

**Comments of Powerex Corp. on
Market Enhancements for Summer 2021 Readiness
Final Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s March 19, 2021 Market Enhancements for Summer 2021 Readiness Final Proposal and associated draft tariff language (“Final Proposal”). These comments focus specifically on the policy proposal regarding changes to the relative priority of imports and wheel-through schedules.

The proposed changes to import and wheel-through scheduling priorities are part of a broader set of interim measures arising from the reliability challenges experienced last summer. During that period, both the CAISO balancing authority area (“BAA”) and several Southwest BAAs relied upon the CAISO transmission grid to deliver energy purchased from Northwest suppliers in order to maintain reliability. Even with the key paths such to COB and NOB scheduled up to their full capability, the total quantity of Northwest supply that could be delivered to BAAs in California and the Southwest was less than the aggregate needed to maintain reliability in those BAAs. Under such conditions—which are likely to be experienced more frequently going forward—***the CAISO’s decisions regarding which schedules flow and which schedules are curtailed effectively determine which BAAs will be able to serve firm load, and which BAAs will experience reliability emergencies***, up to and including shedding firm load.

Powerex appreciates and agrees with the CAISO’s stated objective of providing for fair and equitable treatment of different transmission customers seeking to use the CAISO-controlled grid. Such equitable and non-discriminatory treatment is also a foundational principle of FERC’s open access policies. The Final Proposal, however, falls short of this objective. During the tight regional grid conditions that prompted this initiative, the Final Proposal would elevate the reliability interests of the CAISO BAA above the reliability interests of BAAs located outside the CAISO. More specifically:

- The Final Proposal would broadly prioritize imports over all but a very limited set of wheel-through self-schedules in the day-ahead integrated forward market (“IFM”).
- Even those wheel-through schedules that do receive a day-ahead IFM award—including those that meet the requirements for priority status—will remain subject to curtailment to “make room” for the CAISO to subsequently schedule imports that *did not* clear the IFM because:
 - The import was ***not economic in the IFM***;
 - The import was ***not offered in the IFM***; or

- Internal demand was ***under-scheduled in the IFM*** by load-serving entities (“LSEs”) responsible for serving demand in the CAISO BAA.
- While Powerex appreciates the CAISO’s efforts to recognize that loads in external BAAs may rely on wheeling-through the CAISO BAA in order to maintain reliability by creating a category of Priority Wheeling Through Self-Schedules (“PT Wheel”), the requirements that must be met in order to qualify as a PT Wheel are highly restrictive, while CAISO imports that receive this same priority are not held to these same requirements. As a result, PT Wheel priority would be both narrowly applied and highly diluted, as the schedules that are able to meet the criteria for PT status would be subject to curtailment on a *pro rata* basis with an overly-broad set of imports serving load in the CAISO BAA.
- Finally, the draft tariff language does not appear to contain any provisions to ensure that the proposed measures, if approved by FERC, do not apply beyond 2021. As drafted, the proposed scheduling priorities would remain in place until and unless the CAISO develops, files and implements a new set of procedures, the timing of which cannot be known with any confidence.

For these reasons, Powerex opposes the Final Proposal.

Powerex believes that an interim framework can still be implemented in time for this summer that provides physical scheduling priority for deliveries of supply needed to maintain reliability. But such a framework must be based on objective criteria that are applied equitably and consistently between deliveries to the CAISO BAA and deliveries to BAAs outside the CAISO.

I. “PT Wheel” Designation Is Discriminatory And Does Not Remedy The Problems With The Final Proposal

The Final Proposal defines a new sub-category of wheel-through schedule, termed a Priority Wheeling Through Self-Schedule, and referred to as a “PT Wheel” in the discussion. All other wheel-through schedules, by default, become “LPT Wheels”.¹

Powerex understands that the CAISO’s goal of the new PT Wheel category, and the requirements to qualify for it, is to provide a degree of comparability between arrangements used by external BAAs to ensure reliability, and the imports used by the CAISO BAA to ensure reliability. The Final Proposal describes PT Wheels as receiving equal priority to imports serving CAISO BAA load during potential shortage conditions, and points to the use of the same penalty price values as providing this similar treatment. But ***the Final Proposal does not apply comparable requirements for schedules that receive comparable priority.***

The table below summarizes the requirements in the Final Proposal for a PT Wheel, and notes whether a similar requirement applies to imports that receive the same priority.

¹ The Final Proposal does not include a new definition for “LPT Wheel,” but this term has been used for discussion purposes to refer to wheel-through schedules that are not “PT Wheels.” The “LPT” designation also refers to the designation of lower-priority export schedules.

Requirement	Required for PT Wheel?	Required for RA Import?	Required for DA Non-RA Import?
Contract executed prior to April 23	Yes	No	No
Must be “firm power”	Yes	No	No
Hourly MW Communicated To CAISO 45 Days Prior to Month	Yes	Yes	No
Firm Transmission to CAISO Boundary	Yes	No	No
Identify Generation Source	Yes <i>(transmission must be shown from source)</i>	No	No

The most striking consequence of the Final Proposal is that the same priority afforded to imports needed to serve CAISO BAA load is not afforded to many otherwise comparable wheel-through schedules that serve load outside the CAISO BAA. That is, a day-ahead purchase of Northwest supply self-scheduled into the CAISO BAA would have a high scheduling priority, but an otherwise identical day-ahead purchase of Northwest supply self-scheduled to wheel through the CAISO grid and delivered to a Southwest BAA would have lower scheduling priority. On its face, this fails to provide transmission access on an equitable and non-discriminatory basis.

In addition, it also means that the supply arrangements that *do* qualify for PT Wheel status must share that priority with an over-broad set of imports, effectively stacking the deck against wheel-through schedules when *pro rata* curtailments occur. It could be acceptable, for instance, if PT Wheels were curtailed *pro rata* only with imports of firm supply contracts committed to the CAISO BAA and delivered on Firm transmission to the CAISO boundary. But the Final Proposal would curtail PT Wheels *pro rata* along with a much larger universe of imports. In this manner a PT Wheel to deliver firm forward supply on Firm transmission to a Southwest BAA would be curtailed on an equal basis to a speculative day-ahead import by a marketer that has not yet procured any supply and that is relying on acquiring Non-Firm transmission service to make good on its award.

The Final Proposal’s “PT Wheel” definition results in two otherwise identical delivery schedules receiving different priority solely because one sinks in the CAISO BAA whereas the other sinks in a BAA outside the CAISO. The PT Wheel definition, and the priority attached to it, is not fair and equitable, and is likely to be challenged as unduly discriminatory and inconsistent with FERC open access policy.

II. CAISO Transmission Access In The Context Of Tightening Regional Markets

The Final Proposal represents an important departure from the CAISO’s core market design principles, under which achieving the least-cost dispatch determines access to transmission service over the CAISO-controlled grid. This makes the CAISO market unique in the west; other

transmission service providers largely follow the *pro forma* OATT framework, under which physical transmission scheduling priority is established through service reservations made in advance—sometimes for durations of multiple years. In contrast, all CAISO transmission service is scheduled through its day-ahead and real-time markets based on participants’ bids and offers for energy (and certain ancillary services).² Prior to day-ahead, there are two transmission-related concepts in the CAISO market design:

- **Maximum Import Capability**, which prevents the total quantity of CAISO/CPUC RA Requirements that can be met through import contracts at a given intertie scheduling point from exceeding the anticipated capability of that intertie; and
- **Congestion Revenue Rights**, which are used to determine the distribution of day-ahead market congestion rents, and thus enable holders to manage uncertain congestion charges for anticipated physical deliveries.

Importantly, neither an allocation of MIC nor CRRs give the holder any priority in the submission of physical schedules over the CAISO transmission system. In the operational timeframe, it is the most economic bids and offers that are awarded.

From the perspective of a market design built around achieving short-run, least-cost dispatch, the physical scheduling priority of external transmission system providers has at times been characterized by some CAISO stakeholders as a barrier to efficient dispatch outcomes. Consistent with this view, certain key aspects of the CAISO market design have the effect of minimizing or negating the physical scheduling priority on external transmission systems. In particular, the CAISO has repeatedly refused to require a day-ahead e-Tag for day-ahead market awards, enabling market participants to receive a day-ahead import award and deliver on Non-Firm transmission that they have not yet secured, ultimately stepping ahead of customers that invest in Firm transmission on external systems.

In recent years, as supply conditions across the west have tightened, the CAISO has advocated for—and Powerex has supported—more robust measures to ensure that RA Imports are backed by real physical generation that is surplus to the expected needs of the host BAA, that has not been sold more than once, and that can be delivered to the CAISO grid on reliable transmission service. Such measures would be consistent with steps that many Southwest LSEs have already applied to their own forward procurement efforts in the aftermath of last summer’s reliability challenges. But these measures have been strongly opposed by certain California LSEs and by CPUC staff.

While Powerex is hopeful that California’s RA program will eventually include more robust policies that help ensure reliability, no such measures have been implemented for summer 2021. This means that the upcoming summer will see two distinct types of efforts to procure supply from the Northwest on a **forward basis**:

² This statement refers to “new firm uses” of transmission capability awarded by the CAISO; it does not refer to transmission capability related to existing transmission contracts, transmission ownership rights, or other legacy agreements.

- Southwest LSEs, which have contracted on a forward basis with identified physical resources that are surplus to domestic requirements, have not been committed multiple times, and are expected to be deliverable on Firm OATT transmission and CAISO wheel-through service secured through self-schedules in the CAISO day-ahead market; and
- California LSEs, some of which have forward RA Import contracts that do not identify a physical resource, provide no assurance that the supply is real or that any supply that is real has not been sold multiple times, and/or relies on the future availability of Non-Firm service on external systems for delivery to the CAISO grid.

There will similarly be two distinct types of efforts to procure **short-term energy** from the Northwest:

- Southwest LSEs, which procure day-ahead firm energy, to be delivered on Firm OATT transmission and CAISO wheel-through self-schedules; and
- Imports in the CAISO markets, which do not require any particular level of transmission service on external systems, do not require the supply offered to represent supply that has already been secured, and instead relies merely on financial incentives to encourage performance (rather than requiring delivery except under defined *force majeure* conditions).

Powerex recognizes that California's RA program and the CAISO's general market design are well beyond the scope of the current initiative. Yet this context is relevant and important to understanding the ramifications of the Final Proposal. In particular, there are likely to be circumstances during high demand days in the summer under which the curtailment or denial of wheel-through transmission service to Southwest BAAs increases the supply that can be delivered to serve load in the CAISO BAA. This can occur in at least two ways:

- A California LSE has contracted for RA Imports with a marketer that did not secure physical supply in advance, and relies on short-term purchases to perform on its delivery obligations. When Northwest supply that was committed under forward contracts with Southwest LSEs is prevented by the CAISO from being delivered (*i.e.*, when CAISO wheel-through schedules are curtailed), the supply is effectively "stranded," increasing the supply that can be purchased by the marketer to perform on its RA obligation to the California LSE, and/or increasing the supply that can be sold to the CAISO in the day-ahead and real-time markets.
- A California LSE has contracted for RA Imports with a marketer that relies on the future procurement of Non-Firm transmission service on external systems to deliver Northwest supply to the CAISO boundary. When Northwest supply committed under forward contracts with Southwest LSEs and supported by Firm transmission reservations on external systems is prevented by the CAISO from being delivered, those Firm reservations may go "unused," increasing the availability of Non-Firm service released close to real-time for the marketer to then procure.

This context makes it critical that the CAISO's decisions as a transmission service provider regarding physical schedules on its system be made in an objective, non-discriminatory basis consistent with open access principles. It would be highly inequitable, and detrimental to

reliability, for any transmission provider to use—or to appear to use—the acceptance or denial of transmission service as a “lever” to give customers in its service territory preferential access to Northwest supply.

III. Elements Of A Potential Workable Interim Solution

Powerex believes that the CAISO must provide equitable and non-discriminatory access to transmission service on the CAISO-controlled grid. The Final Proposal does not meet this requirement, and therefore Powerex opposes it.

Powerex supports the CAISO initiating a stakeholder process to explore developing a framework to provide physical scheduling priority on its grid on a forward basis. This would allow LSEs located in the CAISO BAA and in other BAAs to procure forward transmission service on the CAISO grid consistent with their forward supply procurement activity, and thus ensure reliable service to their customers. Such a stakeholder process would need to develop an appropriate open access framework for interested customers to compete to acquire priority scheduling rights, an appropriate rate structure for those rights, and a process to reflect that priority in the operational timeframe in CAISO’s day-ahead and real-time markets. The success of a new CAISO forward transmission access framework will also require coordination and collaboration with other regional transmission service providers, as all deliveries require transmission service from source to sink, which frequently spans multiple transmission systems.

While developing an open access framework for forward CAISO transmission access holds significant promise for customers in the CAISO BAA and in external BAAs, this is clearly a longer-term undertaking. Nevertheless, some of the key concepts of a long-term open access framework may inform a workable interim solution that could be in place for this summer season.

More specifically, the CAISO could develop an interim process to provide priority for contractual arrangements relied upon to maintain reliability. This builds upon the Final Proposal’s concept of giving higher priority to certain qualifying contracts serving load in external BAAs. Critically, however, this process would also need to be applied in granting priority to imports serving load in the CAISO BAA. Effectively, a workable interim approach might use a clearly defined and equitable demonstration process in place of more conventional processes for transmission customers to compete to acquire priority scheduling rights (*e.g.*, first-come-first-served, competition based on duration of service, or competition based on price).

Consistent application of objective criteria will be paramount to fashioning a workable interim solution for this summer. For instance, if RA Imports shown 45 days prior to each month are to be afforded priority, then forward contracts serving load in external BAAs must not be required to be executed or shown further in advance. Similarly, if priority is provided to RA Import contracts that do not identify a physical resource, or do not require delivery to the CAISO boundary on a certain quality of transmission service, then such requirements should not be applied to contracts serving load in external BAAs seeking priority wheel-through access.

Additional ideas that could be considered include providing multiple “tiers” of priority. The highest priority could continue to be for forward contracts of a month or longer in duration, similar to the

Final Proposal's concept and aligned with the month-ahead showing under California's RA program. There may also be value to defining an intermediate priority for firm energy purchases of less than one month and up to day-ahead. Such purchases are used by some Southwest BAAs to maintain reliability, and are also used by some California LSEs to provide substitute capacity under the RA program. The lowest priority could continue to be for as-available or economic opportunity transactions optimized through the current real-time market processes.

The CAISO will also need to consider how these priority tiers, once assigned, will be reflected in the operation of the day-ahead and real-time markets. Powerex agrees that penalty prices alone are unlikely to achieve equitable results in all cases. A workable interim approach may consist of:

- Scheduling coordinators that wish to exercise their priority scheduling rights must do so through a day-ahead self-schedule³; and
- If the sum of self-schedules across a given intertie scheduling point exceeds the CAISO's available transmission capability at that intertie, then the CAISO will curtail (or not accept) self-schedules in order of the pre-assigned scheduling priority, with all self-schedules (import and wheel-through) of the same priority being curtailed on a *pro rata* basis according to their submitted self-scheduled quantity.

Finally, it must be recognized that any such process would represent creating and enforcing physical scheduling priority across the CAISO grid, just as external transmission service providers create and enforce scheduling priority across their systems. The need to secure source-to-sink transmission service across multiple systems has long been recognized as giving rise to potential "seams issues." Changes in the timing and/or rules of one transmission service provider can have the effect of making priority on its own system the critical "choke point" along the delivery path, and making priority on other transmission systems less important or valuable.

Transmission service providers in the west have recognized the harm—and ultimate futility—of engaging in tit-for-tat changes to transmission scheduling rules, and the west, outside of the CAISO BAA, has largely adopted consistent (though not identical) timelines and practices. Among these standard practices is the requirement for day-ahead schedules to be e-tagged on a day-ahead basis. This affords transmission customers that have invested in Firm service an opportunity to schedule on their reservations prior to the transmission provider releasing unused Firm reservations as additional Non-Firm service.

As discussed in Section II, historically the CAISO has not required day-ahead market awards to be e-Tagged on a day-ahead basis, consistent with the view that transmission access in the CAISO markets would strictly reflect short-term economic dispatch of available sources of supply. Now, as the CAISO considers creating an interim framework of transmission access priority that

³ It is unclear whether it would be feasible to incorporate the pre-assigned scheduling priority into the CAISO's clearing of economic bids and offers. Given that RA Imports are required to either self-schedule or offer at a price at or below \$0/MWh during Availability Assessment Hours, the CAISO might explore whether the above approach would be workable if economic offers at or below \$0/MWh are treated as self-schedules.

is *not* based on short-term economic dispatch but on the pre-assignment of physical scheduling priority, there appears to be no justification for maintaining an e-Tagging deadline that directly undermines the physical scheduling priority of external transmission providers. An interim approach that assigns physical scheduling priority on the CAISO grid must therefore require self-schedules seeking to exercise that priority to submit an e-Tag on a day-ahead basis. Perhaps most importantly for the upcoming summer season, a day-ahead e-Tag requirement for higher priority import and wheel-through schedules would mitigate the risk of real physical supply being *pro rata* displaced by IFM import awards that do not represent real physical supply from an identified source together with the external transmission service necessary to enable delivery.