

RTO West Credit Policies Related to SC Use of Imbalance Energy and Credit Balances

Because of the potential credit exposure resulting from large Imbalance Energy defaults, RTO West needs to develop a pricing structure and other measures for use of Imbalance Energy which motivate SCs to (i) limit their reliance on Imbalance Energy to inevitable forecast errors or other errors due to unpredictability, (ii) serve general load obligations through pre-scheduled transactions, and (iii) minimize outstanding balances owed to RTO West for Imbalance Energy. The main purpose of RTO West policies regarding Imbalance Energy should be to (i) discourage SCs from inappropriately using the Imbalance Energy Market as a means to serve load and to pay for Imbalance Energy as soon as possible, which will in turn minimize the credit risk from such use, and (ii) appropriately charge those who use Imbalance Energy and who owe money to RTO West for the associated credit risk and other costs. The RTO West liability and risk management working group encourages an ancillary services design that accounts for the potential credit exposure that may arise from inappropriate use of Imbalance Energy.

The RTO West Credit Standards will contain recommended settlement and cost allocation policies that address concerns related to risk management and provide for a multiple-tiered structure of charges with respect to amounts owed for Imbalance Energy. The specific pricing and cost allocation recommendations included in this document are intended as a starting position for ancillary services marked development. We acknowledge that there may be unforeseen implications of these recommendations that could impact the effective development of the real time market, and thus encourage an ancillary services development process that considers credit implications as well as other market concerns.

General Imbalances:

Calculation of Imbalance Energy and Market Prices:

RTO West will calculate, account for, and settle Imbalance Energy in the Real Time Market for each Settlement Period, which is anticipated to be one week, assuming adequate metering exists. The baseline for determining use of Imbalance Energy will be the last valid schedule received from the Scheduling Coordinator, and the amount of Imbalance Energy is expected to be computed on a one-hour interval (the "Interval"), unless the Ancillary Services Group determined that another pricing interval should be used. For each Interval of the Settlement Period, RTO West will compute the Market Prices, on a zonal basis when there is inter-zonal congestion, ("Market Prices") and the associated charges for each SC based on their use of Imbalance Energy in that zone.

NOTE: When there is no congestion between two or more zones, the prices in each of those zones is the same and therefore the uncongested zones in effect become a single zone. If, for example, there is no congestion on any of the defined congestion paths, then the entire RTO West control area would function as a single zone.

Trading Imbalances:

SCs will be able to trade Imbalances to reduce the amounts that they will pay RTO West for Imbalance Energy. Self-providers will have the energy they provide within the Interval set off against their undersupply Imbalances to determine their net Imbalance for the Interval. Likewise, any undersupply of energy will be set off against any underrun of scheduled load.

Approved Use Limit:

It is proposed that the RTO West Board of Directors will be able to set a limit of what constitutes reasonable Imbalance Energy use (the “Approved Use Limit”), beyond which Energy Imbalances would be deemed “unreasonable.” The Approved Use Limit would be set in the RTO West FERC tariff filing as a percentage between 5% and 15% of valid schedules (the “Approved Limit Range”). The RTO West Board of Directors will have the ability to specify the applicable percentage within the Approved Limit Range; however, a tariff amendment would be required to specify a percentage outside the Approved Limit Range.

General Imbalance Energy Charges:

After netting of load and resources and Imbalance trades between SCs for an Interval (on a zonal basis if appropriate), the net Imbalance Energy will be charged or paid at the Market Price for that Interval. The method for determining the Market Price will be the responsibility of the Ancillary Services Group.

Additional Charge for Inappropriate Use:

The purpose of the Approved Use Limit will be to assess additional charges on those SCs who inappropriately use the Imbalance Energy Market during an Interval to serve load, which use has the potential to raise Imbalance Energy prices and impose additional costs on others who appropriately use the Imbalance Energy Market. Imposing the charge on inappropriate use provides a disincentive to SCs to lean on the Imbalance Energy Market to serve load and assesses the additional costs of such use on the inappropriate user. After netting of load, resources and Imbalance trades between SCs within the Interval; if an SC’s Imbalance Energy exceeds the Approved Use Limit, an additional charge will be assessed on only the Imbalance Energy for that Interval that exceeded the Approved Use Limit (the “Excess Usage”). The Excess Usage charge would consist of an additional percentage (to be determined) added on to the Market Price paid for undersupply for the Interval, and a similar percentage deducted from the Market Price paid for the oversupply during the Interval. The additional charge for exceeding the Approved Use Limit will be deposited in the Credit Insurance Pool, up to a certain limit, to be determined and modified by the RTO West Board of Directors as market prices change.

Credit Charge:

There will be a Credit Charge assessed on the outstanding payables balances of SCs with respect to amounts owed to the RTO. The Credit Charge would be applied daily on outstanding balances to recover the RTO's credit related costs including: expected credit losses, credit risk insurance premiums, the cost of working capital needed to cover payment delays, and other credit related costs. The amounts collected would be used to pay RTO West's credit related costs and the portion relating to the expected credit losses would be deposited in the Credit Insurance Pool to pay for potential defaults. The Credit Charge will encourage SCs to minimize their credit balances by minimizing their use of Imbalance Energy and by accurately paying their balances more frequently. The RTO West settlements process should be structured to encourage SCs to minimize their credit exposure by allowing for expedited payment either through a more timely meter reading and settlement process or by use of an estimated payment process. The Credit Charge would be adjusted annually by the RTO West Board to assure recovery of actual credit-related costs.

Credit Insurance Pool

The money collected by RTO West for Imbalance Energy outside the Approved Use Limit, and the portion of the Credit Charge it collects relating to potential credit losses, will be retained by RTO West as a "Credit Insurance Risk Charge" and will be deposited in a "Credit Insurance Pool" dedicated to cover SC credit defaults. Such amounts may be used only for the Credit Insurance Pool, and may not be used for any other purpose or to pay other RTO West expenses. When the Credit Insurance Pool exceeds the amount necessary to pay for SC credit defaults, the RTO West Board of Directors may 1) adjust the charge for exceeding the Approved Use Limit and/or the Credit Charge accordingly; 2) use the monies collected for exceeding the Approved Use Limit and/or the credit charge to provide refunds to SCs who use the Imbalance Energy market within the Approved Use Limit; or 3) some combination of 1 and 2.