

**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 OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION**

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I. Introduction

The California Independent System Operator Corporation (CAISO) hereby provides comments on *Assigned Commissioner's Ruling Seeking Comment on Clarification to Resource Adequacy Import Rules* (Ruling), issued in this proceeding on July 3, 2019. The CAISO appreciates this opportunity to provide comments.

II. Discussion

The CAISO appreciates the Commission's efforts to address concerns regarding the potential for speculative supply provided by resource adequacy imports. The CAISO shares the Commission's concerns and recommends that the Commission clarify the resource adequacy rules to minimize the risk of speculative supply from resource adequacy imports. As the CAISO details below, the Commission should require that resource adequacy import contracts demonstrate both firm energy and firm transmission into the CAISO, as defined below. The CAISO also recommends that the Commission consider directing load-serving entities (LSEs) to negotiate energy price hedging mechanisms in resource adequacy import contracts.

III. Response to Questions

- 1. Should Commission decisions (a) require RA import contracts to include the actual delivery of firm energy with firm transmission and (b) clarify that only a bidding obligation is deemed not sufficient to meet RA rules?**

The CAISO agrees that a bidding obligation alone is insufficient to meet resource adequacy rules. To provide reliable resource adequacy capacity, imports contracts must have assurances of physical availability and deliverability similar to internal resources. More

specifically, the CAISO believes that resource adequacy imports must provide (1) “firm energy” in the sense that they are backed by identified physical resource(s) or, at a minimum, identify the source balancing authority and (2) not be subject to recall by the resource’s native balancing authority. The intent of requiring firm energy and transmission is to ensure energy associated with resource adequacy capacity that clears the CAISO market is delivered and not recalled, thus preventing double counting and speculative supply.

The CAISO does not believe resource adequacy import contracts need to include terms for actual energy delivery absent a CAISO market award. *Actual energy delivery needs should be determined by the CAISO market*, rather than pre-determined by contract terms that render the import equivalent to a “must-take” resource. “Must-take” resources reduce the flexibility of system resources needed to operate the grid. If the Commission elects to treat resource adequacy imports as “must-take” resources, it should ensure that import resource adequacy resources are accounted for in the maximum cumulative capacity (MCC) buckets, and align with identified reliability needs. Specifically, the Commission should ensure that LSEs do not over procure resources with inflexible energy commitments for midday deliveries.

2. Do parties agree that firm transmission capacity is required in addition to firm energy? Please explain why or why not.

Yes. The CAISO agrees that resource adequacy import contracts should require resources to secure firm transmission capacity prior to bidding into the CAISO day-ahead market to ensure that energy is deliverable. Requiring import resource adequacy resources to secure firm transmission prior to bidding into the CAISO day-ahead market assures there is sufficient external transmission devoted to serving CAISO load prior to the day-ahead market. The CAISO understands firm transmission to mean transmission that cannot be recalled due to someone, such as the native balancing authority area, having a higher priority claim to the transmission. This provides benefit even if non-resource adequacy imports clear the CAISO day-ahead market and resource adequacy imports do not. In such a case, the transmission capacity secured by resource adequacy imports would then be available to non-resource adequacy imports to serve load in real-time because the resource adequacy imports that did not clear the CAISO day-ahead market would then release the transmission, thereby making it available for the non-resource adequacy imports.

Resource adequacy import bids accepted in the CAISO day-ahead market that are not deliverable into the CAISO balancing authority can significantly degrade CAISO system reliability and force the CAISO to take corrective, out-of-market, action in the real-time to remedy any non-delivery. Relying on CAISO corrective actions in the real-time is much less efficient than planning through the existing CAISO day-ahead market mechanisms and may lead to reliability issues and less cost-effective outcomes.

3. Should the Commission clarify its rules, or are existing decisions and requirements sufficient? If the former, please propose clarifying language and/or how such clarifications should be established.

The CAISO recommends that the Commission clarify the resource adequacy rules to require imports to be backed by identified physical resources and/or a source balancing authority such that the cleared import is delivered and not subject to recall due to a specific resource tripping, as discussed in response to Question 1, above.

The CAISO also recommends the Commission consider requiring resource adequacy import contracts to include energy hedging provisions. This would mitigate LSE energy spot market exposure to high prices and better ensure that resource adequacy imports are used and useful, as opposed to simply bidding at or near the energy bid cap in the day-ahead market to avoid real-time delivery obligations. For example, the Commission could consider requiring resource adequacy import contracts be coupled with an energy hedging arrangement such as an energy contract-for-differences. This is a common energy hedging option that offers the most flexibility and market efficiency benefits. In contrast, requiring a must-take arrangement for resource adequacy imports offers the CAISO market the least flexibility and efficiency. Including energy hedging arrangements provides incentives for the physical resource to produce and deliver energy when the actual market energy price is higher than the contract. On the other hand, energy hedging provides efficient market flexibility for more economic energy from to be delivered when the marginal energy price is less than the contract price for the energy. Thus it provides the incentive for the energy to be bid in at its contract price, and if that contract price reflects the marginal cost of energy for that resource, then it will result in an efficient outcome, which helps mitigate the potential for resource adequacy imports to provide high bids simply to avoid the potential to actually deliver energy.

4. **If the Commission determines that RA import contracts with a bidding obligation, but without delivery of firm energy with firm transmission, do not qualify as RA, how should these types of contracts be addressed going forward? Should these contracts be disallowed for the balance of 2019, beginning in 2020, or at a later date?**

The CAISO appreciates the Commission's efforts to act expeditiously to address the emerging concerns with resource adequacy imports, but considering that any Ruling in this proceeding may not take effect until after, or well into, summer 2019, the CAISO recommends that any modifications to the resource adequacy import rules and requirements should start in 2020. This will minimize disruptions to the resource adequacy program in the short-term. Once the Commission clarifies the resource adequacy import rules, any divergence should be assessed proactively and the Commission should reject the contracts that do not adhere to resource adequacy program rules.

5. **How should LSEs document their RA import resources meet the Commission's import rules? Examples may include, but are not limited to, LSEs providing attestations or certifications for each import contract or attestations from the import provider.**

The Commission should require LSEs to provide the actual contracts, attestations or certifications, whichever is more relevant, for each import resource adequacy contract.

6. **If necessary, how should Energy Division staff determine compliance?**

The Commission should review each contract or attestation and compare bidding behavior with the import resource adequacy rules to ensure compliance with the clarified resource adequacy rules.

IV. Conclusion

The CAISO appreciates the opportunity to provide these comments and looks forward to working with the Commission in refining and tailoring the resource adequacy import rules.

Respectfully submitted,

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