

Comments of Powerex Corp. on EIM Governing Body Market Expert

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit these comments in response to the Western Energy Imbalance Market (“EIM”) Governing Body’s request for comments on the scope of responsibility and qualifications of a market expert to provide the Governing Body with advice on market issues.

Powerex believes that the engagement of a highly qualified and highly credible independent market expert (“IME”) is a critical step towards building confidence in the governance structure of the Western EIM and is a necessary prerequisite to the expansion of CAISO-operated markets in the west. To date, the development and evolution of the Western EIM has largely leveraged the CAISO’s existing market rules, decision-making processes, and oversight framework. While this may be understandable, recent events have made clear that there are significant shortcomings to this approach. Powerex believes that engaging an IME charged with providing an objective and independent assessment of existing market rules and market performance will go a long way towards independently identifying areas where the Western EIM can be modified to better balance the interests of all market participants.

I. Focus of the IME

Powerex believes that a core function of the IME must be to provide objective quantitative and qualitative assessments of market operations and market design at its own initiative, in response to requests from the Governing Body, and in response to stakeholder requests seeking evaluation of key market design issues or concerns. Among other things, the scope of the IME’s duties should include:

- Providing periodic assessments on the state and performance of the market, including the relative distribution of costs and benefits among market participants resulting from specific market design choices, and the compliance of different entities with key aspects of the market design (e.g., resource sufficiency).
- Providing guidance to the Governing Body and stakeholders on the existing market design, including resource sufficiency requirements, local market power mitigation, greenhouse gas accounting, and price formation.

- Providing an analysis of proposed market design changes, including the likely impact on different classes of market participants and sub-regions.
- Conducting analyses of issues of concern identified by stakeholders. In order to assist the IME with determining what issues warrant scrutiny, the IME should be permitted to engage in confidential discussions with stakeholders in order to obtain information that it can use to determine where to direct its resources.
- Providing an objective, independent assessment of evaluations prepared by CAISO or the CAISO Department of Market Monitoring (“CAISO DMM”).

An important aspect of the analyses and assessments described above will be providing the Governing Body and stakeholders with a fresh and objective perspective on how the market rules and practices of the CAISO compare with those employed in other organized markets. Recent Federal Energy Regulatory Commission (“FERC”) technical conferences and proceedings have made clear that the market design and price formation practices of the CAISO differ markedly from those employed by other Regional Transmission Organizations and Independent System Operators (“RTO”). This may be unsurprising given that the CAISO markets have historically been designed to serve California load interests; yet, viewing market design and price formation issues solely through a California-centric lens may not always serve the interests of all market participants or ensure that market design issues are addressed in a balanced way. Powerex believes that engaging an IME with a broader perspective will provide the Governing Body and stakeholders with a more comprehensive understanding of market design issues and help ensure that these issues are resolved in a manner that more appropriately balances the interests of market participants outside of California. For that reason, Powerex believes that any analyses and assessments prepared by the IME should strive to provide the Governing Body and stakeholders with an understanding of how the design and performance of the Western EIM compares to the practices of other RTOs and FERC policy, and how industry best-practices can be leveraged to ensure a more balanced and equitable market.

II. Qualifications

In order to effectively provide the scope of services set out above, the IME will necessarily need to meet the following minimum requirements:

- *A deep understanding of organized markets:* The IME must be an entity that has substantial experience with, and a comprehensive understanding of, organized market design and performance as well as FERC policy governing wholesale markets.

- *Diversity of perspective:* The IME should have a demonstrated diverse perspective on the complex market design issues and topics from the approaches applied in existing CAISO markets. Currently, the EIM Governing Body must rely on the CAISO DMM and the CAISO Market Surveillance Committee (“MSC”) to provide their view of the market design proposals presented by CAISO staff. This includes a number of complex topics in which there has been significant disagreement among stakeholders, often with a clear difference in views between California load serving interests and EIM stakeholders in other regions. When faced with these challenging topics (most recently including EIM Resource Sufficiency, System Market Power Mitigation, and transmission priority for wheel-throughs), the perspectives provided to the Governing Body by the CAISO DMM and CAISO MSC are naturally focused on the load interests in the CAISO BAA, while external stakeholders with different perspectives are left to communicate these views to the Governing Body. Engaging an IME with a history of diverse perspectives and interests will help to ensure that these issues are evaluated in a manner that more appropriately balances the interests of market participants outside of California.
- *Technical capabilities:* The IME must have exceptional technical capabilities to analyze large amounts of data, evaluate complex technical topics, and provide detailed reports and analysis in a timely manner.
- *Experienced staff:* The IME should not be a single individual or an organization that needs to hire a new team to support the IME function. Instead, any entity that serves as the IME should be required to demonstrate that it has an existing team with the requisite experience and expertise that can provide the full scope of services described above. Indeed, it is difficult to understand how an entity could provide the advisory and analytical services described above absent the support of an existing team that is already devoted to evaluating the performance and evolution of organized markets.
- *Leverage existing resources and skills:* The IME should also be an entity that can leverage the analytical capabilities and tools that have been developed to support the entity’s existing clients to efficiently and cost-effectively provide the guidance and analyses described above.
- *Highly credible:* The IME must be an entity that has an established reputation and experience in the industry. Because the analyses and assessments provided by the IME will be relied upon by the Governing Body, stakeholders, and, potentially, FERC, it is important that the IME be an entity whose analyses and opinions already carry weight in the industry.

Given these qualifications, Powerex believes that there is an obvious choice to fulfill the IME role: Potomac Economics. As the existing market monitor for four RTOs and the

Regional Greenhouse Gas Initiative, Potomac Economics is well positioned to leverage its existing experience and capabilities to efficiently and cost-effectively fulfill the duties of the IME. Potomac Economics also has established a high level of credibility in the industry and its opinions and analyses are regularly relied upon by other RTOs, market participants, lawmakers, and FERC. While Powerex believes Potomac Economics is the best fit for the IME role and that it may be challenging to identify other choices with comparable expertise and credibility, Powerex would also support a different selection that best meets all of the qualifications described above.