

September 21, 2021

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket: ER15-2565-__
Independent Assessment by the Department of Market Monitoring
June – July 2021 Energy Imbalance Market Transition Period Report for
NorthWestern Energy**

Dear Secretary Bose:

The Department of Market Monitoring (DMM) hereby submits its independent assessment on the transition period of NorthWestern Energy (NWMT) during its first six months of participation in the Energy Imbalance Market (EIM) for June – July 2021, as NWMT joined the EIM on June 16, 2021.

Please contact the undersigned directly with any questions or concerns regarding the foregoing.

Respectfully submitted,

By: /s/ Eric Hildebrandt

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California ISO

**Report on energy imbalance market
issues and performance:
NorthWestern Energy
for June – July 2021**

September 21, 2021

Prepared by: Department of Market Monitoring

Executive summary

Pursuant to the Commission's October 29, 2015 Order on the ISO's energy imbalance market (EIM), the ISO filed a report on September 3, 2021 covering the period from June 16 through July 31, 2021 (June - July report) for NorthWestern Energy (NWMT) in the energy imbalance market.¹ NWMT joined the energy imbalance market on June 16, 2021.

This report provides a review by the Department of Market Monitoring (DMM) of energy imbalance market performance for the NWMT balancing authority area during the period covered in the ISO's June - July report. This is the first report for the transition period for the NWMT balancing authority area. Key findings in this report include the following:

- Prices in NWMT area tracked lower than prices in the ISO. In the NWMT area during the month, prices averaged \$39.66/MWh in the 15-minute market and \$36.98/MWh 5-minute market.
- The NWMT balancing authority area failed the upward sufficiency test during 18 intervals in June and 108 intervals in July. NWMT failed the downward sufficiency test during 14 intervals in June and 18 intervals in July. Furthermore, the NWMT balancing authority failed the upward bid range capacity test during 14 intervals in June and 36 intervals in July. NWMT did not fail the upward bid range capacity test in June or July.
- The frequency of valid under-supply infeasibilities was high during this time frame, occurring frequently in both the 15-minute and 5-minute markets. The frequency of over-supply infeasibilities was relatively low and only occurred in the 5-minute market.
- On average for June 16 – June 30, transition period pricing decreased 15-minute and 5-minute market prices by \$2.41/MWh and \$3.04/MWh, respectively. Similarly in July, transition period pricing decreased average 15-minute and 5-minute market prices by \$6.09/MWh and \$6.66/MWh, respectively.

Section 1 of this report provides a description of prices and power balance constraint relaxations and section 2 discusses the flexible ramping sufficiency and bid range capacity tests.

¹ The ISO's June - July 2021 Report was filed at FERC and posted on the ISO website on September 3, 2021:
<http://www.caiso.com/Documents/Sep3-2021-EIMTransitionPeriodReport-NorthWesternEnergy-Jun-Jul2021-ER15-2565.pdf>

1 Energy imbalance market prices

Figure 1.1 and Figure 1.2 show hourly average 15-minute and 5-minute prices for June 16 through July 31 for NWMT compared with prices in the ISO at the Southern California Edison (SCE) default load aggregation point.

Prices in NorthWestern Energy area tracked lower than prices at the Southern California Edison (SCE) default aggregation point within the ISO. Separation between the areas occurred most notably during peak net load hours. In the NWMT area during this period, prices averaged \$39.66/MWh in the 15-minute market and \$36.98/MWh in the 5-minute market.

Figure 1.1 Average hourly 15-minute price (June 16 – July 31, 2021)

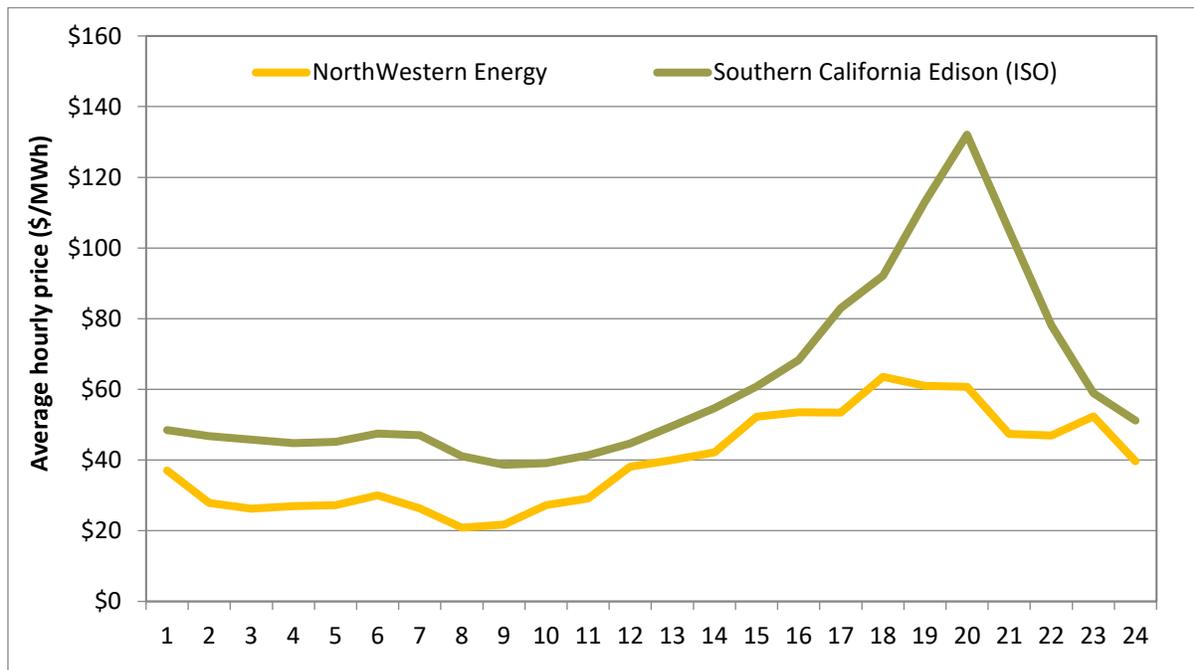
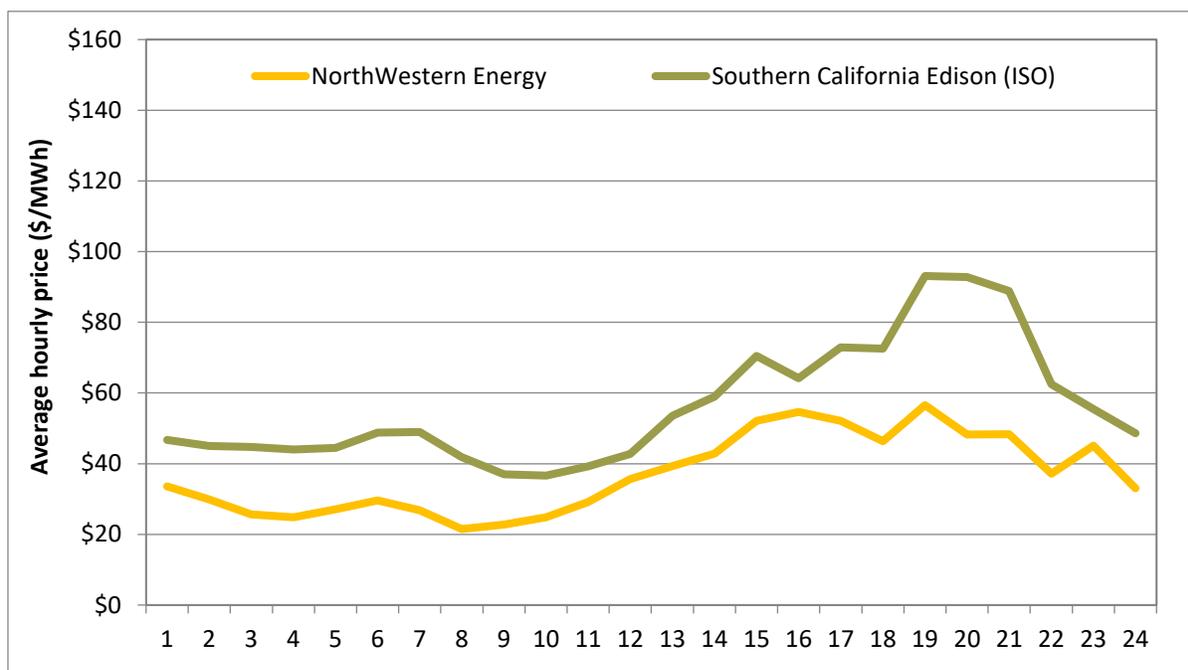


Figure 1.2 Average hourly 5-minute price (June 16 – July 31, 2021)

All power balance constraint relaxations that occurred in June and July were subject to the six-month transition period pricing that expires on November 30, 2021. The transition period pricing mechanism sets prices at the highest cost supply bid dispatched to meet demand rather than at the \$1,000/MWh penalty parameter while relaxing the constraint for shortages, or the -\$155/MWh penalty parameter while relaxing the constraint for excess energy.^{2 3} Power balance constraint relaxations can be grouped in the following categories:

- **Valid under-supply infeasibility** (power balance constraint shortage). These occurred when the power balance constraint was relaxed because load exceeded available generation. The ISO validated that ISO software was working appropriately during these instances.
- **Valid over-supply infeasibility** (power balance constraint excess). These occurred when the power balance constraint was relaxed because generation exceeded load. The ISO validated that ISO software was working appropriately during these instances.
- **Load conformance limiter would have resolved infeasibility.** The load conformance limiter automatically reduces the size of an operator load adjustment and sets prices at the last economic

² When transition period pricing provisions are triggered by relaxation of the power balance constraint, any shadow price associated with the flexible ramping product is set to \$0/MWh to allow the market software to use the last economic bid dispatched.

³ The penalty parameter while relaxing the constraint for shortages may rise from \$1,000/MWh to \$2,000/MWh, depending on system conditions, per phase 2 implementation of FERC Order 831.

signal when the conditions for the limiter are met.⁴ During the transition period, the limiter does not change price outcomes because transition period pricing is applied during these intervals instead. However, in these cases, the load conformance limiter *would have resolved the infeasibility* had transition period pricing not been in effect.

- **Correctable infeasibility.** These occurred when the ISO software relaxed the power balance constraint concurrent with a software error or data error that resulted in a price correction or would have triggered a price correction if transition period pricing were not active.⁵

Figure 1.3 and Figure 1.4 show the weekly frequency of under-supply and over-supply infeasibilities, respectively, in the 15-minute and 5-minute markets. As shown in Figure 1.3, the frequency of valid under-supply infeasibilities was high in June and July. In the 15-minute market, these valid under-supply infeasibilities occurred during 4 intervals in June and 22 intervals in July. During the 5-minute market, there were valid under-supply infeasibilities during 15 intervals in June and 69 intervals in July.

As shown in Figure 1.4, the frequency of valid over-supply infeasibilities was relatively low during this time period. In the 5-minute market, valid over-supply infeasibilities occurred during 8 intervals in July. There were no valid over-supply infeasibilities in the 15-minute market during this time period.

There were no intervals in June and 4 intervals in July when the load conformance limiter would have triggered for the NWMT balancing authority area had transition period pricing not been in effect.

⁴ The ISO implemented an enhancement to the load conformance limiter, effective February 27, 2019. With the enhancement, the load conformance limiter triggers by a measure based on the change in load adjustment from one interval to the next, rather than the total level of load adjustment.

⁵ Section 35 of the ISO tariff provides the ISO authority to correct prices if it detects an invalid market solution or issues due to a data input failure, occurrence of hardware or software failure, or a result that is inconsistent with the ISO tariff. During erroneous intervals, the ISO determined that prices resulting under transition period pricing were equivalent to prices that would result from a price correction, so no further price adjustment was appropriate.

http://www.caiso.com/Documents/Section35_MarketValidationAndPriceCorrection_May1_2014.pdf.

Figure 1.3 Frequency of under-supply power balance infeasibilities by week NorthWestern Energy

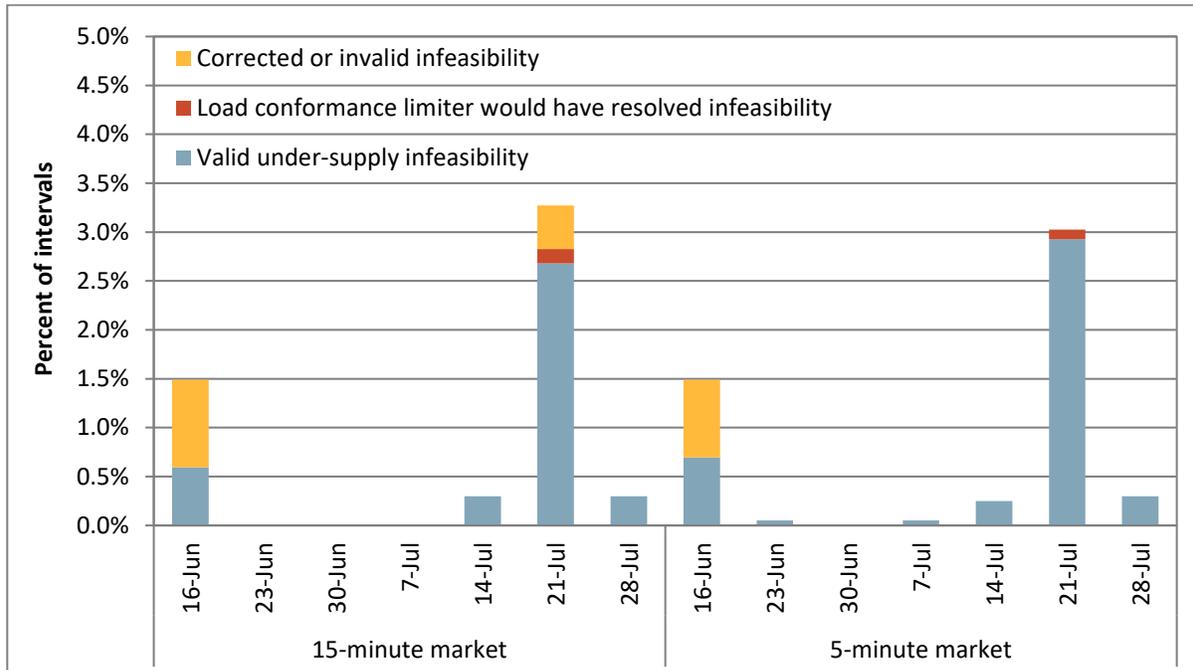


Figure 1.4 Frequency of over-supply power balance infeasibilities by week NorthWestern Energy

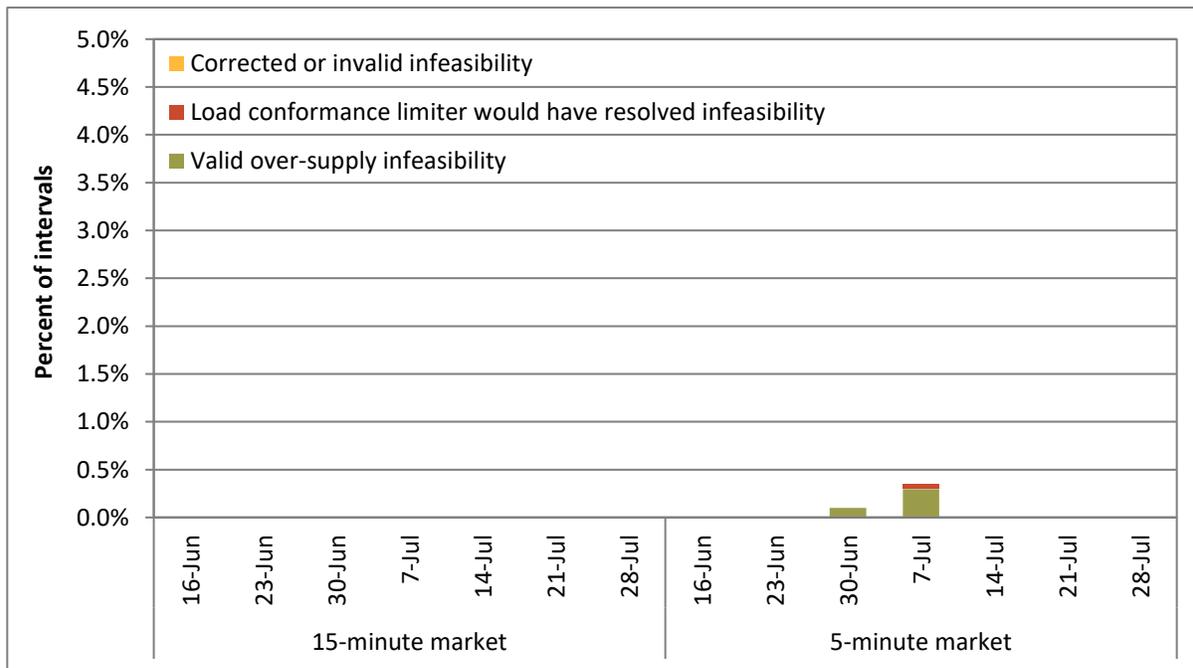
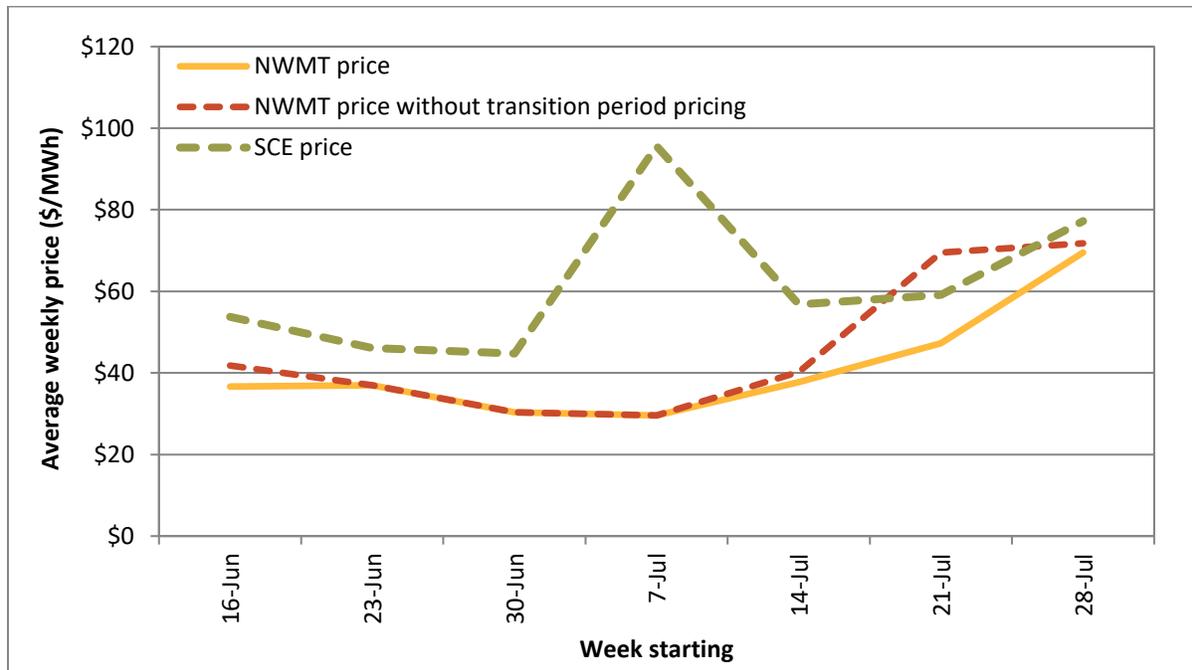


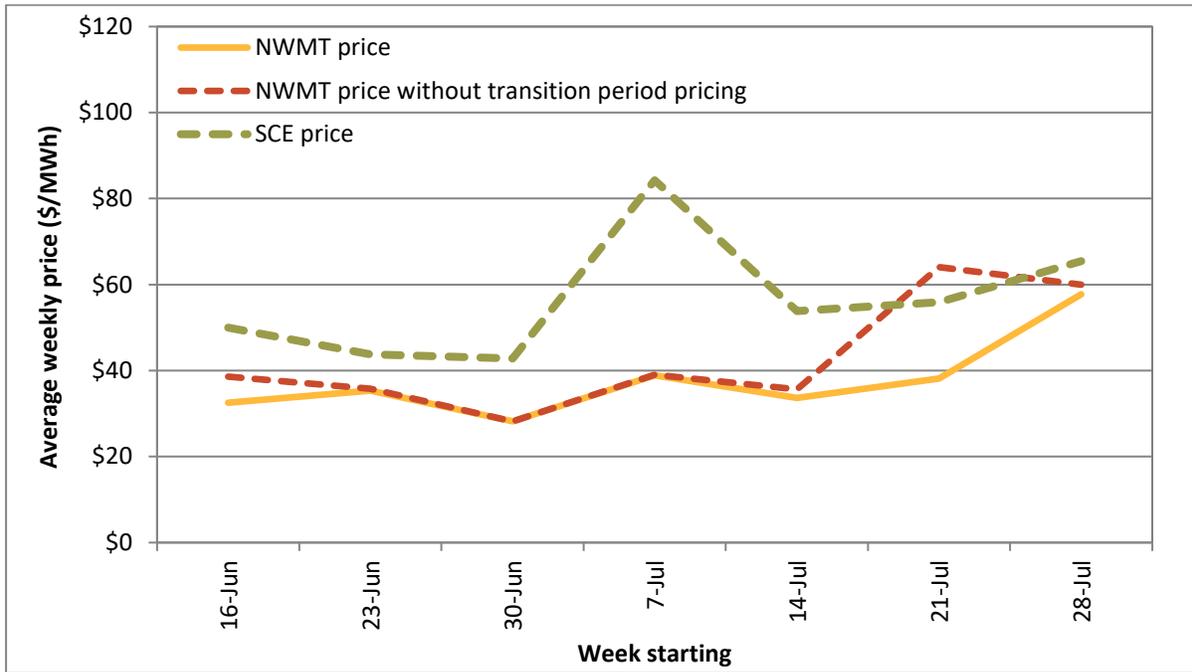
Figure 1.5 and Figure 1.6 show the average weekly prices in the 15-minute and 5-minute market *with* and *without* the special transition period pricing provisions applied to mitigate prices in the NWMT area during June and July.⁶ On average for June 16 – June 30, transition period pricing decreased 15-minute and 5-minute market prices by \$2.41/MWh and \$3.04/MWh, respectively. Similarly in July, transition period pricing decreased average 15-minute and 5-minute market prices by \$6.09/MWh and \$6.66/MWh, respectively.

Figure 1.5 Average prices by week – NorthWestern Energy (NWMT) (15-minute market)



⁶ A detailed description of the methodology used to calculate these counterfactual prices that would result without transition period pricing was provided on p. 7 of the January 2017 report for Arizona Public Service from DMM: http://www.caiso.com/Documents/May1_2017_Department_MarketMonitoring_EIMTransitionPeriodReport_ArizonaPublicService_Jan2017_ER15-2565.pdf

Figure 1.6 Average prices by week – NorthWestern Energy (NWMT) (5-minute market)



2 Flexible ramping sufficiency and bid range capacity tests

As part of the energy imbalance market, each area including the California ISO is subject to a resource sufficiency evaluation. The evaluation is performed prior to each hour to ensure that generation in each area is sufficient without relying on transfers from other balancing areas. The evaluation includes two tests:

- **The bid range capacity test (capacity test)** requires that each area provide incremental bid-in capacity to meet the imbalance between load, inertia, and generation base schedules.
- **The flexible ramping sufficiency test (sufficiency test)** requires that each balancing area has enough ramping flexibility over an hour to meet the forecasted change in demand as well as uncertainty.

If an area fails either the bid range capacity test or flexible ramping sufficiency test, energy imbalance market transfers into that area cannot be increased.⁷ Failures of the capacity and sufficiency test are important because these outcomes limit transfer capability. Constraining transfer capability may affect the efficiency of the EIM by limiting transfers into and out of a balancing area that could potentially provide benefits to other balancing areas. Reduced transfer capability also affects the ability for an area to balance load, since there is less availability to import-from or export-to neighboring areas. This can result in local prices being set at power balance constraint penalty parameters.

The NWMT balancing authority area failed the upward sufficiency test during 18 intervals in June and 108 intervals in July. NWMT failed the downward sufficiency test during 14 intervals in June and 18 intervals in July. Furthermore, the NWMT balancing authority failed the upward bid range capacity test during 14 intervals in June and 36 intervals in July. NWMT did not fail the upward bid range capacity test in June or July.

⁷ If an area fails either test in the upward direction, net EIM imports (negative) during the hour cannot exceed the lower of either the base transfer or optimal transfer from the last 15-minute interval prior to the hour.

CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, this 21st day of September, 2021.

/s/ Jennifer Shirk