Comments of Powerex Corp. on
Western EIM Resource Sufficiency Evaluation Enhancements
Emergency Actions Workshop

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO's March 23, 2022 Western EIM Resource Sufficiency Evaluation Enhancements Emergency Actions Workshop ("Workshop"). The Workshop continued stakeholder exploration of potential mechanisms to enable access to EIM supply by EIM Entities that experience reliability emergencies, but where such access may otherwise be limited due to the entity having failed the Resource Sufficiency Evaluation ("RSE").

A foundational element of the EIM is that all entities will come into the EIM resource sufficient, since the EIM is an ***energy*** imbalance market, and not a ***capacity*** market. That is, the Western EIM was not intended to enable entities to acquire capacity or flexibility they failed to procure ahead of the EIM. Having said that, Powerex supports developing appropriate mechanisms that would enable EIM energy to be transferred to EIM Entities that experience rare, inadvertent reliability challenges, such as those that occurred on July 9, 2021 following the loss of substantial transfer capability on the Pacific AC and Pacific DC Interties due to wildfires.

Emergency actions must be clearly distinguished from resource deficiencies that result from an entity's deliberate choice to under-procure real supply prior to the EIM. As has been discussed previously in multiple forums, the current implementation of the RSE notably lacks effective incentives to deter deliberate leaning on capacity and flexibility. While Powerex recognizes that a future Phase 2 of this stakeholder process will explore ways to more effectively prevent such leaning, it is important that the emergency actions developed in this current phase be carefully crafted to avoid expanding opportunities for deliberate leaning, and to avoid further weakening incentives to secure sufficient resources in advance of the EIM.

Powerex and NV Energy have outlined proposals that seek to achieve these objectives. Both proposals would enable entities that fail the RSE to receive emergency imports through the EIM, and would apply a high penalty price to such imports. Both proposals also include additional provisions intended to prevent reliability challenges from "spreading" across the broader EIM footprint, and to avoid further weakening incentives for entities to come to the EIM resource sufficient. As explained more fully below:

- There appeared to be broad recognition at the Workshop of the need for any emergency imports to be at a high price, but also recognition that even at a price of $2,000/MWh, additional measures are needed to discourage reliance on emergency imports;

- Powerex clarifies and further explains its proposal to employ EIM import constraints and penalty prices to enforce a lower priority for emergency imports; and
- Powerex outlines a set of specific suggestions to strengthen safeguards under NV Energy's Residual Emergency Energy Service ("REES") proposal that, if implemented, would enable Powerex to support the REES as an interim approach this summer.

I. There Is Broad Recognition That A Penalty Price Of $2,000/MWh For Emergency Imports, While Appropriate, Will Not Be Enough To Discourage Deliberate Leaning

There appeared to be wide recognition at the Workshop that any emergency imports should be available at a high penalty price, such as $2,000/MWh. It also appeared to be recognized that even a price of $2,000/MWh will not provide sufficient financial incentive, on its own, for load-serving entities ("LSEs") that currently have capacity deficits to eliminate this deficit by procuring sufficient capacity on a forward basis. This is because an LSE that relies on the ability to lean on the EIM in a small subset of the most challenging hours will incur costs of $2,000/MWh for only a limited number of hours, but it would save the far larger cost of procuring sufficient capacity for an entire season or year.

These financial incentives were acknowledged by CAISO staff at the Workshop, and NV Energy proposed that the price of emergency imports may need to be even higher. These financial incentives have also been recognized in organized markets such as ERCOT that do not have a forward resource adequacy requirement—and hence anticipate that some LSEs may come to the market short capacity—and therefore allow energy prices to rise to as high as $9,000/MWh.

In recognition that, even at a price of $2,000/MWh, there will still be a strong financial incentive for LSEs to seek to rely on imports in the EIM, it is vital that any proposal for emergency assistance contain additional safeguards. These additional safeguards may take the form of restrictions on the frequency, quantity, or circumstances when emergency imports are available. Powerex believes it is also critical for any emergency imports to have a lower priority than serving load in BAAs that are resource sufficient. In this manner, emergency imports would be the first transfers to be reduced in the event that there is insufficient supply in the EIM area as a whole.

This is analogous to the use of priority to protect the integrity of resource adequacy ("RA") programs. Entities that do not participate in an RA program (and that do not contract with resources in the RA footprint on a forward basis) can still purchase energy on a day-ahead or real-time basis and export it from the RA footprint. Critically, however, these economy exports are among the first to be cut in order to protect reliability within the RA footprint.

Powerex believes any EIM emergency transfers should apply the same concept: those entities that do not procure sufficient supply to pass the RSE would be the first to have emergency imports curtailed when there is insufficient supply to reliably serve load of the EIM Entities that do procure sufficient supply to pass the RSE. In this manner, the low priority of emergency transfers not only would discourage deliberate reliance on emergency imports to "backstop" under-procurement of supply, and it also would ensure that no EIM Entity is required to compromise reliability within its BAA in order to provide emergency assistance.

II. Follow-Up Of Workshop Discussion Of Powerex's Proposal

In prior comments, Powerex outlined a proposal for providing EIM Entities that fail the RSE access to available EIM supply. Specifically, an EIM Entity that fails the RSE:

- Would face an EIM net import constraint that is either capped at the previous interval's net EIM transfer (if it fails the flexible ramping test) or reduced to 0 MW (if it fails the capacity test);
- The EIM net import constraint could be relaxed, at a penalty price of $2,000/MWh; and
- The power balance constraint ("PBC") of all BAAs that fail the RSE would have a penalty price that is materially less than the PBC penalty price of all BAAs that pass the RSE, ensuring that EIM Entities that are resource sufficient have higher priority access to supply than those that are not resource sufficient.

Powerex appreciates the discussion of its proposal at the Workshop, and offers additional clarification and explanation below.

An EIM Import Limit Of 0 MW Is Appropriate For Capacity Test Failures; Capping At The Previous Interval's Transfer Is Appropriate For Flexible Ramping Failures

Powerex proposed to set the net EIM import constraint to 0 MW, but clarifies that this would only occur as a result of a failure of the RSE ***capacity test***. Powerex proposes that a failure of the ***flexible ramping test*** would continue to result in EIM net imports being capped at the level of the last interval in which the flexible ramping test was passed. Powerex also wishes to reiterate that it is open to implementing the 0 MW net import limit (for capacity test failures) over the course of multiple intervals, such that the entirety of imports are not reduced in a single interval.

Powerex emphasizes that a 0 MW net import limit is the appropriate outcome for a BAA that does not have sufficient capacity to meet its needs. If a BAA has expected load of 10,000 MW but supply of 9,900 MW, then imports would not economically displace any of the resources within that BAA. The current "capping" implementation does not prevent capacity leaning. Instead, it selectively permits leaning *only by those BAAs that already had imports in prior intervals.* This is neither equitable nor rational.

Powerex disagrees with the characterization that applying a 0 MW net import limit for EIM Entities that fail the capacity test would be a "new" concept. To the contrary, the "no leaning" principle has been an integral feature of the EIM for its entire history. Powerex does not believe that a past failure to properly apply this concept is a compelling reason to continue to do so.

Powerex Supports Further Discussion To Address Interaction Of EIM Net Import Limit And CAISO Market Exports

Powerex agrees with comments at the Workshop that it will be necessary to address the interaction between an EIM net import limit and cleared exports from the CAISO BAA. Powerex supports further dialogue on this topic as soon as possible, and believes it might be resolved by ensuring that cleared economic exports from the CAISO BAA (other than designated PT Exports supported by non-RA capacity) are clearly identified as non-firm. In this manner, any CAISO BAA

capacity deficiency would first be addressed through curtailment of non-priority market exports, and only then through relaxation of the EIM net import limit.

III. NV Energy's REES Proposal As An Interim Measure For Summer 2022

Powerex appreciates the REES proposal developed by NV Energy. Powerex believes the NV Energy proposal shares the same overarching objectives as Powerex's proposal, by reducing financial incentives for deliberate leaning and by limiting the circumstances and amount of emergency imports that could be accessed by EIM Entities that fail the RSE. Powerex is concerned, however, that stronger safeguards are needed to ensure the REES proposal does not have the unintended consequence of reducing incentives for all entities to be resource sufficient, and to ensure reliability is not degraded in the EIM Entities that are resource sufficient.

With the stronger safeguards identified below, Powerex could support the REES proposal as an interim measure for summer 2022:

- **Emergency transfers are only available to EIM Entities experiencing a declared Energy Emergency Alert level 2 or 3 (EEA2 or EEA3).** This applies clear NERC standards known to all BAs, and leverages the prompt and unambiguous communication of EEAs so all EIM Entities are aware that emergency EIM transfers may be requested.
- **Emergency transfers may be requested three days per year, with a process for authorizing additional assistance.** Emergency transfers are intended to assist in responding to inadvertent emergency conditions that are neither foreseeable nor the result of under-procurement of supply. Such conditions should occur only a limited number of times per year, if they occur at all. In contrast, Powerex believes emergency assistance is not intended to be called on day after day during a two-week extreme heat event, for example. Powerex would support emergency transfers being initially available three days per year, complemented by a process overseen by the EIM Governing Body to validate that the assistance was requested for the unforeseen emergency circumstances intended by this mechanism, and to authorize assistance for additional days. Powerex believes this strikes a reasonable balance between providing assistance during unforeseen reliability events while upholding the foundational expectation that all entities will procure sufficient resources ahead of the EIM.
- **Emergency transfers are only supported by supply that EIM Entities voluntarily offer to the EIM.** Powerex believes that resources that are not made available to the EIM, including Available Balance Capacity, should not be depleted in order to support emergency transfers to other BAAs.
- **Emergency assistance would enable a material but defined quantity (*e.g.,* 500 MW)** of EIM imports by entities that are otherwise restricted from importing due to an RSE failure. Currently, some EIM Entities are able to continue to import EIM supply after an RSE failure (due to having imports in the previous interval) while other EIM Entities are completely shut out from accessing EIM supply. Powerex supports providing all EIM Entities access to EIM supply during unforeseen reliability emergencies. At the same time, Powerex believes that the quantity of imports that are automatically enabled by this

mechanism must be limited to protect other EIM Entities from having their supply "brought to edge." Powerex believes that increasing the total EIM import limit of an EIM Entity that fails the RSE (but satisfies all other applicable criteria) to 500 MW will provide material assistance automatically through the EIM. Powerex suggests that any additional assistance may best be arranged by contacting other EIM Entities, who can then evaluate their ability to provide additional energy, as has long occurred in the industry.

- **Emergency transfers would have lower priority** than load service of EIM Entities that passed the RSE. Powerex believes that no EIM Entity should be required to sacrifice reliability in its own BAA in order to maintain emergency transfers to an EIM Entity that was not resource sufficient.