Comments of Powerex Corp. on
FERC Order No. 831 – Import Bidding and Market Parameters
Revised Draft Final Proposal

Submitted by	**Company**	**Date Submitted**
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Powerex appreciates the opportunity to comment upon CAISO's FERC Order No. 831 – Import Bidding and Market Parameters Revised Draft Final Proposal ("Revised Draft Final Proposal"). In the Revised Draft Final Proposal, CAISO proposes to establish a methodology for screening import offers that exceed $1,000/MWh and to increase the power balance constraint penalty price to $2,000/MWh during intervals in which certain conditions are satisfied. Specifically:

- CAISO proposes to establish a "maximum import bid price" based on bilateral index prices that it will use to screen non-resource-specific import bids. Under CAISO's proposal, CAISO will only accept import bids in excess of $1,000/MWh in periods when the CAISO-calculated maximum import bid price is greater than $1,000/MWh or there is a cost-verified resource-specific bid greater than $1,000/MWh.

- CAISO proposes to scale the power balance constraint penalty price to $2,000/MWh in intervals when either there is a resource-specific cost-verified bid in excess of $1,000/MWh or the maximum import bid price exceeds $1,000/MWh. In those intervals where either of these conditions has been satisfied, CAISO will only set market-clearing prices based on the $2,000/MWh penalty price if the power balance infeasibility in an interval exceeds 150 MW. In intervals that the power balance infeasibility does not exceed this threshold, CAISO will set market-clearing prices based on the price of the last cleared economic bid.

Powerex generally supports the measures outlined in the Revised Draft Final Proposal. As an initial matter, Powerex believes that CAISO's proposal to apply a maximum import bid price to screen non-resource-specific import offers represents a reasonable approach that appropriately recognizes that it would be unworkable to cost verify supply offers from non-resource specific import resources. Powerex also believes that CAISO's proposal to shape bilateral index prices for multi-hour transactions will help ensure that available information regarding external market prices is appropriately taken into account when establishing the maximum import bid price in the CAISO markets for any single hour.

Powerex also supports moving forward with changes to better align the power balance constraint penalty price with the $2,000/MWh offer cap required by FERC Order No. 831. Powerex continues to encourage CAISO to take steps to adopt graduated penalty prices that would allow prices to rise gradually as the risk of shortages increases (*i.e.*, applying penalty prices as conditions tighten and before an actual shortfall exists). The use of graduated penalty prices would help ensure that scarcity is appropriately reflected in market prices while avoiding the extreme changes in price that can occur under CAISO's existing "all or nothing" penalty pricing framework. Powerex recognizes, however, that CAISO does not wish to pursue the implementation of graduated penalty pricing through this proceeding; Powerex also recognizes that increasing the power balance constraint penalty price to $2,000/MWh represents an incremental step towards ensuring that scarcity is better reflected in market prices.

Powerex believes, however, that CAISO should consider modifying its proposal so that a power balance constraint penalty price of $2,000/MWh would apply any time that there is a power balance infeasibility that exceeds 150 MW (*i.e.,* even during hours without a cost-verified resource offer or a CAISO-calculated "maximum import bid price" above $1,000/MWh). Powerex is not opposed to CAISO's proposal to apply a 150 MW "buffer" to prevent small infeasibilities—which may be attributable to operator or data errors or other factors—from leading to dramatic increases in price. Powerex would also not oppose applying the 150 MW "buffer" in all intervals—without regard to whether there is a cost-verified bid or benchmark price above $1,000/MWh or not. In Powerex's view, however, there does not appear to be any reason to tether the level of a "buffer"—which inherently reflects the value of unmet ***demand***—to the presence or absence of ***supply***-related verified costs or benchmarks. Limiting the application of penalty pricing based on whether there is a cost-justified bid or maximum import bid price in excess of $1,000/MWh will lead to arbitrary differences in price outcomes between intervals with otherwise identical conditions. Powerex therefore believes it would be preferable to apply the same approach to ***all intervals***: whereby a power balance constraint infeasibility of more than 150 MW always triggers a penalty price of $2,000/MWh, and a power balance constraint infeasibility of less than 150 MW does not trigger penalty pricing (until graduated scarcity pricing can be developed and implemented). Powerex believes that modifying CAISO's proposal in this manner will avoid arbitrary differences in prices while protecting against the possibility that false positives will trigger the application of penalty pricing.