

Comments of Powerex Corp. on Intertie Deviation Draft Final Proposal

Submitted by	Company	Date Submitted
Mike Benn 604.891.6074	Powerex Corp.	January 8, 2019

Powerex appreciates the opportunity to submit comments on CAISO’s Draft Final Proposal on Intertie Deviation Settlements. In the Draft Final Proposal, CAISO explains that the failure of intertie resources to deliver in accordance with their market awards can create operational challenges for CAISO operators and “result in high prices, manual processes, and sub-optimal market solutions.”¹ For that reason, CAISO states that it is proposing to implement a new under/over delivery charge “to incentivize delivery of awarded energy on interties to improve operational awareness and grid reliability.”²

Powerex appreciates CAISO’s recognition of some of the challenges posed to the CAISO markets by intertie delivery failures. As discussed further below, Powerex also appreciates CAISO’s efforts to craft measures to improve the incentive to deliver energy in accordance with market awards, particularly intertie awards associated with “speculative supply,” while also mitigating the risk of penalizing unavoidable delivery failures that are beyond the foresight and control of Scheduling Coordinators. Powerex further appreciates the additional transparency CAISO has provided into intertie delivery failure occurrences, particularly during stressed grid conditions, and urges CAISO to continue to provide similar data going forward.

However, the current proposal falls short of providing a comprehensive solution. As Powerex explained in detail in its earlier comments in this stakeholder process:

[T]he Issue Paper is far too narrow in its framing of the issues, its examination of the underlying causes and consequences, and its consideration of potential solutions. In particular, the Issue Paper fails to distinguish between the unavoidable, random intertie delivery failures that all BAAs experience in the ordinary course of scheduling interchange transactions and the systemic intertie delivery failures that the CAISO BAA routinely faces as a result of CAISO’s permissive market rules. These market rules enable marketers and/or financial participants to routinely submit physical intertie offers that they may choose not to deliver on, if and when they are dispatched and/or when they do not have any physical supply in the first place.³

Early in this proceeding, CAISO staff made clear that it would not broaden the scope of this proceeding to consider measures to ensure that intertie offers represent firm commitments

¹ Draft Final Proposal at 4.

² *Id.*

³ Comments of Powerex Corp. on Intertie Deviation Settlement Issue Paper (Sept. 5, 2018), available at: <http://www.caiso.com/Documents/PowerexComments-IntertieDeviationsSettlement-IssuePaper.pdf>.

backed by physical supply and transmission and would solely focus this proceeding on *improving the incentives* associated with the delivery of intertie awards in its real-time market. In particular, CAISO staff make clear that this stakeholder process would not reconsider:

1. CAISO's long-standing "energy-only" framework, which does not distinguish between supply based on whether it represents a firm commitment or not and instead permits unit contingent, non-firm and speculative supply at intertie locations to be co-mingled and co-optimized with firm intertie supply in both its day-ahead and real-time markets; and
2. CAISO's long-standing approach of not requiring day-ahead e-Tags to support day-ahead physical energy awards.

Powerex continues to disagree with the limited scope of this stakeholder process. Thus, while Powerex supports the Draft Final Proposal as a near-term improvement over the status quo, Powerex believes that merely increasing the financial consequences for non-delivery of intertie awards will not prevent market participants from submitting speculative supply offers or from delivering unit contingent or non-firm energy supply to fulfill their market awards, and hence it will not eliminate the challenges associated with intertie delivery failures.

Powerex also believes that CAISO's existing "energy only" framework has the potential to be a barrier to the further expansion of the CAISO markets, and that merely increasing the financial incentives to deliver on market awards falls short of the steps that will be necessary to enable an Enhanced Day Ahead Market ("EDAM") in the west.

Powerex believes the upcoming EDAM stakeholder process is the appropriate venue to thoroughly discuss day-ahead market design changes and enhancements necessary for an EDAM. Nevertheless, Powerex believes it is important to highlight the implications of the issues raised, and decisions made, in this stakeholder process that have the potential to pose challenges to the successful development and expansion of an EDAM.

I. CAISO's Proposals Represent A Material Improvement Over Existing Market Rules

Although Powerex continues to have concerns about the limited scope of this proceeding, Powerex recognizes that the proposals outlined in the Draft Final Proposal represent a material improvement over the existing intertie decline charge, which has been shown to be ineffective in deterring intertie delivery failures. In particular, Powerex believes that CAISO's proposal has the potential to reduce reliability risks, increase the accuracy of CAISO's commitment processes and pricing, and reduce CAISO's reliance on out-of-market dispatch and operator interventions. By increasing the financial consequences of non-delivery, CAISO's proposal will increase the incentive for entities to submit offers that reflect the quantity of energy that they are confident they will be capable of obtaining and delivering; additionally, the proposal will create stronger incentives for entities to actually deliver energy in accordance with their intertie awards. Importantly, such an approach will not *prevent* suppliers from submitting speculative supply offers and waiting until after they receive a CAISO award before attempting to procure the physical supply and transmission necessary to fulfill their delivery obligation. However, Powerex is optimistic that CAISO's proposed modifications will increase the risk to market participants of

offering speculative supply, and hence will likely reduce the frequency and magnitude of intertie delivery failures experienced by the CAISO grid.

Powerex also believes that the modifications made in response to stakeholder concerns in this proceeding will increase the effectiveness of CAISO's proposed under/over-delivery charge. For instance, Powerex believes that CAISO's decision to base the calculation of the under/over-delivery charge on the higher of the FMM or RTD price will help reduce the potential that incentives to deliver in accordance with CAISO energy awards could actually be weakened due to CAISO operator actions to maintain reliability during stressed market conditions. Powerex also supports CAISO's proposal to not permit Scheduling Coordinators to submit e-Tags that exceed their final market awards.

CAISO's proposal also appears to include measures that will help mitigate the potential for the current market framework to undermine the accuracy of the EIM resource sufficiency test. Under the existing approach, all CAISO final hourly intertie awards at T-40 are *assumed* to be physically delivered when, in fact, some portion may not be. This currently enables the CAISO—uniquely among EIM entities—to include supply from third-party sellers that may be speculative or otherwise not firm in the EIM resource sufficiency evaluation for its BAA. This can lead to the CAISO BAA erroneously appearing to be resource sufficient, but then relying on the rest of the EIM for additional capacity and/or flexibility when this supply fails to physically deliver according to its award. The Draft Final Proposal would appear to improve the accuracy of the EIM resource sufficiency assessment, as hourly block resources that are not e-Tagged by T-40 will no longer be assumed to be delivered. As CAISO explains, this will help ensure that “intertie schedules that are counted toward the resource sufficiency test have tagged and available transmission and a supply source.”⁴

For the foregoing reasons, Powerex supports CAISO moving forward with implementation of the proposals outlined in the Draft Final Proposal.

II. CAISO's Improved Intertie Performance Incentives, While Providing Near Term Reliability Benefits, Do Not Address CAISO's “Energy-Only” Paradigm Which Presents Distinct Challenges To The Development And Expansion Of An EDAM

While CAISO's proposal represents a material improvement over the status quo, it will leave in place CAISO's “energy only” day-ahead market design. Ultimately, Powerex believes that the growing challenges that CAISO has experienced with intertie delivery failures can be traced to fundamental differences between CAISO's “energy only” framework and the well-established bilateral framework for trading power in the west. The key characteristics of these differing approaches are as follows:

- CAISO's “energy-only” day-ahead market design:
 - Supply of firm energy is co-mingled and co-optimized with unit-contingent energy, non-firm energy and purely speculative supply offers in the CAISO's dispatch, price

⁴ Draft Final Proposal at 39.

formation and settlement processes (*i.e.*, all types of intertie supply receive settlement as an “energy only” product).

- Out-of-market tools and interventions are used to “firm up” or “backfill” the anticipated portion of intertie awards that are not firm supply, and are at increased risk of non-delivery. These out-of-market actions include CAISO’s day-ahead residual unit commitment process, exceptional dispatch processes, and upward adjustments to the load forecast in the CAISO BAA to increase real-time dispatches of internal generation, intertie bids, and imports (including through the CAISO Energy Imbalance Market) to backfill intertie delivery failures.
- Western bilateral markets:
 - Outside of the CAISO BAA, day-ahead and real-time physical bilateral transactions are generally for WSP Schedule C Firm Energy, which is firm energy and will be delivered absent very limited, defined circumstances (e.g., transmission curtailments and reliability emergencies in the source BAA). In these transactions, energy, and the capacity attributes of the specific underlying supply resource, is bundled with sufficient balancing capacity in the source BAA to ensure delivery for the delivery period.
 - Sellers seeking to supply non-firm energy, unit-contingent energy, or other “less firm” products must do so explicitly and often at a significant discount from the price of firm energy sold under WSP Schedule C.

Powerex believes that a continuation of the CAISO’s current “energy only” approach—coupled with continued out-of-market energy and capacity procurements and associated “side payments”— may impose a significant risk to the development and expansion of an EDAM. In comparison to the firm energy framework that exists in the rest of the west, this approach increases reliability risks, while undermining dispatch efficiency and depressing market clearing prices.

Importantly, however, Powerex believes the differences between the CAISO’s “energy only” approach to dispatch, price formation and settlement and the rest of the west’s “firm energy” paradigm can be overcome, and do not present an insurmountable barrier to an EDAM. Indeed, Powerex believes the exploration of an EDAM presents an opportunity to better align the definition, price formation and settlement of energy *and bundled capacity attributes* in the CAISO’s organized markets with the markets in the rest of the west.

It is with that concept in mind that Powerex notes the CAISO’s Intertie Deviation proposal is an interim step and will need further work within the EDAM discussion to bring it into alignment with the framework established within the EDAM process

Powerex looks forward to working collaboratively with CAISO and stakeholders in the forthcoming EDAM stakeholder process (as well as in the current Day-Ahead Market Enhancements stakeholder process) to examine approaches that (1) enable broad participation by all suppliers and resource types, while (2) ensuring that CAISO’s dispatch, price formation and settlements

processes efficiently and equitably recognize the *energy and capacity attributes* of various types of energy supply.