

Comments of Powerex Corp. on Draft Final 2022 Policy Initiatives Catalog

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit these comments on CAISO’s Draft Final 2022 Policy Initiatives Catalog. Powerex urges CAISO to prioritize those initiatives that have the potential to ensure that CAISO has sufficient available capacity and flexibility to maintain reliability in the CAISO balancing authority area (“BAA”), including:

1. **Continuing to pursue fundamental reforms to the California Resource Adequacy (“RA”) framework** to ensure California load-serving entities (“LSE”) commit sufficient dependable supply on a forward basis to meet CAISO’s operational needs, which includes ensuring that all import RA contracts are backed by real physical supply and are deliverable to the CAISO boundary on high priority external transmission service.

2. **Pursuing an expanded backstop procurement framework** to enable the CAISO to address capacity shortfalls arising from material gaps in the California RA program *prior to* the operation of the day-ahead and real-time market. To be effective, CAISO procurement authority should enable it to compete with external LSEs to obtain forward commitments of the limited surplus supply that remains in western markets.

3. **Implementing key price formation improvements**, including implementing fast-start pricing and graduated scarcity pricing, consistent with other organized markets and FERC policy. These improvements are necessary so that market prices provide the correct incentives for market participants to invest in the types of resources the CAISO requires to reliably operate the grid and to make themselves available to the CAISO BAA when and where they are most needed. Such improvements are also necessary to ensure efficient, reliable and equitable market outcomes and to support the continued decarbonization of the western grid.

4. **Committing to an immediate “Phase 1 B” of the EIM resource sufficiency stakeholder process** to implement additional improvements that are necessary to prevent the ongoing capacity and flexibility leaning in the EIM by the CAISO

BAA on the rest of the west, particularly in capacity critical hours in the summer season.

Achieving A Workable EDAM Proposal Requires Additional Steps

Powerex believes that substantive progress in each of the above areas is not only necessary to improving the reliability challenges facing the CAISO BAA and to achieve efficient and equitable market outcomes, it is also a critical prerequisite for the CAISO to be able to develop a workable proposal for EDAM. Powerex believes that the potential for EDAM to represent the most attractive option for a critical mass of potential participants will require the CAISO to address several foundational issues, including:

1. **Governance:** The governance and oversight approach for EDAM has yet to be defined, despite this topic being perhaps the single most important determinant of the viability of EDAM for potential participants. Powerex remains concerned that the CAISO may simply assume that the limited joint authority model adopted for the EIM is a workable starting point for EDAM, and that the specifics of any changes can be worked out at a later time by the Governance Review Committee. Rather than deferring the discussion of this fundamental issue, the CAISO should immediately begin a dialogue with stakeholders to identify an appropriate governance model that has the potential to be acceptable to a broad range of potential EDAM participants.
2. **Resource Sufficiency:** There is unlikely to be broad confidence in CAISO's ability to develop and implement a properly functioning EDAM RSE until the CAISO:
 - a. Fully meets its stated commitment to fix the accuracy of the existing RS test in the EIM, and improve the failure consequences to better prevent leaning; and
 - b. Demonstrates it has the tools—such as expanded backstop authority—to ensure the CAISO BAA is positioned to pass a day-ahead test, particularly during capacity critical hours in the summer season.

Powerex believes broad agreement on key RS principles—including a commitment that the RS framework will be designed to prevent leaning on the EDAM, and that the CAISO will take the steps necessary to secure additional supply prior to EDAM timelines—is needed prior to asking stakeholders to continue to dedicate significant time and effort to the working group process.

3. **Price Formation:** in addition to the economic, reliability and environmental benefits of improved price formation more generally, adopting price formation

practices that are consistent with FERC policy and best practices in other organized markets is critical to providing a starting point for EDAM that:

- a. Can allow prices to accurately reflect the needs of the grid;
- b. Supports the installation and availability of the resources needed to drive economic, reliability and environmental benefits to all consumers on aggregate; and
- c. Provides equitable outcomes for all market participants and provides equitable benefits to consumers in all regions.