Western Power Trading Forum on the CAISO's FERC Order 831 Import Bidding and Market Parameters Draft Final Proposal

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The Western Power Trading Forum

The Western Power Trading Forum (WPTF) is a California nonprofit, public benefit corporation. It is a broad-based membership organization dedicated to enhancing competition in Western electric markets while maintaining the current high level of system reliability. WPTF supports uniform rules and transparency to facilitate transactions among market participants. The membership of WPTF and the WPTF CAISO Committee responsible for providing these comments include CAISO and EIM entities, load serving entities, energy service providers, scheduling coordinators, generators, power marketers, financial institutions, and public utilities that are active participants in the California market, other regions in the West, and across the country.

Summary of Comments

WPTF appreciates this opportunity to provide comments on the CAISO's FERC Order 831 – Import Bidding and Market Parameters Draft Final Proposal that was discussed on the April 29, 2020 stakeholder call. WPTF commends the CAISO's efforts to date on this proposal but still encourages the CAISO to wait for FERC to issue an Order on the CAISO's Compliance Filing. Given that the CAISO Compliance Filing is still pending at FERC, WPTF strongly believes the best course of action at this point is to await an Order from FERC as the Order may provide insights or guidance that should be taken into consideration.

In the event the CAISO continues to move forward with this policy absent FERC guidance, WPTF is directionally supportive of applying a screen to import offers as means of cost verification but is concerned with the market implications of how the $2,000/MWh bid cap and associated penalty prices will be applied. WPTF believes that the CAISO should also take this opportunity to design and implement a robust shortage/scarcity pricing mechanism while the discussions to date continue to highlight the ever growing need for the market to appropriately reflect tight supply and near scarce conditions via energy prices.

Comments

The penalty parameters should be scaled to align with the $2,000/MWh energy bid cap regardless of market offers. WPTF is supportive of scaling the penalty parameters to align with the energy bid cap of $2,000/MWh independent of (1) the existence of offers greater than $1,000/MWh or (2) a maximum import bid screen greater than $1,000/MWh. As discussed in our prior comments, there are several market benefits to scaling the penalty parameters. First, it addresses the speculative supply concerns that have been raised. An import offer that clears the day-ahead market will now be exposed to the risk of having to buy it back at $2,000/MWh

in the real-time market regardless of whether or not the import bid screen is above $1,000/MWh. This creates a real risk 24x7 that will deter the imports from engaging in speculative supply behavior. Second, it provides for a stronger market signal during shortage conditions *if* prices can rise to $2,000/MWh even when all other supply has been offered below that price point. WPTF does understand the concerns raised by EIM entities whereby a small quantity of shortage of a transient nature may cause the energy prices to significantly jump to $2,000/MWh. As such, WPTF would be supportive of exploring small steps of infeasibilities that allow prices to gradually rise to the $2,000/MWh bid cap as a way to mitigate large price swings resulting from only a few megawatts of shortage. In addition to deterring speculative import supply, higher penalty prices will also attract import supply as it provides an opportunity for them to receive $2,000/MWh in the event they provide energy during the times the CAISO needs it the most. In other words, it provides the appropriate incentives and disincentives when it comes to attracting high quality and reliable import supply.

Restricting the energy prices to the last economic cleared offer when the power balance constraint is binding undermines price formation under shortage conditions. WPTF does not support the proposed application of the power balance constraint (PBC) penalty parameter when (1) it is set at $2,000/MWh and (2) the power balance constraint is binding. WPTF strongly believes the CAISO should set the energy cost component at the $2,000/MWh penalty price whenever the PBC is violated, noting that WPTF is open to exploring small gradual steps to prevent large price swings during small transient shortages. One of the key characteristics of the PBC penalty parameter is to allow prices to rise above the last marginal cost of energy when the system is short supply to meet demand. This happens today when the $1,000/MWh penalty price sets the energy cost component of all nodal LMPs when the PBC is binding. The difference between the last cleared economic offer and the $1,000/MWh penalty price signals scarcity to the market. Under the CAISO's proposal, this feature will be eliminated when the penalty price of the PBC is set to $2,000/MWh. Therefore, when costs are sufficiently high enough such that market offers above $1,000/MWh have been cost verified and the penalty prices are all scaled to the $2,000/MWh energy bid cap, the market will not allow prices to rise above the last cleared economic offer even when there is not enough supply to meet demand. From a pricing perspective, it will not be transparent to market participants to know if prices were set off a marginal offer and there was still additional supply, or if the market was short supply. This seems as though the CAISO is placing less value on the market providing some sort of scarcity pricing signal when costs are greater than $1,000/MW than when costs are under $1,000/MWh. Prices should be able to rise above the last economic offer when supply is short regardless of where costs are relative to the soft energy bid cap of $1,000/MWh.

On a related note, WPTF would like the CAISO to confirm that when the PBC constraint is binding the system marginal energy component of all the LMPs will be set at the penalty parameter (e.g., $1,200/MWh tomorrow assuming last cleared economic offer was $1,200/MWh). Therefore, depending on the congestion component, the actual nodal LMPs may rise above $1,200/MWh. There was discussion on the May 8th MSC call that highlighted the

potential of unintended pricing outcomes when the PBC is binding relative to when the PBC is not binding but there are high congestion costs on the system. Specifically, the CAISO seemed to indicate that if the PBC is not binding but congestion costs are sufficiently high at a given node, the nodal LMP at that location can rise above the PBC penalty price. However, when the PBC is binding, the nodal LMPs (as opposed to just the energy component of the LMP) are set to the penalty parameter and thus cannot rise above the penalty price regardless of congestion on the system. If this is in fact the case, it seems odd to allow prices to be higher absent PBC violation yet restrict the price signal to the PBC penalty price (or last economic cleared offered under the proposal) when there are shortage conditions. Thus, WPTF would appreciate if the CAISO can confirm that the energy component (not the nodal LMP) is set to the penalty price when the PBC is binding and can therefore rise above that value due to congestion in a similar manner as when the PBC is not binding.

WPTF asks for additional clarification regarding the application of the import bid screen. It is WPTF's understanding that the CAISO will be calculating two separate maximum import bid prices, one for the north and one for the south, thus it could be the case that import offers greater than $1,000/MWh would be allowed in one region but not the other. If our understanding is accurate, we believe additional discussion would be useful around the potential implications of having two separate screens on the bids that would be accepted. For example, if the import bid screen in the north is above $1,000/MWh does this mean that (1) only import and virtual supply offers greater than $1,000/MWh can be submitted in the north or (2) only import offers greater than $1,000/MWh can be submitted in the north but virtual supply offers above $1,000/MWh can be submitted system-wide? Likewise, if bids greater than $1,000/MWh are accepted due to a cost-verified resource specific offer from a resource in the north, does this mean that (1) only import and virtual supply offers greater than $1,000/MWh will be accepted in the north or (2) import and virtual supply offers greater than $1,000/MWh will be accepted system-wide?

The CAISO should take this opportunity to develop a true shortage pricing mechanism similar to what is implemented in the other ISOs/RTOs. WPTF greatly appreciates the summary of the other ISOs/RTOs shortage pricing mechanisms provided in the appendix of the FRP Enhancements Proposal. While we understand this information was provided in another stakeholder effort, it is extremely relevant to this policy discussion as well, which was highlighted during the May 8th MSC call. The summary of other shortage pricing mechanism really highlighted to WPTF how restrictive the CAISO is with regards to allowing prices to reflect near-scarce and scare conditions relative to the other ISOs/RTOs. Thus, we were very pleased to hear on the May 8th MSC call that not only does the MSC believe the CAISO should seriously start developing some sort of shortage pricing mechanism, but that the CAISO was also open to starting that discussion. WPTF has been commenting on the need to develop a scarcity pricing mechanism in various stakeholder efforts that are currently open just to have the CAISO point to the FRP Enhancements as the mechanism to address our concerns. Therefore, WPTF asks that the CAISO prioritize a shortage pricing stakeholder effort such that it can be implemented

concurrently with the FERC Order 831 and any form of system market power mitigation. Increasing the PBC penalty price to $2,000/MWh in all hours provides for a starting point from which a robust shortage pricing mechanism can be constructed.

WPTF thanks the CAISO for consideration of these comments.