Portland General Electric Comments
CAISO EIM Offer Rules and Resource Sufficiency Workshop

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Portland General Electric Company ("PGE") appreciates the opportunity to provide comments on the California Independent System Operator's ("ISO") Energy Imbalance Market ("EIM") Offer Rules and Resource Sufficiency Workshop held April 30, 2018.

Process:

PGE strongly supports and appreciates the ISO's efforts to use the workshop format to draw out questions, comments, concerns, and areas of interest directly from stakeholders in advance of the ISO developing policy or technical proposals on these issues. PGE believes this is an efficient way for the ISO and others to investigate whether and how market enhancements should be scoped and scheduled for a formal stakeholder initiative process, business practice manual update process, or other form of resolution. PGE encourages the ISO to continue using this process in the future, especially in areas where new issues are surfacing as a result of the dynamic western energy markets landscape.

Resource Sufficiency:

As a Balancing Authority ("BA") operator and a load serving entity with significant customer-backed investments in a diverse generation portfolio, PGE has consistently supported the principle of BA Resource Sufficiency ("RS") as fundamental to the promotion of reliable and equitable outcomes in short-term, co-optimized energy markets. In short, this principle stipulates that each BA must maintain sufficient generating capacity to ensure reliable load service for its customers without relying on imports or exports from other BAs, unless pre-arranged or provided through a reserve-sharing program. Currently, the ISO's EIM design includes an automated program intended to provide disincentives for any EIM BA to violate this principle[1].

From PGE's perspective, the current RS program is creating market inefficiencies. PGE's EIM experience since its EIM go-live in October 2017 has shown that the complexity, uncertainty, counting methodology, and timelines of the RS program is at times causing entities to unduly increase the amount and type of flexible reserve capacity they set aside and is preventing them from optimizing their capacity position prior to the market close. PGE has also found the penalties related to RS test failure are undermining market efficiency, both for the penalized entity, and for other market participants. Further, PGE believes certain attributes of the automated RS program are driving inefficient flexible capacity commitment relative to its pre-EIM practices.

[1] PGE notes that significant disincentives against any BA positioning themselves as being "short" capacity or energy with an intent to lean on the resources of another BA to maintain reliable load service exist outside the ISO's automated program, including: customer and shareholder expectations to meet State and Local reliability mandates, exposure to NERC mandatory reliability standards and FERC penalty enforcement authority, exposure to third-party Transmission Service Provider penalty charges, and the financial exposure inherent to being in a "price-taker" position in a co-optimized energy market with a $2,000/MWhr ceiling.

For these reasons, PGE requests the ISO launch a new stakeholder initiative as quickly as possible to further investigate these issues and develop solutions to address any unintended outcomes currently experienced in the EIM as a result of the existing RS program. PGE believes it is critical for these issues to be addressed regardless of proposed timelines for other market initiatives, such as the Day-Ahead Market Enhancements or Extended Day-Ahead Market initiatives. PGE believes it would be prudent to implement solutions for the RS program for the current market. In doing so, the ISO would ensure a well-functioning and broadly-supported RS foundation exists on which future market enhancements and expansion can be built.

PGE requests the ISO address the following through a new RS-program initiative:

1. RS test requirements should be forecastable by each entity with sufficient accuracy to prevent entities from having to procure additional flexible capacity to cover uncertainty inherent to the functioning of the RS test itself.
2. RS diversity credits should be allocated with sufficient lead-time for entities to act on an expected reduction in balancing capacity requirements.
3. RS test requirements should take into account wind production forecasts such that flex-up or down reserves are not assigned when a resource is forecasted at minimum or maximum output, respectively.
4. Import/export transfer limits used for setting RS requirements should be set based on expected future transfer capacity.
5. RS "failure" impacts should be limited to the entity responsible for the failure and for the single failed market interval, and should not create cascading impacts for future intervals or for other entities.
6. Entities should be able to count additional sources of flexibility on their systems to pass the RS test that are available to their operators, even if not economically offered to the market.
7. Historical RS test results should be audited to ensure the test is being applied comparably and consistently across all EIM balancing authority areas.

Default Energy Bid Options:

PGE strongly supports either a follow-up workshop, or a stakeholder initiative, that resolves these issues related to default energy bids and the application of market power mitigation in the EIM.

As an EIM market participant with fast-ramping, fuel-constrained hydroelectric and thermal resources, PGE understands well the challenges operating in the EIM subject to a default energy bid and market power mitigation framework can present as compared to traditional bilateral market operations[2]. PGE appreciates the perspectives discussed by Powerex, the Department of Market Monitoring ("DMM"), the ISO, and other stakeholders at the workshop. PGE requests a more comprehensive approach be taken to resolving the ISO's default energy bid and mitigation framework as it is foundational to the ISO's well-established real-time market design and the price formation affecting all market participants.

[2] In general, the western bilateral energy markets operate under a "willing buyer, willing seller" framework, subject to the FERC-established price cap and the FERC's market behavior rules. Under this framework, entities are protected from the exertion of sell-side monopoly power in short-term energy markets by the FERC's market-based rate authority approval process, and by their mid- and long-term capacity purchases, which are used to meet established resource adequacy and resource sufficiency metrics, as well as to hedge against market price volatility.

For these reasons, PGE requests an expansion of the scope of these conversations to include a wholesale assessment of the function the default energy bid and mitigation framework. PGE would welcome the inclusion of the Market Surveillance Committee, the DMM, additional energy market experts, and other stakeholders in this effort. PGE expects this will insure that any changes to the existing framework, or options for establishing default energy bids and mitigated prices, do not in any way distort the day-to-day functioning of the ISO's markets or result in price-formation fundamentals that disproportionately benefit one type of market participant, or class of participating resources, versus any other.