

Comments of Powerex Corp. on Revised 2022 Policy Initiatives Catalog

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit these comments on CAISO’s Revised 2022 Policy Initiatives Catalog (“Revised Catalog”). In the Revised Catalog, CAISO outlines which stakeholder initiatives CAISO plans to pursue in the coming years.

Powerex believes it is critically important that CAISO devote its resources to those initiatives that have the potential to address the most pressing challenge facing the CAISO: ensuring that CAISO has sufficient available capacity and flexibility to maintain system reliability. Just over a year ago, in August 2020, the CAISO grid experienced one of the most significant reliability events in decades, with the CAISO forced to institute rotating electricity outages in the face of extreme heat and supply shortages. While CAISO was able to avoid repeating these events this past summer, this reflected a combination of milder than anticipated weather and the availability of sufficient short-term supply (including imports received through the Western Energy Imbalance Market (“EIM”)) to address supply gaps within California. In order to avoid repeating the events of August 2020 in the coming months and years, the CAISO must move forward with efforts to close the gaps in its existing market design and forward procurement framework that have resulted in the CAISO being systematically short of the capacity and flexibility necessary to address system needs.

This is not simply a matter of preserving the reliability of the CAISO grid. To the contrary, the failure to address these supply shortages has resulted in a situation where CAISO has no choice but to systematically lean on imports through the EIM to address supply deficiencies in the CAISO balancing authority area (“BAA”). Not only is this inconsistent with the design of the EIM and highly inequitable, but it has contributed to reliability challenges and price spikes throughout the EIM area footprint. Addressing these supply gaps and following through on CAISO’s commitment to address flaws in the existing Resource Sufficiency Evaluation (“RSE”) that have permitted such leaning to occur is essential to providing stakeholders with more confidence in the CAISO’s ability to achieve outcomes consistent with the principle of “no leaning” in the context of the Extended Day-Ahead Market.

To achieve these objectives, Powerex believes that CAISO’s roadmap should place the highest priority on the following four topics.

1. RA Enhancements

CAISO should continue to pursue reforms to the resource adequacy (“RA”) framework to require California load-serving entities (“LSE”) to commit sufficient real physical supply on a forward basis to meet CAISO’s operational needs. The existing RA framework includes well-documented gaps that not only result in too little capacity being procured, but that allow RA requirements to be met with contracts that are not backed by physical capacity that can be counted upon to deliver or perform when needed.

In earlier versions of the catalog, CAISO had indicated that it planned to move forward with efforts to reform the rules governing import RA as part of Phase 2 of the RA Enhancements. In the Revised Catalog, however, CAISO has dropped import RA rules from the scope of Phase 2. Powerex believes that there is no justification for further delaying efforts to implement the common sense measures necessary to ensure that all import RA contracts are backed by real physical supply and high priority transmission that can be counted upon by the CAISO to meet reliability needs.

2. Expanded Backstop Authority

With the prospect that existing supply deficiencies may persist for Summer 2022 and beyond, CAISO should expand its backstop procurement authority to allow it to take meaningful action to secure the necessary capacity to maintain system reliability. CAISO’s existing backstop procurement authority applies only under a narrow set of conditions. Moreover, CAISO’s procurement of capacity generally occurs on a month-ahead basis, which severely limits the CAISO’s ability to compete with external LSEs to obtain forward commitments of the supply necessary to compensate for supply deficiencies within California. CAISO should commence an initiative focused on modifying its backstop procurement framework to ensure that CAISO is able to effectively compensate for the inadequacies of the RA program, including effectively competing with external LSEs to obtain forward commitments of the limited excess supply that continues to exist in western markets.

3. Price Formation

Powerex believes that CAISO should prioritize its Price Formation initiative to address key price formation topics that are contributing to the supply challenges facing the CAISO. Notably, CAISO remains the only ISO/RTO in the country that has not adopted (or committed to adopt) fast-start pricing measures capable of providing the price signals necessary to encourage resources to make themselves available to the CAISO BAA during morning and evening peak hours when flexibility is most needed. In addition, CAISO has not yet moved forward with efforts to adopt a robust shortage pricing framework, including graduated penalty prices, that would ensure that scarcity is appropriately reflected in prices in order to create incentives for the deployment and development of resources capable of meeting system needs. Powerex believes that

addressing these price formation issues by aligning the CAISO market design with FERC policy and industry best practices would represent a significant step forward towards addressing the supply challenges plaguing the CAISO markets.

4. EIM Resource Sufficiency

Powerex believes that CAISO must move forward with efforts to fix the deficiencies in the existing EIM resource sufficiency framework that have allowed the CAISO BAA to systematically lean on the capacity and flexibility investments of other EIM Entities. While Powerex appreciates the transparency that CAISO and the CAISO Department of Market Monitoring have provided into these issues through the ongoing EIM resource sufficiency stakeholder process, the measures that CAISO is pursuing through that initiative fall short of the objective of producing a RSE that is accurate and effectively prevents capacity and flexibility leaning. Powerex believes that the comments that have been submitted by Powerex and other EIM Entities in the course of that initiative demonstrate that there is a strong consensus with moving forward quickly with the more comprehensive changes that are necessary to prevent capacity and flexibility leaning in the EIM.