

## Comments of Powerex Corp. on CAISO Final Policy Initiatives Roadmap and Annual Plan

Submitted by	Company	Date Submitted
Mike Benn 604.891.6074	Powerex Corp.	December 7, 2020

Powerex appreciates the opportunity to submit comments on the 2021 Final Policy Initiatives Roadmap and Annual Plan (“Roadmap”) setting out and prioritizing the policy initiatives that it plans to undertake over the next three years. In the following sections, Powerex offers the following comments and recommendations respecting the 2021 Roadmap:

1. Powerex strongly supports CAISO’s decision to prioritize its efforts to redesign the resource adequacy (“RA”) framework. The reliability issues experienced during the heat wave this summer have made clear that immediate steps should be taken to modify the RA framework to ensure that CAISO has access to the capacity necessary to substantively mitigate the potential for similar reliability issues to occur during the upcoming summer.
2. CAISO should prioritize efforts to implement a robust, graduated shortage pricing mechanism in advance of summer 2021. Implementation of an effective graduated shortage pricing mechanism could play an important role in mitigating the supply challenges facing the CAISO.
3. Powerex supports CAISO’s decision to delay moving forward with the implementation of a system market power mitigation framework. Powerex believes that further consideration of this topic should be included as part of a broader stakeholder initiative focused on a holistic evaluation of price formation in the CAISO markets.
4. CAISO should immediately commence an initiative to redesign the EIM resource sufficiency framework with implementation of a new design in place prior to summer 2021.
5. Finally, CAISO should commence a stakeholder initiative in advance of summer 2021 to examine the potential for a new bid-cost recovery mechanism for importers that are supplying energy during defined critical conditions (e.g., when Flex Alerts are issued).

### **I. Powerex Supports Prioritization of Resource Adequacy Initiatives**

Powerex strongly supports CAISO’s decision to prioritize a comprehensive redesign of the RA framework. It is critical that the RA program be designed in a manner that ensures that sufficient capacity is committed on a forward basis to allow CAISO to reliably operate its system and respond to the needs of a rapidly changing grid. Powerex appreciates CAISO’s recognition of the urgent need to comprehensively redesign the RA program to ensure that it aligns with CAISO’s

operational needs, including the growing need for capacity to cover net demand during the critical hours after peak load. As the CAISO's Preliminary Root Cause analysis acknowledges, the events of this past summer demonstrate that the existing RA framework, including the use of a 15% planning reserve margin ("PRM"), is failing to meet its objective of ensuring that CAISO has the capacity necessary to reliably operate its system.<sup>1</sup>

As the CAISO has acknowledged, immediate steps must be taken, including increasing the PRM to 20% for peak months in 2021, to avoid repeating the events of this past summer. Although certain elements of the RA framework cannot be changed without the approval of the California Public Utilities Commission ("CPUC"), CAISO has an independent responsibility as the market operator to modify the RA framework set out in the CAISO Tariff as necessary to secure the reliability of the CAISO grid. The proposals that CAISO currently is evaluating through the RA Enhancements initiative—such as the use of an unforced capacity measure to properly reflect forced outages and more stringent requirements to ensure import RA is backed by the forward commitment of real physical capacity and firm transmission—would help achieve this objective by addressing known gaps in the RA program that allow suppliers to sell RA in excess of the quantity of capacity that they can be counted upon to provide. Powerex encourages CAISO to continue to move forward with its efforts to redesign the RA framework to ensure that CAISO has access to the capacity necessary to reliably operate the grid.

## **II. CAISO Should Prioritize Implementation Of Graduated Scarcity Pricing In Advance Of Summer 2021**

Powerex supports CAISO's decision to add a scarcity pricing initiative to the Roadmap. Powerex believes that the events of the past summer have highlighted an urgent need to move forward with an initiative focused on implementation of a robust graduated scarcity pricing mechanism. While California historically has been able to rely on short-term imports of energy from non-RA resources to address the deficiencies in the RA framework and maintain reliability, the excess capacity available throughout the west "has steadily dried up."<sup>2</sup> The tightening conditions throughout the west have made it crucial that CAISO have a robust graduated scarcity pricing framework in place capable of sending the price signals necessary to encourage resources to make their supply available to California during critical periods.

Powerex believes that prompt implementation of an effective scarcity pricing mechanism is a step that CAISO can take now to help ensure that it has access to the resources necessary to reliably operate its system. Powerex encourages CAISO to accelerate the proposed timeline for its upcoming scarcity pricing initiative with the goal of developing a scarcity pricing framework that can be implemented in advance of summer 2021.

---

<sup>1</sup> Cal. Indep. Sys. Operator Corp., et al., Preliminary Root Cause Analysis: Mid-August 2020 Heat Storm at 46, 77 (Oct. 6, 2020) ("Root Cause Analysis"), available at <http://www.caiso.com/Documents/Preliminary-Root-Cause-Analysis-Rotating-Outages-August-2020.pdf>.

<sup>2</sup> Cal. Indep. Sys. Operator Corp., Resource Adequacy Enhancements: Supplemental Report – Preliminary Portfolio Assessment, Supplement to the Fifth Revised Straw Proposal (Nov. 6, 2020).

### III. Further Consideration Of System Market Power Mitigation Should Be Delayed To A Broader Inquiry Respecting Price Formation

Powerex supports CAISO's recent decision to delay further consideration of its current system market power mitigation proposal. Unlike scarcity pricing, there continues to be no evidence that there is an urgent need to move forward with implementation of measures to mitigate system-level market power in the CAISO balancing authority area ("BAA"). Notably, none of the recent analyses that have been conducted of the heat wave events during this summer have found any evidence of the exercise of system market power in the CAISO BAA.<sup>3</sup>

To be clear, Powerex believes that it is critically important that the CAISO market be designed in a manner that results in competitive and efficient short-term price signals, including ensuring that prices are not raised above competitive levels through the exercise of seller market power. But achieving accurate pricing is about more than protecting against the exercise of seller market power. Ultimately, "getting prices right" means ensuring that price signals accurately reflect system conditions, and that prices result in compensation that is consistent with the value that resources provide to the grid.

It is important to recognize that while significant time and effort has been spent pursuing the design of a system market power mitigation framework, other vital price formation issues have gone largely unaddressed. For example, CAISO is in the unique position of being the only ISO/RTO in the United States that has not adopted, and is not planning to adopt, fast-start pricing measures to properly reflect the cost of gas peakers in market prices. A lack of fast-start pricing inevitably results in preferential treatment for emitting thermal resources (through the use of out-of-market side payments to thermal resources) while failing to provide accurate price signals to attract other resources (including clean resources) to make themselves available to the CAISO BAA during morning and evening peak hours.

Proactively engaging in such price formation topics—rather than waiting to react until the distortions become too severe to ignore—has the potential to significantly enhance the accuracy and efficiency of pricing in the CAISO markets. For these reasons, after completing its accelerated effort to adopt scarcity pricing, Powerex believes that CAISO should commence a stakeholder initiative that holistically evaluates price formation in the CAISO markets. As part of that initiative, CAISO could further consider whether to move forward with efforts to design an effective system market power mitigation framework and, if so, how this framework can be designed in a manner that does not create new inefficiencies and price distortions. In addition to evaluating new seller market power mitigation measures, Powerex believes CAISO should also evaluate under-scheduling of load in the day-ahead market and explore whether new measures are needed to protect against buyer market power.

---

<sup>3</sup> See *generally* Root Cause Analysis; Cal. Indep. Sys. Operator Corp., Dept. of Market Monitoring, Report on System and Market Conditions, Issues and Performance: August and September 2020 (Nov. 24, 2020), available at <http://www.caiso.com/Documents/ReportonMarketConditionsIssuesandPerformanceAugustandSeptember2020-Nov242020.pdf>.

#### **IV. CAISO Should Commence An Initiative To Reform The EIM Resource Sufficiency Test**

One of the foundational principles of the EIM is that entities participating in the market should not be allowed to “lean” on resources in the EIM to meet their capacity and flexibility needs. The EIM resource sufficiency framework is intended to achieve this objective by requiring each entity to demonstrate that it is “resource sufficient” in order to access energy imports through the EIM.

Powerex believes that the events of this summer have removed any doubt that the existing EIM resource sufficiency framework is fatally flawed and must be redesigned. In particular, the CAISO’s Preliminary Root Cause analysis demonstrates that the existing resource sufficiency mechanism allowed the CAISO BAA to import up to approximately 2000 MW through the EIM during periods when the CAISO BAA was in declared emergency conditions, including up to 1500 MW in the specific hours when CAISO was shedding load to address capacity shortages—periods during which it cannot credibly be argued that the CAISO BAA was resource sufficient.<sup>4</sup>

To be clear, Powerex recognizes that the CAISO had few alternatives but to *rely on and use* imports through the EIM to attempt to address the supply gaps that were experienced during critical hours this summer. Powerex also recognizes that the CAISO was not the only BAA in the EIM facing challenging system conditions during the heat wave period. Initial data suggests, however, that the current design of the EIM resource sufficiency test provided the CAISO BAA with a unique ability to rely on EIM imports to address capacity shortfalls in its BAA during critical hours, including receiving EIM imports from other BAAs that were also facing reliability challenges. It is also notable that several of these same BAAs (that were supplying energy to the CAISO BAA through the EIM) were bearing significant costs associated with the bilateral procurement of sufficient supply in the forward, day-ahead and real-time markets to ensure their own reliability and to meet their own EIM resource sufficiency requirements.

It is clear that these outcomes are not consistent with the principle of no leaning, and that the structure of the resource sufficiency test — and the consequences of failure — must be carefully reconsidered. Powerex therefore believes that it is critical that the CAISO establish a proceeding focused on a wholesale redesign of the EIM resource sufficiency tests to ensure that they are capable of achieving the objective of preventing leaning by any BAA. While the topic of resource sufficiency is currently being evaluated by CAISO and stakeholders in connection with CAISO’s Extended Day-Ahead Market (“EDAM”) Initiative, Powerex believes that addressing the existing EIM resource sufficiency framework should be made an immediate priority and that a redesigned framework must be in place prior to summer 2021.

#### **V. CAISO Should Consider Hourly Bid Cost Recovery for Imports During Critical Conditions**

Powerex believes that the CAISO’s current approach of settling hourly HASP imports at the FMM price (without respecting the seller’s offer price) could result in a disincentive for external entities to make sales to the CAISO BAA in real-time when supply is most needed. This is a particular

---

<sup>4</sup> Root Cause Analysis at 107-108.

risk during tight conditions when CAISO is seeking to compete for limited external supply. These conditions could lead external sellers to prefer other market opportunities to avoid the risks associated with increased price volatility and uncertainty in the CAISO markets. Powerex believes that this issue warrants CAISO commencing an accelerated stakeholder initiative in advance of summer 2021 to examine the potential for a new bid-cost recovery mechanism for importers that are supplying energy during defined critical conditions (e.g., when Flex Alerts are issued).