

**Comments of Powerex Corp. on
FERC Order No. 831 – Import Bidding and Market Parameters
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 Final Proposal (“Final Proposal”). Powerex appreciates the time that CAISO staff have invested in developing several aspects of the Final Proposal, including thoughtful consideration of input from stakeholders.

The August heat wave and the associated reliability emergencies highlighted the importance of ensuring that the CAISO is able to compete for limited residual supply with other entities in the west. As additional information and analysis of the August reliability events emerges, Powerex believes it will become clear that several aspects of the current CAISO market design can and should be improved—including price formation, particularly when the CAISO balancing authority area (“BAA”) approaches or experiences capacity, flexibility, and/or energy shortages. We recognize, however, that many of the necessary price formation enhancements are beyond the scope of Order No. 831. Powerex therefore welcomes and supports the announcement by CAISO on the August 31 stakeholder call that it is considering prioritizing scarcity pricing enhancements and initiating a new stakeholder process on this topic in the near future. This will be an important opportunity to evolve the CAISO market design so prices gradually rise as conditions approach shortages of one or more necessary products, increasing with the severity of the shortage, up to a value that reflects involuntary interruption of firm load.

The CAISO also has an *immediate* opportunity to make important incremental improvements to scarcity pricing in its markets that are entirely within the scope of its Order No. 831 compliance filing. In particular, the CAISO can immediately raise the penalty price for power balance constraint violations to \$2,000/MWh. While the Final Proposal does this under certain conditions, Powerex believes there is no justification for failing to do so under all conditions that a genuine shortage exists. This is discussed further in the comments below.

Powerex’s comments also support the Final Proposal’s use of a “higher of” external price indices in its calculation of the “maximum import bid price.” Comments opposing this are misplaced and will undermine the CAISO’s ability to compete for external residual supply when regional conditions are tight.

I. The CAISO Should Raise The Penalty Price To \$2,000/MWh For All Intervals With A Power Balance Constraint Violation Beyond A Threshold Quantity

Raising the penalty price for power balance constraint violations to \$2,000/MWh is consistent with sound price formation principles, FERC policy and with the penalty price applied in other ISO and RTO markets. But the Final Proposal would do this only in some intervals; in other intervals, the current \$1,000/MWh penalty price would continue to apply. The Final Proposal also would apply

the \$2,000/MWh penalty price only for power balance constraint violations beyond a specific threshold quantity. Powerex supports the use of a threshold as a “buffer” to protect all EIM entities, including the CAISO BAA, against “false positive” outcomes that may not indicate genuine supply shortages. But Powerex believes no sound justification has been provided for failing to apply the \$2,000/MWh penalty price in every interval in which the threshold is exceeded.

The inadequacy of this aspect of the Final Proposal was made clear during recent events. CAISO personnel acknowledged that under the Final Proposal, the penalty price in the CAISO markets would have still remained at \$1,000/MWh, even during the blackouts that occurred on August 14 and 15.¹ The trigger CAISO has identified for declining to apply a \$2,000/MWh penalty price is the absence of verified *supply-side costs* above \$1,000/MWh. But this provides no rationale for the deviation from FERC’s general policy, since supply costs are utterly irrelevant to the most appropriate price during a severe and unambiguous supply shortage, which should reflect the involuntary curtailment of *load*. Arguments against raising the power balance penalty price to \$2,000/MWh when there is a genuine and material shortage should be correctly viewed as inappropriately and inefficiently protecting entities that have gone short on capacity, flexibility or energy, permitting them to avoid prices that accurately reflect the consequences of those decisions—including the risk of the loss of firm load.

By immediately applying a \$2,000/MWh penalty price in any interval with a power balance constraint violation (beyond the established threshold quantity), the CAISO will be taking an important incremental step toward the establishment of prices in such circumstances that better reflect grid conditions, consistent with FERC’s price formation policy under Order No. 831, and with the application of penalty prices in other ISOs/RTOs. This will improve reliability of the CAISO BAA through two key mechanisms:

1. It will better enable the CAISO to compete with other external entities to acquire residual uncommitted supply necessary to serve firm load; and
2. It will provide stronger price signals to entities’ forward contracting decisions, as those entities will face the economically appropriate consequences of those choices.

Powerex notes that this is an incremental step, limited to the actions that the CAISO can readily take in response to Order No. 831. Additional steps will be necessary to realize the reliability and efficiency benefits of accurate and robust scarcity pricing. In particular, additional steps will be needed to:

- **Enable market prices to rise above the offer price of the marginal supply resource as the CAISO grid *approaches* shortages.** In this manner, suppliers will face strong price signals that incentivize taking steps that help the CAISO *avoid* shortages, not just for providing supply *during* shortages.
- **Enable market prices to rise to a maximum level that is sufficient to successfully compete with bilateral market transactions to procure residual supply during tight regional grid conditions.** This means the price for one or a few hours of sales to the

¹ See August 21, 2020 Special Session: Market Update Heat Wave Q/A. Available at: <http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=F7E81B6C-45F5-4C40-B235-C6398064E3F7>

CAISO will need to be competitive with bilateral market opportunities to sell 16-hour on-peak or 8-hour “super peak” blocks.

For the foregoing reasons, Powerex believes the CAISO should apply a \$2,000/MWh penalty price *whenever* a real shortage occurs, not just under the limited subset of conditions set out in the Final Proposal.

II. Powerex Supports Using The “Higher Of” External Market Indices, Which Is Critical For CAISO To Compete For External Supply

The Final Proposal includes the use of a “maximum import bid price” as a gauge of the cost of supply from external resources. This calculation is based on the higher of external bilateral market prices at Mid-Columbia and at Palo Verde. During the August 31 stakeholder call, some stakeholders objected to using the maximum of the two external market locations, suggesting that the maximum import bid price for supply from the Northwest should be based only on Mid-Columbia prices, while the maximum import bid price for supply from the Southwest should be based only on Palo Verde prices. Powerex disagrees with these comments, and supports the calculation as proposed by the CAISO in the Final Proposal, for the reasons outlined below.

During tight regional grid conditions, suppliers in the Northwest generally have a choice of:

- Selling that supply to entities in the Northwest;
- Selling that supply to the CAISO; or
- Selling that supply to entities in the Desert Southwest.

For instance, if prices at Mid-Columbia are \$100/MWh and prices at Palo Verde are \$1,000/MWh, but the CAISO calculates the “maximum import bid price” for Northwest sellers based only on the Mid-Columbia price, then those sellers can be expected to choose to sell their supply to customers in the Desert Southwest instead of to the CAISO—at least to the extent they can acquire transmission service. This can be expected to occur on all available transmission paths, including:

- by using transmission on the Pacific DC Intertie controlled by LADWP; and
- by submitting wheel-through schedules across the CAISO-operated transmission system (*i.e.*, with a schedule that “links” an import at a Northwest intertie such as Malin or NOB and an export at a Southwest interties such as Palo Verde).

The CAISO is a FERC-regulated transmission service provider, and it has an obligation to provide transmission service on an open access, non-discriminatory basis. That is, it cannot “force” import transmission capacity at Malin or NOB to be used preferentially for sales to CAISO loads as opposed to being used for wheel-through schedules to the Southwest. Because of this open access requirement, the CAISO—in its role as the purchaser of energy imports to meet loads in its BAA—*must* be able to compete for external supply based on price. Limiting the maximum import bid price calculation in the manner suggested by certain stakeholders would hamstring the CAISO’s ability to procure supply on behalf of CAISO loads.

Worse, when the CAISO market design fails to enable the CAISO to compete for supply on the basis of price, the CAISO may feel compelled to resort to administrative actions under its tariff, such as the preferential blocking of exports, in order to ensure it is the successful purchaser of residual supply. But the leveraging of the CAISO’s function—either as a transmission provider or

as independent market operator—to effectively prevent other purchasers in other BAAs from competing to acquire the same external supply is not only inefficient and inequitable, it is highly problematic in the context of a multi-BAA regional market.

For the reasons discussed above, Powerex supports the Final Proposal’s formulation of the “maximum import bid price” using the higher of external price indices at Mid-Columbia and at Palo Verde.