

**Comments of Powerex Corp. on
Market Enhancements for Summer Readiness Initiative
Scope/Schedule**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s January 6, 2021 workshop respecting market enhancements for summer 2021 readiness. At the January 6, 2021 workshop, CAISO explained that it has elected to reprioritize its stakeholder efforts to focus on measures that can be implemented by June 2021 to allow CAISO to more effectively manage its system. Among other things, CAISO explains that it is proposing to pursue the implementation of short-term scarcity pricing enhancements, modification of the EIM resource sufficiency (“RS”) framework, and implementation of other changes that can be vetted through the stakeholder process and implemented in advance of the upcoming summer.

Powerex strongly supports CAISO’s decision to reallocate its resources to pursuing measures that can be implemented in the short-term to ensure that CAISO is able to reliably operate its system. While meeting the long-term challenges facing the CAISO will require more fundamental changes to CAISO’s market design and resource adequacy (“RA”) framework, Powerex agrees that there are steps that can be taken in the short-term to help mitigate these challenges and reduce reliability risks in the upcoming summer. Powerex therefore supports identifying immediate measures that can help ensure that the CAISO has the resources necessary to maintain the reliability of the grid and avoid a repeat of the events of this past summer.

Powerex offers two specific comments regarding the scope of this Summer Readiness Initiative, discussed more fully below.

I. The Scope Of This Proceeding Should Include Measures To Improve CAISO Situational Awareness Regarding RA Import Arrangements

One of the key findings of the three-agency analysis of the summer 2020 events is that service to CAISO load was not fully supported by physical supply committed under California’s RA program. A key concern and focus of the CAISO’s RA Enhancements initiative has been RA Imports that represent paper capacity—that is, import RA arrangements that are not supported by identifiable physical resources committed to be available and deliverable to serve CAISO load.

The events of this summer seem to indicate that there continue to be certain marketers entering into a significant quantity of import RA and other forward arrangements that exceed the quantity of supply they have secured in advance to meet their forward obligations. As explained in more detail in the CAISO’s RA Enhancements initiative, Powerex’s review of public data indicates the

potential that certain marketers appear to have “double-sold” their resources on a forward basis, resulting in LSEs in both the CAISO BAA and in the Southwest depending on the same supply to satisfy their reliability needs. Powerex believes these double-commitments ultimately led to marketers attempting to schedule imports to the CAISO BAA (to theoretically satisfy their forward energy or RA commitments), while simultaneously scheduling offsetting exports from the CAISO BAA to serve forward commitments in the Southwest. Marketers employing such strategies are simply reaping profits from LSEs in both California and the Southwest, without actually dedicating real physical resources to support the reliability needs of either region.

Powerex recognizes and supports the CAISO’s extensive efforts in the RA Enhancements stakeholder process to address paper capacity in all of its current and future incarnations. The proposed measures that have been identified are robust, and will be a major step forward in ensuring the effectiveness of California’s RA program. But these measures will not be in place for summer 2021, meaning that paper capacity will continue to pose a material reliability risk for the CAISO BAA this year.

Powerex proposes that CAISO explore, as part of the Summer Readiness Initiative, near-term steps to ensure that CAISO has visibility into the supply arrangements underlying import RA contracts. This enhanced visibility can better inform the CAISO about what additional steps may be necessary to ensure it has adequate resources in place to maintain reliability in the critical summer periods. Powerex recommends that CAISO adopt the following measures to better evaluate the risk that the supply associated with import RA contracts will fail to materialize when needed by the CAISO:

1. As part of the monthly showing process for the upcoming summer (*i.e.*, June-September), the CAISO should require each California LSE to request an attestation from each import RA supplier that:
 - Identifies the physical resource(s) owned or under contract to the supplier that will be used to support deliveries to the CAISO BAA; and
 - Attests that the identified resource(s) is reasonably expected to be surplus to the needs of the host BAA, and has not been committed to meet the reliability needs of any other BAA.
2. CAISO should require each import RA resource to submit an e-Tag for each hour by no later than noon in the day-ahead timeframe (*i.e.*, prior to when CAISO publishes the results of its day-ahead market run). As a result, the e-Tag will necessarily include a transmission profile and energy profile equal to the full RA obligation and an energy profile of zero. To the extent that the supplier receives a day-ahead market award for less than the full RA obligation, the energy profile would be adjusted to match the award after communication of the day-ahead market results.

Each of these measures will provide the CAISO with critical insight into the quantity of import RA that can be counted upon to actually be available and deliver when called upon by the CAISO. The first measure will provide CAISO with visibility immediately prior to the summer, whereas the

second measure will provide CAISO with visibility on a day-ahead basis. CAISO could then use this information to inform whether additional action is needed to ensure that CAISO has the capacity needed to reliably operate its system. In addition, these measures would improve incentives for import RA sellers—and the California LSEs that contract with them—to take steps to ensure import RA contracts are able to perform.

II. Near-Term Enhancements To The EIM RS Framework Should Be Pursued As The First Part Of A Comprehensive Stand-alone Initiative On This Issue.

Ensuring the EIM RS test is accurate, workable, and has robust consequences is vital to providing the confidence necessary for EIM entities to continue to participate in the EIM even during tight regional grid conditions. This requires confidence that the EIM will not serve to propagate resource challenges in one BAA to others, and that it will not be used as an opportunity for a BAA experiencing capacity or flexibility shortfalls to use the EIM as a mechanism to address those shortfalls by leaning on other BAAs.

Numerous EIM entities have expressed a range of concerns over the past two years that the existing EIM RS evaluation fails to accurately detect capacity shortfalls—*particularly in the CAISO BAA*—and fails to prevent capacity leaning even in the instances when such a shortfall is identified. The summer 2020 events demonstrate that the CAISO BAA was able to import thousands of MWs through the EIM during periods when the CAISO was experiencing emergency conditions and clearly was *not* resource sufficient from a capacity perspective. In effect, large and sustained capacity leaning on the EIM was used to fill the gaps in the California RA framework.

Powerex supports CAISO's decision to move forward on an accelerated basis to identify near-term enhancements to the RS framework. As Powerex provided in its recent presentation at the January 13th workshop, Powerex believes these immediate enhancements should include:

- (a) implementing an accurate capacity test that evaluates whether each EIM Entity BAA (including the CAISO BAA) has sufficient, real physical capacity to meet its own BAA obligations;
- (b) consideration of new financial consequences (instead of transfer limits) for deficient BAAs that receive EIM imports; and
- (c) improved oversight and reporting to the EIM Governing Body to ensure the RS test is accurate and being applied equitably to all BAAs.

Powerex believes stakeholders should focus on these key improvements in advance of summer 2021. However, ensuring the EIM RS evaluation fully achieves the objectives of supporting reliability while preventing leaning on capacity or flexibility will require more than the necessarily limited set of enhancements that can be implemented in a compressed timeframe. For this reason, Powerex urges the CAISO to initiate a dedicated stakeholder process on EIM RS enhancements that will include, but also go beyond, the enhancements for summer 2021.