominantly on decisions and practices of the individual balancing authority area. For example:

1. Differences between the OATT loss rate and market loss rate results in unaccounted for energy,
2. Precision by which deviations from dispatch are balanced by resources on automatic generation control,
3. Metering granularity for load.

These causes of real-time market neutrality are not caused by EIM transfers¹ between balancing authority areas in the EIM. Therefore, any neutrality offset (charge or credit) caused by the balancing authority should remain in that balancing authority area. This is currently the case for the real-time marginal loss offset and the real-time congestion offset. This is not the case for the real-time imbalance energy offset.

Since EIM transfers are not explicitly settled as an import and export between balancing authority areas in EIM, the financial value of EIM transfers is calculated and included in the initial calculation of the real-time imbalance energy offset calculation. The financial value of the EIM transfer is calculated by multiplying the system marginal energy cost by the MW quantity of the EIM transfers in and out of the balancing authority area. The sum of the financial value across the EIM footprint is zero because all EIM transfers out have a corresponding EIM transfer in. The financial value replicates the effect if the EIM transfers were settled in order to have imbalance supply and demand equal for each balancing authority area. However, using the system marginal energy cost is not appropriate for transfers that occur between non-California balancing authority areas. This is because the value of the energy transferred is lower outside of California because these transfers should include the greenhouse gas (GHG) component of the LMP. When there are net imports into the California area price separation will occur when the marginal GHG cost of serving California transfers is non-zero.

The current settlement design² is that after the real-time energy imbalance offset is initially calculated, a share of the offset is transferred between balancing authority areas in the EIM based upon the EIM

¹ EIM transfers are the energy flows between balancing authority areas in the EIM that result from the market dispatch. The tagged energy does not deviate from the market dispatch and therefore no real-time market neutrality is created.

² Detailed information on the currently calculation of the real-time imbalance energy offset is available in the following settlement configuration guides: [BPM - CG CC 6477 Real Time Imbalance Energy Offset v 5.9](#)
[BPM - CG CC 64770 Real Time Imbalance Offset EIM 5.1a](#)

transfer out as a proportion of the sum of the EIM transfer out, uninstructed imbalance energy, and unaccounted for energy of the source balancing authority area. This procedure results in the transfer of the real-time market neutrality from one balancing authority area being inappropriately moved to another balancing authority area because the financial value of the EIM transfers already accounted for the imbalance settlement from transfers between balancing authority areas. Therefore, the second movement of offset charges is not needed.

Based on the CAISO's review of the settlement of real-time market neutrality it proposes the following changes to the calculation of the real-time imbalance energy offset:

1. No longer transfer a portion of the real-time imbalance energy offset between balancing authority areas in the EIM
2. For each Balancing Authority Area in the EIM Area, the CAISO will calculate the Real-Time Market financial value of EIM Transfers as the product of the MWh, either positive or negative, and the System Marginal Energy Cost, plus a greenhouse gas financial value credit calculated as the product of the portion of the EIM Transfers not corresponding to a greenhouse gas compliance obligations under CARB and the Marginal Greenhouse Gas Cost.
3. Clarify the submission of EIM transfer system resource (ETSR) 5-minute schedules to ensure uniformity across EIM entities and develop validation rules.

The CAISO has analyzed settlement data for Q1 2019 to calculate impact of the changes in the real-time imbalance energy offset by make the first two changes. The CAISO has provided monthly data to EIM entities that have requested the data. In aggregate, eliminating the transfer adjustment results in the redistribution of \$11.1 million between balancing authority areas in EIM. Out of the 9 balancing authority areas participating in Q1 19, 5 would have received a higher charge and 4 would have received a lower charge. By eliminating the transfer adjustment and correcting the financial value of EIM transfers, the redistribution amount drops to \$9.2 million between balancing authority areas in the EIM. Out of the 9 balancing authority areas participating in Q1 19, 5 would have received a higher charge and 4 would have received a lower charge.

3. Proposal

At the request of stakeholders, the CAISO held a technical workshop on May 21, 2019 to review more detailed examples of the proposed changes. The CAISO developed an excel spreadsheet³ that illustrated the current and proposed settlement for each of the three issues identified. Each example will be discussed in more detail below. Items 1 and 2 require tariff changes and will be brought to the EIM Governing Body for decision. Item 3 will be addressed through the business practice manual process to develop the standardized approach for submitting ETSR values.

³ The spreadsheet is available at <http://www.aiso.com/Pages/documentsbygroup.aspx?GroupID=585D51B0-6322-42F7-8933-91B153F09630>

3.1 Eliminate EIM Transfer Adjustment

The current settlement of the real-time imbalance energy offset performs an additional step which transfers a portion of the initial neutrality calculated from balancing authority areas in EIM with EIM transfers out to balancing authority areas in the EIM with EIM transfers in. The CAISO proposes to eliminate that step as discussed above.

In the example in table 1, BAA1 has EIM transfers in from BAA2. The market optimization balances supply and demand across the entire EIM footprint. The 100 MWh of load in BAA1 is met by 50 MWh of internal generation and 50 MWh external generation located in BAA2. The EIM transfer between BAA1 and BAA2 is not settled in the market because load and generation are settled at its location. However, if the financial value of the EIM transfers is not considered neutrality would occur in the within each BAA. For example, BAA1 load was charged \$1000 and BAA1 generation was paid \$500. If the financial value of the EIM transfer was not consider, BAA would have neutrality equal to \$500. But, BAA1 actually paid \$500 to generation located in BAA2 to balance its supply and demand through the market optimization. The financial value of the EIM transfers ensures that each BAA has balanced supply and demand. This correctly reflects that the market results should not cause neutrality because all supply is equal to demand.

Table 1 – Eliminate EIM Transfer Adjustment Example

	\$/MWh			
System Marginal Energy Cost	\$ 10.00			
MWh	BAA1	BAA2		
Instructed Energy - Generation	-50	-175		
Load Forecast Used in Market	100	125		
EIM Transfer	-50	50		
Sum	0	0		
Balanced	Yes	Yes		
Proposed Settlement	BAA1	BAA2	BAA1	BAA2
Instructed Energy - Generation	-50	-175	\$ (500.00)	\$ (1,750.00)
Load Forecast Used in Market	100	125	\$ 1,000.00	\$ 1,250.00
EIM Transfer Financial Value	-50	50	\$ (500.00)	\$ 500.00
Uninstructed Energy - Generation	-2	5	\$ (20.00)	\$ 50.00
Difference Between Load Forecast and Meter	-2	2	\$ (20.00)	\$ 20.00
Unaccounted for Energy	6	3	\$ 60.00	\$ 30.00
Neutrality			\$ 20.00	\$ 100.00
Current Settlement	BAA1	BAA2	BAA1	BAA2
Instructed Energy - Generation	-50	-175	\$ (500.00)	\$ (1,750.00)
Load Forecast - Market	100	125	\$ 1,000.00	\$ 1,250.00
EIM Transfer	-50	50	\$ (500.00)	\$ 500.00
Uninstructed Energy - Generation	-2	5	\$ (20.00)	\$ 50.00
Difference Between Load Forecast and Meter	-2	2	\$ (20.00)	\$ 20.00
Unaccounted for Energy	6	3	\$ 60.00	\$ 30.00
Transfer Adjustment	-	-	\$ 83.33	\$ (83.33)
Neutrality			\$ 103.33	\$ 16.67

Because the market balances supply and demand and the financial value of the EIM transfers is considered, only deviations from the market dispatch result can cause neutrality. In the example above, generation in BAA1 exceeds its dispatched energy by 2 MWh, load is 2 MWh below the forecast used in the market, and unaccounted energy is 6 MWh higher. These are the causes the imbalance energy neutrality and not the EIM transfer in or out. This represents the imbalance energy neutrality for each of the balancing authority areas.

However, the current settlement makes a transfer adjustment which moved neutrality from exporting BAAs to importing BAAs. In this case 83% ($50/(50+5+2+3)$) of BAA2 neutrality is shifted to BAA1. The CAISO proposes to eliminate the transfer adjustment.

3.2 Correct Financial Value of EIM Transfers

As illustrated above, the market results have balanced supply and demand which leads to no neutrality. Since EIM transfers out equal EIM transfers in across the EIM footprint there is no neutrality incurred. However, in order to have each balancing authority in the EIM be balanced the financial value of the EIM transfer must be included. Currently, the system marginal energy cost is multiplied by the EIM transfers amount to calculate the financial value of EIM transfers. This is accurate for transfers between California balancing authority areas and other California balancing authority areas or non-California balancing authority areas. However, the financial value of EIM transfers between non-California balancing authorities should use the system marginal energy cost plus the GHG component of the LMP outside California.

Table 2 – Correct Financial Value of EIM Transfers

	\$/MWh							
SMEC	\$	10.00						
GHG Price	\$	4.00						
MWh	CA BAA1	CA BAA2	CA BAA3	BAA4	BAA5	BAA6	BAA7	Sum
Net Scheduled Interchange	-100	50	-25	100	-50	0	25	0
GHG Award	0	0	0	25	25	25	0	0
Proposed Settlement	CA BAA1	CA BAA2	CA BAA3	BAA4	BAA5	BAA6	BAA7	Footprint
Energy within BAA	\$ 1,000.00	\$ (500.00)	\$ 250.00	\$ (600.00)	\$ 300.00	\$ -	\$ (150.00)	\$ 300.00
GHG Award	N/A	N/A	N/A	\$ (100.00)	\$ (100.00)	\$ (100.00)	\$ -	\$ (300.00)
Financial Value Energy Transfers	\$ (1,000.00)	\$ 500.00	\$ (250.00)	\$ 1,000.00	\$ (500.00)	\$ -	\$ 250.00	\$ -
Financial Credit GHG Transfers	N/A	N/A	N/A	\$ (300.00)	\$ 300.00	\$ 100.00	\$ (100.00)	\$ -
Neutrality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current Settlement	CA BAA1	CA BAA2	CA BAA3	BAA4	BAA5	BAA6	BAA7	Footprint
Energy within BAA	\$ 1,000.00	\$ (500.00)	\$ 250.00	\$ (600.00)	\$ 300.00	\$ -	\$ (150.00)	\$ 300.00
GHG Award	N/A	N/A	N/A	\$ (100.00)	\$ (100.00)	\$ (100.00)	\$ -	\$ (300.00)
Financial Value Transfers	\$ (1,000.00)	\$ 500.00	\$ (250.00)	\$ 1,000.00	\$ (500.00)	\$ -	\$ 250.00	\$ -
Neutrality	\$ -	\$ -	\$ -	\$ 300.00	\$ (300.00)	\$ (100.00)	\$ 100.00	\$ -

In the example above, BAA1, BAA3 and BAA5 are importing from the other EIM BAAs and the net scheduled interchange across the footprint is zero. The three California balancing authority areas (BAA1, BAA2, and BAA3) are collectively importing 75 MWh from non-California BAAs. When EIM transfers into the California BAAs occurs, EIM participating resources are attributed, through the market optimization, as serving the EIM transfer into California. BAA4, BAA5, and BAA6 have each been attributed 25 MWh of the EIM transfers into the California balancing authority areas and are compensated at the GHG price of \$4.00 to cover the compliance costs with California cap and trade program. The marginal cost of GHG results in price separation between California balancing authority areas and non-California balancing authority areas. Load within California balancing authority areas pays \$10/MWh and load outside of California balancing authority areas pays \$6/MWh. Generation within California balancing authority areas are paid \$10/MWh and generation outside California balancing authority areas are paid \$6/MWh. As the example shows, load has been charged \$300 more than supply has been paid for energy. This is because the market has collected from California load the cost necessary to pay the GHG awards for EIM participating resources attributed to serving load in

California. By considering both the energy settlement and the GHG payments, the market results across the EIM footprint are revenue neutral.

In order to ensure each balancing authority area is revenue neutral, the financial value of EIM transfers must be calculated. Since supply outside of California balancing authority areas that is supporting load outside of California balancing authority areas, does not include the cost of GHG compliance those transfers need be valued at the system marginal energy cost plus the marginal GHG cost. For example, BAA4 has 100 MWh of EIM transfers out. 25 MWh have be attributed to supporting an EIM transfer into the California balancing authority areas and 75 MWh are supporting and EIM transfer. The financial value of the EIM transfer at the system marginal energy cost is \$1000 ($\$10/\text{MWh} \times 100 \text{ MWh}$). Since 75 MWh is not subject to GHG costs, the financial credit for GHG on the transfers is a payment of \$300 ($\$4/\text{MWh} \times 75 \text{ MWh}$). This results in the correct financial value of the EIM transfers by recognizing that supply supporting transfers to California balancing authority areas is paid \$10/MWh ($\$6/\text{MWh}$ for energy + $\$4/\text{MWh}$ for its GHG award) and supply supporting transfers to non-California balancing authority areas is paid \$6/MWh for energy only.

BAA6 has a net scheduled interchange of zero; however, it has received a 25 MWh GHG award. This is because the market optimization does not require incremental energy dispatch to be attributed to serve an EIM transfer into California balancing authority areas. Since the net schedules interchange is zero, there must be an offsetting 25 MWh EIM transfer in from a non-California balancing authority area. While not settled, the EIM transfer out with the California balancing authority areas is a payment of \$250 ($\$10/\text{MWh} \times 25 \text{ MWh}$) and the EIM transfer in with the non-California balancing authority area charge of \$150 ($\$6/\text{MWh} \times 25 \text{ MWh}$). The combined settlement of the two transfers is equal to the financial credit for GHG transfers of \$100 ($\$4/\text{MWh} \times 25 \text{ MWh}$) which ensures that BAA 6 is revenue neutral based upon the market results.

3.3 BPM Change to Clarify Submission of ETSR Schedules

The CAISO proposes to work with stakeholders through the business process manual change process to clarify the submission of ETSR 5-minute schedules to ensure uniformity across EIM entities and validation rules. These changes do not require tariff changes. The CAISO is considering three options:

1. RTD EIM Transfer Schedules are deemed delivered.
2. EIM BAA with ETSR tagging responsibility, submits ALL ATF EIM Transfer Values (MW) to Settlements through EIM Real Time Interchange Schedule. These values should be shaped to reflect RTD ETSR Dispatches.
3. Current tagging requirements remain in effect. Settlement shapes the submitted ETSR ATF values to reflect RTD ETSR Dispatches.

The CAISO requests stakeholder to include in their written comments their preference for standardizing the submission of 5-minute ETSR data.

Table 3 - Submission of ETSR Schedules

\$/MWh	Int 1	Int 2	Int 3	Int 4	Int 5	Int 6	Int 7	Int 8	Int 9	Int 10	Int 11	Int 12	
SMEC	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	
EIM Transfer (MWh)	Int 1	Int 2	Int 3	Int 4	Int 5	Int 6	Int 7	Int 8	Int 9	Int 10	Int 11	Int 12	Total
CAISO	-10	-9	-10	-12	-8	-10	12	10	14	10	12	11	10
EIM BAA	10	9	10	12	8	10	-12	-10	-14	-10	-12	-11	-10
Energy Settlement within BAA	Int 1	Int 2	Int 3	Int 4	Int 5	Int 6	Int 7	Int 8	Int 9	Int 10	Int 11	Int 12	Total
CAISO	\$ 100.00	\$ 90.00	\$ 100.00	\$ 120.00	\$ 80.00	\$ 100.00	\$ (180.00)	\$ (150.00)	\$ (210.00)	\$ (150.00)	\$ (180.00)	\$ (165.00)	\$ (445.00)
EIM BAA	\$ (100.00)	\$ (90.00)	\$ (100.00)	\$ (120.00)	\$ (80.00)	\$ (100.00)	\$ 180.00	\$ 150.00	\$ 210.00	\$ 150.00	\$ 180.00	\$ 165.00	\$ 445.00
Proposed EIM Transfer Financial Value	Int 1	Int 2	Int 3	Int 4	Int 5	Int 6	Int 7	Int 8	Int 9	Int 10	Int 11	Int 12	Total
CAISO	\$ (100.00)	\$ (90.00)	\$ (100.00)	\$ (120.00)	\$ (80.00)	\$ (100.00)	\$ 180.00	\$ 150.00	\$ 210.00	\$ 150.00	\$ 180.00	\$ 165.00	\$ 445.00
EIM BAA	\$ 100.00	\$ 90.00	\$ 100.00	\$ 120.00	\$ 80.00	\$ 100.00	\$ (180.00)	\$ (150.00)	\$ (210.00)	\$ (150.00)	\$ (180.00)	\$ (165.00)	\$ (445.00)
Proposed Neutrality	Int 1	Int 2	Int 3	Int 4	Int 5	Int 6	Int 7	Int 8	Int 9	Int 10	Int 11	Int 12	Total
CAISO	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EIM BAA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current EIM Transfer Financial Value	Int 1	Int 2	Int 3	Int 4	Int 5	Int 6	Int 7	Int 8	Int 9	Int 10	Int 11	Int 12	Total
CAISO	\$ 8.33	\$ 8.33	\$ 8.33	\$ 8.33	\$ 8.33	\$ 8.33	\$ 12.50	\$ 12.50	\$ 12.50	\$ 12.50	\$ 12.50	\$ 12.50	\$ 125.00
EIM BAA	\$ (8.33)	\$ (8.33)	\$ (8.33)	\$ (8.33)	\$ (8.33)	\$ (8.33)	\$ (12.50)	\$ (12.50)	\$ (12.50)	\$ (12.50)	\$ (12.50)	\$ (12.50)	\$ (125.00)
Current Neutrality	Int 1	Int 2	Int 3	Int 4	Int 5	Int 6	Int 7	Int 8	Int 9	Int 10	Int 11	Int 12	Total
CAISO	\$ 108.33	\$ 98.33	\$ 108.33	\$ 128.33	\$ 88.33	\$ 108.33	\$ (167.50)	\$ (137.50)	\$ (197.50)	\$ (137.50)	\$ (167.50)	\$ (152.50)	\$ (320.00)
EIM BAA	\$ (108.33)	\$ (98.33)	\$ (108.33)	\$ (128.33)	\$ (88.33)	\$ (108.33)	\$ 167.50	\$ 137.50	\$ 197.50	\$ 137.50	\$ 167.50	\$ 152.50	\$ 320.00

The table above illustrates that revenue neutrality is created when the 5-minute ETSR values do not reflect the 5-minute market results. Currently for ETSRs with the CAISO, the integrated hourly value of the dynamic schedule. In most instances, this results in the financial value of EIM transfers with the CAISO being settled at the average 5-minute prices versus the weighted average 5-minute price. But as the example below illustrates that in hours where there are both EIM transfers in and EIM transfers out these quantities are netted.

4. Stakeholder Engagement and Next Steps

Stakeholder input is critical for developing market design policy. The schedule proposed below allows several opportunities for stakeholder's involvement and feedback.

4.1 Schedule

Table 1 lists the planned schedule for the *Real-Time Market Neutrality Settlement* stakeholder process. The ISO proposes to present its proposal to EIM Governing Body at the June meeting and the ISO Board of Governors at the July meeting.

Table 4- Proposed schedule for the Real-Time Market Neutrality Settlement stakeholder process

Milestone	Date
Post Draft Final Proposal and Tariff Language	May 30, 2019
Stakeholder Conference Call	June 6, 2019
Stakeholder Comments Due	June 13, 2019

EIM Governing Body Meeting	June 28, 2019
Board of Governors Meeting	July 24-25, 2019
Requested Effective Date	August 1, 2019

The ISO will discuss this paper during a stakeholder conference call on June 6. The ISO requests that stakeholders submit written comments by June 13, 2019 to InitiativeComments@caiso.com.

4.2 Planned FERC Filing Process

Assuming approval by the EIM Governing Body and CAISO Board of Governors, the CAISO intends to file the proposed changes with FERC on July 31, 2019. The CAISO intends to propose an effective date of the proposed changes for August 1, 2019, and will request waiver of the notice period normally required under Section 205 of the Federal Power Act. The proposed changes are planned for implementation in the Fall 2019 market release. Upon FERC approval of the proposed changes and effective date, the CAISO will re-settle the real-time imbalance energy offset according to the new rules back to August 1.

4.3 EIM Governing Body Role

This initiative proposes to change two market rules. First, it would change how neutrality charges for the real-time market are allocated among balancing authority areas so that the offset for real-time imbalance energy is not adjusted between balancing authority areas. Second, it would modify how the CAISO will determine the financial value of EIM transfers between balancing authority areas that are not subject to a greenhouse gas compliance obligation and those that are. These two proposed changes are severable for decisional purposes, because even if one of the two changes were not approved, Management would proceed with other change on its own. Staff believes the EIM Governing Body should have primary authority over both proposed changes.

The rules that govern decisional classification were amended in March 2019 when the Board adopted changes to the Charter for EIM Governance and the Guidance Document. An initiative proposing to change rules of the real-time market now falls within the primary authority of the EIM Governing Body either if the proposed new rule is 1) EIM-specific in the sense that it applies uniquely or differently in the balancing authority areas of EIM Entities, as opposed to a generally applicable rule, or 2) is generally applicable but is being primarily driven by “an issue that is specific to the EIM balancing authority areas.”

Here, the EIM Governing Body has primary authority over the first proposed change, which eliminates the adjustment between balancing authority areas of the real-time imbalance energy offset, because the primary driver was an issue specific to the EIM balancing authority areas. Although the new rule would be generally applicable to the entire real-time market, the CAISO has pursued this change because eliminating the adjustment in real-time imbalance energy offset would more accurately reflect cost causation. More specifically, the primary driver for this change is the need to ensure that EIM balancing authority areas are receiving a more accurate allocation based on proper cost causation principles. While

the change will have impacts on all balancing authority areas, the issue that was the primary driver was specific to EIM and was raised by EIM Entities. This connection is illustrated by the unusual process through which this initiative began – i.e., on an urgent basis that was identified in the catalogue update process and bypassed the annual ranking process.

SCE disputes the proposed classification for this change in its comments on the Issue Paper, on the grounds that the proposed changes “do[] not originate from the EIM’s interactions with the CAISO in the RT markets,” but instead “on account of the CAISO’s failure to implement an appropriate settlement mechanism consistent with the regulatory principle of cost causation.” Staff respectfully disagrees with this narrow reading of the new “primary driver” test for the EIM Governing Body’s primary authority. The primary driver for this refinement of the neutrality rule is an issue specific to EIM Entities that resulted from the excessive costs they were assessed through real-time neutrality.

The second proposed change, which would establish the financial value of EIM transfers between balancing authority areas not subject to a greenhouse gas compliance obligation as the system marginal energy cost plus the GHG component of the LMP, falls within the primary authority of the EIM Governing Body because this rule is EIM-specific. The proposed rule would apply only between balancing authorities in the EIM that are not subject to a greenhouse gas compliance obligation with CARB, meaning that it would not apply to the CAISO and BANC/SMUD.

This EIM classification reflects the current state of this initiative and may change as the stakeholder process moves ahead. If any stakeholder disagrees with this proposed classification, please include in your written comments a justification of which classification is more appropriate.