

Comments of Powerex Corp. on Transmission Service and Market Scheduling Priorities – Phase 2 Straw Proposal

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s July 29, 2022 Transmission Service and Market Scheduling Priorities Phase 2 Straw Proposal (“Straw Proposal”), as further discussed at the August 11 stakeholder meeting in this initiative.

The rules and policies proposed in this stakeholder initiative will have critically important ramifications for entities that seek to use either the California-Oregon Intertie (“COI”) or the Pacific DC Intertie (“PDCI”) to deliver Northwest supply to serve load in the Southwest in the summer season. The COI and PDCI are jointly-funded transmission paths that support approximately 8,000 MW of transfers from the Northwest to California and the Southwest.¹ The CAISO provides transmission access, under its rules, on the southern segments of these coordinated facilities; Northwest transmission service providers, including Bonneville Power Administration, provide transmission access, under their OATTs, on the northern segments. Power cannot flow out of the Northwest on the COI or the PDCI without also obtaining transmission service on the southern segments, just as no power can flow into California on the COI or PDCI without also obtaining transmission service on the northern segments. The reliability, economic, and environmental benefits of delivering surplus supply from the largely hydroelectric generation in the Northwest to serve loads in California and in the Southwest are the **combined result of both** the northern and southern segments of these paths.

The inherently regional nature of transmission access on these critical paths calls for multi-lateral, collaborative approaches to finding solutions, so that all entities that fund these transmission facilities can benefit equitably. A collaborative approach is especially critical as the region moves toward greater integration in order to achieve the shared goal of transitioning to a lower-carbon fleet while maintaining reliable and affordable service to ratepayers. As discussed more fully in these comments, however, ***the Straw Proposal continues to take a unilateral approach to determining which entities receive priority access to these jointly-funded facilities during critical conditions, resolving the “seams” issue in favor of load-serving entities in the CAISO BAA.***

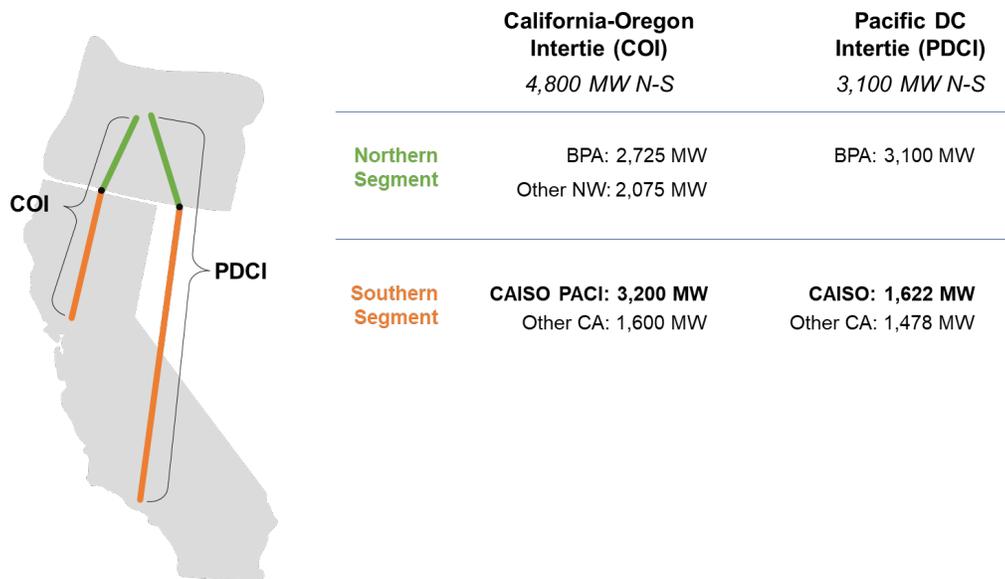
¹ Southern of the California-Oregon border, the COI comprises both the Pacific AC Intertie (“PACI”) and the California-Oregon Transmission Project (“COTP”). CAISO imports at the Malin500 intertie scheduling point relate to the PACI transmission capability managed by the CAISO.

Specially, the CAISO’s Straw Proposal:

- continues to establish and leverage specific market rules that ensure that transmission service on the CAISO’s southern portion is the key determinant of who flows across (and who benefits from) the jointly-funded facilities; and
- would result in *most if not all* priority access on the CAISO’s southern portion being preferentially granted to CAISO LSEs, providing these entities with the reliability benefits of the entire jointly-funded facilities. CAISO LSEs would enjoy these benefits without having to obtain and fund priority transmission service on the northern segments, and without having to compete with Southwest entities seeking to procure Northwest supply on a forward basis.

The Straw Proposal Continues To Allocate Priority Access On Jointly-Funded Critical Transmission Corridors To CAISO LSEs

This stakeholder process notionally focuses on transmission access on CAISO transmission facilities, but in fact will impact access to the **shared and jointly-funded major transmission corridors** that connect the Northwest to California and the Southwest—specifically, the COI and the PDCI. As illustrated below, the CAISO is a transmission service provider only on the southern portion of these facilities; service on the northern segments is provided by Northwest transmission service providers, and funded by their transmission customers.



Despite the inherently regional nature of this issue, the CAISO continues to pursue an approach that is clearly inequitable to transmission customers and load serving entities outside of California. It achieves this by giving CAISO LSEs priority access to the CAISO’s southern segment facilities, while also employing specific market rules that ensure priority on the CAISO’s segment largely dictates priority access on the entire jointly-funded path. In effect, the CAISO is able to effectively use its role as *market operator* to ensure that other transmission service providers’ systems are

used to meet the reliability needs of loads in the CAISO BAA first, without consideration of which entities hold the priority rights on the northern segments of these major transmission corridors.

This approach stands in stark contrast to the steps that would be necessary for CAISO LSEs (or any LSE) to be able to rely on Northwest supply delivered on the COI or PDCI to meet their needs under a framework where priority rights on the southern segment were of equal importance to priority rights on the northern segment. Under an equitable framework, an LSE seeking to rely on available supply in the Northwest to serve load in California or in the Southwest would be required to:

1. Compete to procure priority transmission service under the OATT framework from one of the northern segment transmission service providers;
2. Compete to procure priority transmission service under equitable, open-access CAISO rules on the southern segment; and
3. Compete to procure available surplus Northwest supply from identified physical resources on a forward basis.

Unfortunately, the CAISO's Straw Proposal will secure the reliability benefit of the full jointly-funded transmission facilities for CAISO LSEs, with these substantial benefits coming at the direct expense of ratepayers outside of the CAISO. First, ratepayers in the Southwest bear the cost and/or reliability consequences of losing access to available supply that could otherwise be committed to serve their loads. Second, ratepayers of Northwest entities with available surplus supply face barriers to competitive wholesale market opportunities to commit that supply and earn revenue to offset their retail rates.

The Straw Proposal repeatedly claims that its proposal "minimizes seams issues." It does not. Rather, it preserves the seams issues, but then resolves them in the manner most beneficial to CAISO LSEs' interests.

Powerex is concerned that proposals that would benefit CAISO LSEs to the detriment of ratepayers outside of California, on these two major transmission corridors go beyond the wheel-through issue described in this initiative. Under the latest EDAM proposal, for instance, it appears that the CAISO will use its regional market operator role to establish penalty prices in its software to ensure that CAISO LSEs that are granted priority access to the CAISO-operated southern segments of the COI and PDCI will receive EDAM market awards ahead of entities that do not have these priority rights. More specifically, under the EDAM proposal, when there is insufficient capability on the COI and/or the PDCI to deliver enough external supply to enable *all* load in the EDAM footprint to be served, it appears that those paths will be used to serve the reliability needs of CAISO LSEs *first*. In contrast, it is not clear whether OATT transmission priority in the rest of the EDAM footprint will even be recognized in the CAISO's software. The CAISO has not provided any detail on whether it intends to use penalty prices or other mechanisms in the EDAM to ensure that entities with priority OATT transmission rights receive market awards ahead of those that do not have such rights when all load cannot be served. Most importantly, on the two major transmission corridors of the COI and PDCI, CAISO's EDAM proposal appears to be designed to ensure that transmission priority *granted by the CAISO* is enforced, while transmission priority

under the OATT framework is ignored during those critical conditions when all load cannot be served due to insufficient transmission.

The preferential elevation of CAISO load interests is also evident in how the CAISO proposes to allocate the economic value (*i.e.*, congestion rents) of the jointly-funded COI and PDCI in the EDAM. Whereas the latest EDAM proposal appears to support an equitable 50/50 allocation of congestion value on inter-BAA transmission paths, this principled approach will not apply for transmission paths involving the CAISO BAA. Instead, CAISO has proposed that all CAISO transmission service, including scheduling limits at the CAISO boundary on jointly-funded, coordinated transmission facilities, will be classified as CAISO “internal” constraints, with the CAISO receiving 100% of the congestion rents when these constraints bind.

The importance of equitably providing access to the jointly-funded COI and PDCI cannot be overstated. These facilities have long been the region’s critical transmission backbone, enabling surplus clean hydro supply in the Northwest to meet the reliability needs of LSEs in California and in the Southwest. The replacement cost of these facilities is enormous, and in practice they would be very challenging to replace. Powerex believes that the only workable approach is one in which the reliability and economic benefits of these facilities accrues equitably between transmission ratepayers of the CAISO and other California TSPs (that fund the southern segment) and transmission ratepayers of Northwest TSPs (that fund the northern segment), with access provided on a non-discriminatory and open access basis such that all entities have comparable opportunity to procure and deliver supply over these facilities to serve their customers.

Absent a major pivot in the CAISO’s approach to regional transmission issues, it is difficult to imagine how the CAISO’s transmission proposals—here and in the EDAM initiative—will be workable for external transmission providers and transmission customers on the region’s two major transmission corridors. These entities are likely to struggle to explain to their ratepayers and regulators the rationale for joining a market with rules that give a disproportionate share of the reliability, economic, and environmental benefits of the transmission facilities they fund to CAISO LSEs. Without a significant change in the CAISO’s approach, Powerex believes that the equitable resolution of regional seams issues will require—and ultimately lead to—a different decision making process, in which no one entity has the unilateral ability to determine access to transmission on jointly funded transmission facilities.

The Straw Proposal Applies Preferential And Discriminatory Measures To Grant Priority Access To CAISO LSEs

Prior to 2021, all CAISO market participants had a comparable opportunity to receive a CAISO market schedule to import at Malin or at NOB, as market schedules were awarded based on the offer price that was submitted (including price-taker self-schedules), regardless of the location of the load served by the import. After an accelerated stakeholder process, the CAISO implemented a set of interim measures that, during critical conditions, explicitly gave priority to self-scheduled imports sinking in the CAISO BAA ahead of self-scheduled wheel-through transactions sinking outside the CAISO BAA.

This framework to expressly elevate load service in the CAISO BAA above load service outside the CAISO BAA has been highly divisive in the region. Notwithstanding FERC's ultimate acceptance of the interim measures, the filings in that proceeding show that a broad range of entities outside the CAISO view this approach as highly discriminatory, falling far short of open access and denying them access to CAISO transmission service on comparable terms to the access provided by other transmission service providers for deliveries serving load in the CAISO BAA. Rather than replacing these controversial interim measures with a more workable long-term framework, the Straw Proposal expands upon this preferential approach and seeks to cement it under rules that will result in non-CAISO entities largely losing their ability to rely on supply delivered on the COI or PDCI to meet their reliability needs during critical periods.

The Straw Proposal Includes An Over-Broad Calculation Of ETC For Native Load

The core elements of the Straw Proposal relate to how much CAISO transfer capability will be offered to transmission customers on an open access basis, as opposed to how much capability will be pre-emptively set aside for CAISO LSEs. Transfer capability is routinely set aside by transmission providers to enable delivery of load-serving entities' designated network resources. However, the Straw Proposal's criteria for calculating the quantity of existing transmission commitments ("ETC") to serve native load in the CAISO BAA does not reflect the approach historically approved by FERC as just and reasonable. Perhaps most obviously, the Straw Proposal sets aside transfer capability for native load without requiring any demonstration that a CAISO LSE has actually contracted for external supply. Instead of setting aside transfer capability to enable delivery of committed physical resources, the Straw Proposal would set aside transfer capability based on:

1. **Past** quantities of Resource Adequacy *showings*, which in turn were not required to identify any real physical capacity or external transmission service to the CAISO boundary;
2. **Past** import volumes during high demand hours, which may include significant volumes of energy purchased in the bilateral spot market, rather than delivering the output of supply committed on a forward basis; or
3. The greater of 1 and 2, above.

These approaches rely on the past as a predictor of upcoming needs, and they rely on information that is at best tangentially related to the delivery of physical resources that CAISO LSEs have actually committed to serve their load. The Straw Proposal's calculations reflect this vagueness, producing a wide range of ATC values depending on the specific scenario. For instance, RA import quantities have varied substantially from year to year (Approach 1), and peak import volumes often do not correlate to peak net load (Approach 2).

The CAISO has not identified any impediment to requiring a more robust demonstration of need prior to removing transfer capability from being made available to all market participants. Specifically, the CAISO could calculate the ETC for native load service based on demonstrated executed contracts with identified external resources to be delivered on high-priority external transmission service to the CAISO boundary. This would be most comparable to the criteria used by other transmission providers for setting aside transfer capability for designated network resources serving native load. At the very least, the CAISO could calculate the ETC for native

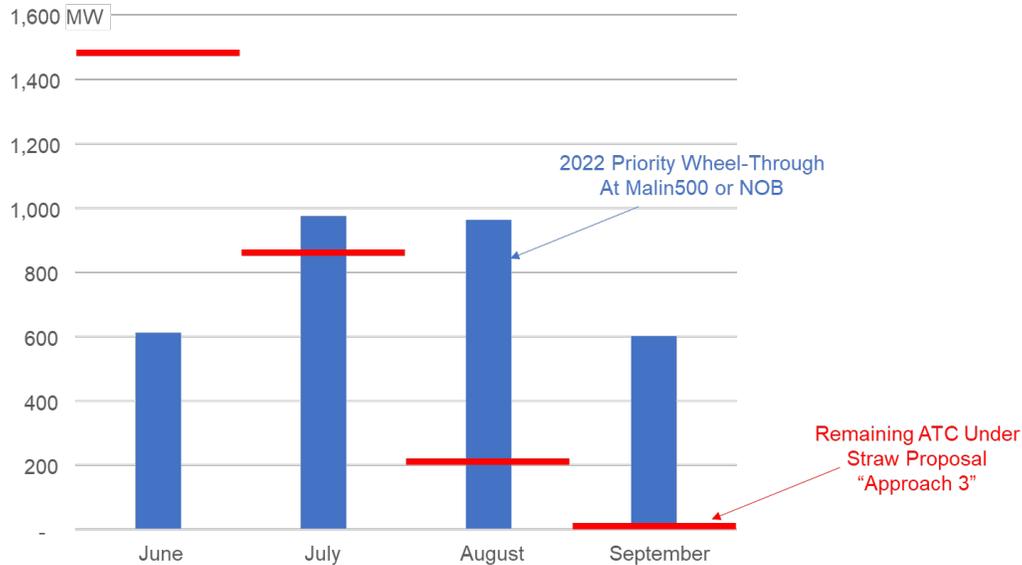
load service based on executed RA import contracts for delivery during the time horizon over which ATC is being calculated.

The Straw Proposal's use of an overly-broad and permissive calculation has the effect of ***preferentially setting aside the greatest possible quantity of transfer capability for use by CAISO LSEs***, and necessarily making the least possible quantity of transfer capability available to be procured by other entities. It was also apparent at the stakeholder workshop that advocates for California load interests believe the Straw Proposal methodology does not go far enough in setting aside transfer capability for CAISO LSEs.

In addition to maximizing the ETC quantity for native load, the Straw Proposal explains that ATC will be further reduced by its calculation of Transmission Reliability Margin ("TRM") and Capacity Benefit Margin ("CBM"). While these terms are a standard part of all ATC calculations, the Straw Proposal is vague about how the CAISO will determine those values. What is clear, however, is that any quantity of TRM and CBM will directly reduce the transmission capability available on an open access basis to serve load in the Southwest region, but will not reduce the priority transmission service granted to CAISO LSEs.

Without transparent, objective and robust criteria for calculating ETC for native load, TRM and CBM, the allocation of CAISO priority transmission on the COI and PDCI appears to lead to a predictable outcome: in the critical demand periods, virtually all CAISO transfer capability on the PDCI and COI will be set-aside for CAISO LSEs, with little or no capability on these critical paths being available to be procured by other transmission customers seeking to wheel-through the CAISO BAA.

The Straw Proposal represents a significant expansion of the preferential interim measures. Under the interim measures, entities have registered up to 1,000 MW of Priority Wheeling Through service entering the CAISO system either at Malin or at NOB for the summer 2022 period. The Straw Proposal includes estimates of ATC for Priority Wheeling Through service that would be as little as 10 MW, as shown below:



“Approach 3” is based on the lesser of (1) the monthly values under Approach 1 using 2020 RA Imports; and (2) the smallest monthly value under Approaches 2a-2c.

ATC values under Approach 2 will likely be even lower, as the calculation does not include any TRM or CBM, and includes counterflow in the calculation of ATC.

Under the Straw Proposal, Southwest LSEs that currently rely on about 1,000 MW of surplus Northwest supply delivered on high-priority Northwest and CAISO transmission would lose the ability to rely on much of that supply if the Straw Proposal is adopted, with Southwest ratepayers bearing the cost of finding replacement supply, facing reliability challenges associated with reduced supply commitments, or both.

The Straw Proposal Creates Unreasonable And Discriminatory Barriers To Entities Requesting ATC

In the periods that there happens to be some ATC made available on an open access basis, the Straw Proposal improperly imposes restrictions on transmission customers wishing to procure priority scheduling rights. In particular, transmission customers will be required to demonstrate to the CAISO that they have an executed firm energy contract, and will be limited to requesting priority scheduling rights for the quantity and the delivery periods of that executed contract. Powerex is not aware of any other transmission provider that requires a “demonstration of need” from transmission customers wishing to reserve transmission service. Given that any transmission capacity arguably needed to serve native load will already have been set aside, there does not appear to be any reason to restrict the quantity that transmission customers can compete to obtain in this manner.

Entities That Pre-Pay the CAISO Transmission Access Charge (TAC) For Priority Rights Would Still Not Receive The Economic Value Of The Transmission They Are Funding

Finally, the Straw Proposal would require a transmission customer reserving CAISO priority service to pre-pay the CAISO TAC for the entire duration of the reservation. This, on its own, is not problematic; it is standard for transmission service providers to require payment for the

transmission service that is reserved, regardless of whether or not it is ultimately used. But the Straw Proposal would *not* provide customers with any of the economic benefit (*i.e.*, congestion rents) for the transmission paths they are committing to fund through payment of the TAC. This means that a customer would be charged the TAC to secure scheduling priority on the CAISO system in advance, but still be required to pay congestion charges when it exercises that priority. Congestion charges in organized markets serve as the mechanism for allocating limited transmission space. Where, as here, a new framework is developed for customers to procure that allocation through pre-payment of the TAC, these customers should be hedged against congestion charges in the day-ahead or real-time markets.

The Straw Proposal is in stark contrast to every other transmission service provider in the west, where the customer committing to pay the tariff rate receives both the reliability benefit *and* the economic benefit associated with scheduling priority on the identified path. It is also in contrast with the proposed design of Markets+, where the entities that procure priority transmission service (and commit to pay the applicable tariff rate) receive both the reliability benefit and the congestion rents associated with those rights.

An Equitable Long-Term Solution Must Not Undermine Transmission Priority On The Northern Segments, Or Limit Wholesale Market Competition

Powerex believes that an appropriate proposal for determining transmission priority on a long-term basis would:

- Set aside a quantity for native load to CAISO LSEs based on executed supply contracts for identified physical capacity that is deliverable to the CAISO boundary;
- Make the remaining quantity available to any transmission customer willing to commit to paying the TAC for the duration and quantity requested; and
- Provide CRRs, as well as scheduling priority, for the priority rights that are issued.

Such an approach would adhere to the principles of open access and non-discrimination applied in the rest of the west. Nothing in the above approach would prevent CAISO LSEs from being able to rely on priority CAISO transmission service for real, deliverable external supply they have already procured, nor from having an opportunity to compete to procure additional priority CAISO transmission service to enable additional imports of shorter-term supply and/or supply for economic displacement.

In addition to making CAISO priority transmission rights available on a non-discriminatory basis, it is essential that CAISO engage in dialogue with transmission service providers on the northern segments to equitably resolve regional seams issues on the COI and PDCI. Powerex has repeatedly brought forward these concepts, and the need for transmission priority on *both* the CAISO and northern segment transmission systems to be appropriately respected. To date, however, Powerex is not aware of CAISO engaging in this type of dialogue.