

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to
Oversee the Resource Adequacy
Program, Consider Program
Refinements, and Establish Annual
Local and Flexible Procurement
Obligations for the 2019 and 2020
Compliance Years.

Rulemaking 17-09-020
(Filed September 28, 2017)

**COMMENTS ON PROPOSED DECISION OF
THE DEPARTMENT OF MARKET MONITORING OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The Department of Market Monitoring (DMM) of the California Independent System Operator Corporation (CAISO) submits these comments on the *Proposed Decision Refining the Resource Adequacy Program*, filed November 21, 2018.

I. Background

The Commission’s Proposed Decision “adopts changes to the Resource Adequacy program, including identifying the distribution utilities as the central procurement entity for their respective distribution service areas and adopting specifications and requirements for implementation of multi-year local procurement to begin for the 2020 compliance year.”¹

II. DISCUSSION

DMM supports the Commission’s direction to establish multi-year local resource adequacy (RA) procurement facilitated by central buyers. DMM believes a multi-year, central buyer local procurement framework will help ensure that capacity effective to

¹ *Proposed Decision*, p.3

meet local reliability requirements is procured within the Resource Adequacy framework, potentially reducing the need for CAISO backstop procurement. The proposed local procurement framework could help facilitate procurement of local resources effective to meet reliability requirements at least cost for all Load Serving Entities (LSEs) in a Transmission Access Charge (TAC) area, while allowing the central buyer to also consider selection criteria such as state policy goals.

While DMM supports the general proposed framework for local RA procurement, questions remain regarding how the proposed central buyer framework will interact with long term resource planning and procurement. In particular, it is not clear how entities will be incentivized to build and contract for new generation needed for local reliability, what entities will be responsible for contracting for new generation, and how contract costs and attributes will impact LSEs. DMM's questions overlap with those raised in the Commission's Integrated Resource Planning (IRP) proceeding under Rulemaking 16-02-007, filed on November 16, 2018.²

DMM expects that further discussion will take place on how the proposed central buyer framework, the IRP process, the CAISO's Transmission Planning Process (TPP), and CAISO's backstop procurement mechanisms (CPM and RMR) will interact together under R.16-02-007. DMM believes these discussions will be important to inform the overall design of the CPUC's capacity procurement framework going forward. Design of the central buyer procurement framework should continue to evolve along with changes to related planning and procurement processes overseen by the CPUC and the CAISO.

² *Ruling of Assigned Commissioner and Administrative Law Judge Seeking Comment on Policy Issues and Options Related to Reliability*, R.16-02-007, November 16, 2018, p. 6-7.

Finally, DMM provides comment on a particular aspect of the proposed central buyer framework. The Proposed Decision encourages (but does not require) central buyers to procure dispatch rights along with RA capacity.³ DMM believes this part of the proposed design could benefit from additional discussion. The central buyer is an independent entity that procures capacity to meet local capacity requirements on behalf of load. If the central buyer also procures dispatch rights, the central buyer would presumably bid and schedule the resource on behalf of all LSEs in a TAC area. The central buyer may not be optimally incentivized to operate and offer the resource most efficiently as it does not serve load or retain market revenues. Dispatch rights may be more efficiently managed by the entity that values the energy contract the most.

The Commission could consider a framework that would allow the central buyer to auction off dispatch rights to third party entities after the central buyer has procured the rights. Potential buyers could include LSEs short on energy who seek to manage exposure to spot market prices, entities who value an energy contract's attributes (e.g. if the contracted asset is a renewable or preferred resource), or entities seeking energy market revenues in exchange for a fixed payment. Auction revenues paid to the central buyer would be allocated among LSEs. Auctioning off energy rights to entities who value those rights the most could potentially result in more efficient operation of contracted resources in the CAISO market than if resources were controlled by a central buyer.

Given state policy goals, DMM expects that new generation authorized by the Commission going forward will consist of renewable resources or flexible, preferred

³ *Proposed Decision*, p.38

resources such as storage. If the central buyer is ultimately responsible for contracting with new generation, DMM expects entities will value both the contract attributes and revenue opportunities associated with the energy rights of preferred resources.

III. CONCLUSION

DMM supports the Commission's direction to establish a multi-year central buyer procurement framework for local resource adequacy. Questions remain regarding how the proposed central buyer framework will interact with long term resource planning and procurement. DMM looks forward to continued discussion with the Commission and other parties on the interaction between the proposed central buyer framework, the IRP process, the CAISO's TPP, and CAISO's backstop procurement mechanisms, under R.16-02-007. These discussions will be important to inform the overall design of the CPUC's capacity procurement framework going forward.

Respectfully submitted,

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