

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

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish
Forward Resource Adequacy Procurement
Obligations.

Rulemaking 19-11-009
(Filed November 7, 2019)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON TRACK 1 WORKSHOP REPORT AND PROPOSALS**

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I. Introduction

The California Independent System Operator Corporation (CAISO) submits comments on the Track 1 proposals submitted pursuant to the January 22, 2020 Assigned Commissioner’s Scoping Memo and Ruling (Scoping Memo). The CAISO emphasizes that any new rules adopted in this proceeding should require that resource adequacy imports provide reliable capacity from physical resources that are not dedicated to other balancing authority areas. The CAISO’s February 28, 2020 Track 1 Proposal (CAISO Proposal) provides a number of complementary mechanisms to accomplish this goal, but the foundational elements of the CAISO Proposal are (1) a source specific information requirement at the time of the resource adequacy showings, together with requirements for appropriate attestation or other supporting documentation to validate that shown capacity is backed by real, physical resources in excess of the supplier’s or balancing authority area’s existing capacity commitments; and (2) an extension of the CAISO’s Must Offer Obligations¹ to the Real-Time Market for resource adequacy imports included in resource adequacy showings. The Commission should adopt updated resource adequacy import rules that require load-serving entities to provide source specific information at the time of resource adequacy showings. In concert with the Commission rule changes, the CAISO will pursue similar rules for supplier showings and changes to its Real-Time Market Must Offer Obligations for resource adequacy imports.

¹ Terms not otherwise defined herein are used as defined in the CAISO tariff.

The CAISO disagrees with Southern California Edison Company (SCE) and Shell Trading (SCE/Shell Joint Proposal), which recommends that the Commission should consider resource adequacy import proposals designed only to address energy market price risks without addressing the fundamental need to require real, physical capacity. If the Commission finds it necessary to consider hedging mechanisms for energy contracts, these energy pricing guidelines should not be conflated with capacity contracting and are not a substitute for source specification requirements to secure real, physical capacity in advance.

II. Discussion

A. The Commission Should Adopt Source Specification Requirements for Resource Adequacy Imports.

The CAISO Proposal recommends that the Commission adopt a source specification requirement for all resource adequacy-eligible imports at the time of resource adequacy showings. The CAISO Proposal further defines source specification to mean that the importer would “provide specification of either the specific unit, aggregation of units, or the source balancing authority area” to qualify as a resource adequacy-eligible import. Proposals submitted by Morgan Stanley and Powerex would establish similar “source specific” resource adequacy import products.² The CAISO continues to believe the Commission should require source specification and related attestations and/or documentation to ensure resource adequacy imports provide real, physical capacity.

The Commission should not accept energy products without source specification as resource adequacy-eligible resources. Both Morgan Stanley and the SCE/Shell Joint Proposal would allow import energy contracts to count toward resource adequacy requirements without source specification.³ These proposals are inadequate to address the speculative supply and double counting issues that the CAISO Proposal addresses. As overall capacity in the West continues to tighten, the speculative supply and double counting issues will only increase, leading to potential capacity shortfalls during periods of high west-wide demand. The Commission and CAISO resource adequacy programs should ensure that on a going-forward basis there are adequate capacity resources to serve California demand. If the Commission

² Track 1 Proposal of Morgan Stanley Capital Group Inc. Regarding the Scope, Schedule, and Administration of R.19-11-0019 (Morgan Stanley Proposal), p. 6; Track 1 Proposal of Powerex Corp., p. 16.

³ Morgan Stanley Proposal, p. 8.

continues to allow unspecified short-term energy purchases to satisfy resource adequacy delivery obligations, California will not reduce its reliance on the short-term energy market for its reliability.

In addition to source specification and attestation requirements, the CAISO Proposal recommends that the Commission and CASO require firm transmission delivery for all resource adequacy imports at the time of the monthly showings. Other party proposals raised concerns about the availability and liquidity of firm transmission rights from the Pacific Northwest. The CAISO understands that the market for firm transmission rights may be constrained and that requiring firm transmission rights at the time of monthly showings may not be economically feasible. Though requiring firm transmission rights at the time of monthly showings would help ensure a reliable, deliverable capacity product, there may be alternatives that also ensure that available transmission capacity will be available to serve resource adequacy imports, and the CAISO is not averse to exploring such alternatives.

B. The CAISO Does Not Intend to Pursue Tariff Modifications to Implement Strike Prices or Bid Caps for Resource Adequacy Imports.

The SCE/Shell Joint Proposal recommends that the CAISO implement a maximum strike price for resource adequacy imports at a level below the current CAISO energy market price cap. This strike price would be tied to prevailing natural gas prices. The SCE/Shell Joint Proposal suggests that the “most effective way to implement this proposal is through CAISO tariff modification, which would amend existing must-offer obligation and bid insertion rules such that the bid price of an import RA resource will not exceed the proposed strike price.”⁴ Although the Commission can consider price hedging mechanisms applicable to contracts signed by its load-serving entities, the CAISO does not intend to pursue tariff modifications to implement strike prices or bid caps for resource adequacy imports participating in its energy markets.

The CAISO supports load-serving entities entering into energy hedging contracts, but such contracts can and should be separate from resource adequacy contracts. The CAISO is concerned that including bid caps in all Commission-jurisdictional resource adequacy contracts may prove counter-productive, either by deterring competitive resources from participating in California’s resource adequacy program or by increasing capacity prices. Unlike internal

⁴ SCE/Shell Joint Proposal, p. 6.

resource adequacy supply, resource adequacy imports compete in a west-wide market and have not been historically committed to meeting CAISO energy needs. As such, the Commission should encourage energy hedging mechanisms and contracts, but should carefully weigh the implications and consequences of embedding a strike price in every resource adequacy import contract.

The CAISO notes that its proposal to address speculative supply issues will also mitigate energy bidding and market power concerns. As the CAISO Proposal notes, if the Commission requires capacity contracts backed by real physical resources, suppliers will have an incentive to bid marginal costs resulting in an efficient energy dispatch in the CAISO's day-ahead and real-time energy markets. In contrast, sellers providing speculative import supply have an incentive to submit high energy bids to avoid dispatch.

III. Conclusion

The CAISO appreciates this opportunity to provide comments on Track 1 proposals and looks forward to working with the Commission and parties to ensure that imports continue to meet resource adequacy needs.

Respectfully submitted

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