

Comments of Powerex Corp.
Reliability Services Revised Straw Proposal

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to provide these limited comments on the Reliability Services Revised Straw Proposal published on August 11, 2014.

Powerex continues to urge CAISO to develop an appropriate framework through which 15 minute dispatchable resources external to the CAISO can commit to providing flexible capacity. Currently, CAISO does not plan to address this issue until Phase 2 of the Reliability Services Initiative, expected to start in Q1 2015 and to be brought to the board in Q2 2016.¹

Powerex believes such a timeline is too slow for the development of a framework that will provide important reliability and efficiency benefits to the CAISO. Market experience since the implementation of the new Fifteen Minute Market (“FMM”) reinforces the need to develop mechanisms for CAISO to secure access to flexible resources on the interties, ahead of the real-time market. As CAISO is well aware, since the implementation of the FMM on May 1, 2014, there has been very limited 15-minute economic bid participation from the interties, as well as a significant decrease in the amount of economic import and export real-time bids more generally, prompting CAISO and DMM to express concerns about liquidity in the real time market.²

The reduction in economic (*i.e.*, price-sensitive) intertie bids, even on interties that have enabled 15-minute scheduling, reflects the risk that market participants may face in committing external resources to participate in the FMM. Specifically, bids into the CAISO’s real-time market are due at T-75. To stand ready to honor any 15-minute dispatch awards in the FMM, a market participant at the interties would need to set aside a portion of its physical resources, thus potentially foregoing other sales it could make from those same physical resources.³ In Powerex’s experience, a substantial volume of bilateral trading activity occurs *after* T-75, meaning that an external market participant may incur an opportunity cost merely in submitting a bid into the CAISO’s real-time market. An external market participant may also forego the ability to use its flexible resource for its own balancing, flexibility and/or operational needs,

¹ *Reliability Services Straw Proposal*, June 5, 2014 at page 8 and 18.

² CAISO Department of Market Monitoring - *Q2 2014 Report on Market Issues and Performance*, August 18, 2014 at pg. 46-48.

³ Powerex notes that Section 30.6.2.5 permits Scheduling Coordinators to effectively reduce the quantity of potential FMM awards by reducing the transmission profile in e-Tags, which may occur up to 37.5 minutes prior to the start of the operating hour, at the Scheduling Coordinator’s discretion. While this provision potentially limits some of the opportunity cost of participating in the FMM, opportunity costs after T-37.5 will still exist and are not explicitly compensated.

should such a need arise after T-75. While participating in the CAISO's real-time market entails material opportunity costs for an external market participant, there is no certainty that the external resources bid into the market will actually be dispatched by CAISO, or whether they will be dispatched for only some of the 15-minute intervals in the hour. In short, for many external resources, participation in the CAISO's real-time market appears to entail opportunity costs that may be substantial, to receive rewards that are uncertain. Recent experience indicates this is a proposition few participants are willing to undertake.

The lack of a capacity payment for the commitment of flexible capacity at the interties ahead of dispatch also places the CAISO at a significant competitive disadvantage to other purchasers of flexible capacity in western wholesale markets. In Powerex's experience in the bilateral markets outside of CAISO, sub-hourly dispatch flexibility is generally contracted under arrangements that provide both (1) a capacity payment for committing flexible capacity and (2) an energy payment for any energy actually requested and delivered. Under this structure, sellers are able to recover their opportunity costs associated with setting aside capacity ahead of time, regardless of whether it is dispatched. The advanced commitment also supports more efficient generation planning, which may permit a greater quantity of flexible generation to be available than would otherwise be the case.

The development of an appropriate framework for external resources to commit to providing—and being compensated for—flexible capacity at the interties could be highly effective in overcoming the current economic impediments to real-time market participation. Moreover, this would expand the supply options available for California load-serving entities to meet their flexible resource adequacy requirements, leading to lower costs and more efficient investments in flexible resources. As part of such a framework, Powerex fully supports developing robust and verifiable performance criteria for external resources comparable to the requirements for internal generators providing flexible capacity.

Powerex strongly urges CAISO to start a separate stakeholder initiative, distinct from the Reliability Services Initiative, focusing specifically on accelerating development of a mechanism for external resources to provide flexible capacity to CAISO. The goal of such an initiative should be to enable external resource participation coinciding with the FRAC-MOO go live date of January 1, 2015.