

Comments of Powerex Corp. on Draft Final Proposal on Adjustment to Intertie Constraint Penalty Prices

| Submitted by | Company | Date Submitted |
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Powerex appreciates the opportunity to submit comments on the CAISO’s Draft Final Proposal on Adjustment to Intertie-Constraint Penalty Prices. In the Draft Final Proposal, CAISO proposes to make adjustments to certain penalty prices that it claims are necessary to address overscheduling issues that were observed in the Summer of 2021. Specifically, CAISO explains that CAISO operators identified instances where market schedules exceeded the actual capacity of certain interties in the real-time market and the residual unit commitment (“RUC”) process. In order to address these issues, CAISO proposes to adjust the hour-ahead scheduling process intertie-constraint relaxation parameter from \$1,500/MWh to \$2,900/MWh and to adjust the current RUC intertie constraint relaxation parameter from \$1,250/MWh to \$3,200/MWh.

Powerex appreciates CAISO’s decision to raise observed market issues for discussion and resolution with stakeholders. Powerex also agrees with CAISO that modifying the penalty prices that apply to the CAISO markets to avoid unintended consequences, such as those detailed in the Draft Final Proposal, should be given a high priority. As the events of summer of 2021 demonstrated, the penalty prices that are applied by the CAISO to its various market and scheduling processes can have a profound impact on the efficiency and fairness of the CAISO markets, including which schedules are permitted to flow and which balancing authority areas (“BAA”) participating in the Western Energy Imbalance Market (“EIM”) receive supply during tight market conditions.

However, Powerex believes that it would be unwise to move forward with modifying the intertie-constraint parameters in isolation and without a comprehensive evaluation of the use of penalty pricing in the CAISO markets. Specifically, Powerex is concerned that CAISO’s proposal will have unintended consequences that cannot be identified or fully understood without a more holistic review of penalty pricing in the CAISO markets. Without information regarding the range of penalty prices that apply in the CAISO markets and the way that these penalty prices interact under various system conditions, it is difficult for stakeholders to fully understand the implications of these changes and to meaningfully evaluate the merits of CAISO’s proposal—a factor that has likely contributed to the lack of interest and participation in this proceeding. To the extent that CAISO’s proposal does have unintended consequences, the result will be to solve one market issue at the expense of creating new market inefficiencies, price distortions, or inequities.

For the reasons described above, Powerex respectfully requests that the CAISO defer further action on the intertie-constraint price parameters at this time. Instead, CAISO should broaden the scope of the initiative to include a comprehensive evaluation of the penalty prices applied in

the CAISO markets. In addition to giving stakeholders the information necessary to evaluate the merits of CAISO's proposal, engaging in a comprehensive evaluation of penalty pricing will give stakeholders much needed transparency into how these penalty prices are influencing market outcomes, including the priority assigned to different classes of transactions and the impact that such priorities have on the delivery of energy in the CAISO's markets, including throughout the EIM region.