

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

Kallie Wells - Gridwell Consulting for WPTF - kwells@gridwell.com

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 Revised Draft Final Proposal that was discussed on the July 29, 2020 stakeholder call. As iterated in our prior comments, WPTF continues to encourage the CAISO to wait for direction from FERC on the CAISO's Compliance Filing. Scaling the penalty parameters to be aligned with the \$2,000/MWh energy bid cap regardless of market offers not only provides strong price signals when the market is experiencing shortage conditions but also provides a disincentive for speculative import supply. However in the event the CAISO continues to move forward with this policy, WPTF is directionally supportive of applying a screen to import offers as means of cost verification but has some concerns with regards to the implications of the newly proposed permissible band. To that end, WPTF offers a slight modification to the current proposal for consideration that we believe addresses the concerns related to the permissible band noted by stakeholders during the call while still achieving the desired objectives of this policy effort.

Comments

WPTF appreciates the CAISO's responsiveness to stakeholder concerns raised regarding the need to allow prices to increase above the last cleared economic offer when the power balance constraint (PBC) is relaxed. The concept of the permissible band is an improvement over the prior proposal as it would allow for prices to reflect some level of scarcity pricing. However, WPTF has concerns with how the permissible band will be set and its implications in the market optimization as summarized below:

- The permissible band will differ by EIM BAA and thus would result in inconsistent scarcity signals by BAA as two BAAs with the same level of shortage could result in one

BAA having \$2,000/MWh prices and the other prices based on the last cleared economic offer

- Having each EIM BAA set its own permissible band based on its own criteria is not transparent nor a consistent market design and will result in unintended consequences
- Under the current system market power mitigation proposal, mitigation may be triggered simply because the CAISO energy prices separated from the other EIM BAA prices due to having a lower permissible band and thus prices increased to \$2,000/MWh while others remained based on the last cleared economic offer
- The first MW of a shortage is still a shortage condition and prices should be able to reflect some level of scarcity at that moment

For the reasons articulated above, WPTF suggests that the CAISO consider an alternative variation of the permissible band that would allow prices to rise above the last cleared economic offer based on differing levels of shortages, starting with the first tenth of a megawatt of shortage. This would be similar to the current concept of the permissible band except would have several more steps and each step would be associated with a dollar amount that would be added to the last cleared economic offer; the last step would then have prices be set based on the \$2,000/MWh energy bid cap. WPTF envisions that each BAA would have the same steps and prices. For example, if there was a shortage between a 0.1 MW and 10 MW in a given BAA, prices would increase by \$10/MWh above the last economic bid; a shortage between 11 MW and 25 MW would have prices increase by \$20/MWh; then once the shortage was more than 25 MWs, prices would be set based on the energy bid cap of \$2,000/MWh. To be clear, WPTF is not suggesting the above steps and associated pricing, but rather provided these as an illustrative example of the proposed modification.

The proposed modification to the current permissible band design would address all of the concerns noted above. It provides for a transparent and consistent pricing design across all BAAs, which would then ensure that when prices separate between BAAs, its due to either congestion or one area truly experiencing a different level of shortage conditions over the others. The stepped constraint design also allows for scarcity pricing to be reflected at the first MW of shortage but at the same time would not have prices instantly rise to \$2,000/MWh during small transient shortage conditions, which is a concern noted by EIM entities.

To be clear, WPTF does not believe this is a substitute for a robust scarcity pricing mechanism that allows prices to rise prior to hitting a shortage. WPTF still strongly believes the CAISO should absolutely engage in a stakeholder effort solely focused on scarcity pricing. This proposed modification is intended as an improvement to how the CAISO is currently proposing prices to be set when (1) the PBC penalty parameter is set at \$2,000/MWh, and (2) the PBC is relaxed.

WPTF thanks the CAISO for consideration of these comments.