Stakeholder Comments Template

Regional Resource Adequacy Initiative
Issue Paper

Submitted by	Company	Date Submitted
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The Northwest Intermountain Power Producers Coalition (NIPPC) offers the following comments to the Resource Adequacy Issue Paper posted December 9, 2015.

Guiding Principles

While presented as a step in the integration of PacifiCorp, NIPPC views this discussion of Resource Adequacy (RA) as creating policy that would apply to any footprint expansion. In the context of Resource Adequacy, several general principles should be recognized.

1. The purpose of Resource Adequacy requirements is to ensure that Load Serving Entities (LSEs) have adequate generation resources available to meet their customers' needs. At the same time, Local Regulatory Authorities (LRAs) have a role - often derived from state statute or policies - giving them authority over the resource acquisition decisions of the LSEs under their jurisdiction. Municipal entities also have their own specific mandates for reliability that must be taken into account. Similarly, jurisdictions outside California will have policies and priorities for selection of generation resources that will differ from those of California regulatory authorities. Those differences will need to be addressed in a way that respects these jurisdictional differences, while at the same time ensuring the formation of viable markets that provide price transparency and fair distribution of the RA requirements across the broader footprint.

2. Resource adequacy requirements also exist to ensure that each of the LSEs is carrying its fair share of the system's total capacity needs. As noted above, regulators have an interest in approving the resource acquisitions of the LSEs under their jurisdiction. Those regulators also have an interest in ensuring that LSEs outside their jurisdiction are carrying their fair share of the resource adequacy requirements of the entire system. In the absence of enforceable Resource Adequacy requirements

in an organized market, regulators have no mechanism to ensure that the resources acquired by the LSEs under their jurisdiction are not being “leaned on” by LSEs in neighboring jurisdictions.

3. Any changes to the CAISO tariff should also recognize that PacifiCorp and other potential Participating Transmission Owners (PTOs) are currently meeting their load obligations — as noted above, any changes to the CAISO tariff must accommodate reasonable differences between the jurisdictions, and provide a carefully constructed transition plan if it is determined that changes in the quantity or type of resources a PTO must have are warranted.

4. NIPPC believes that Resource Adequacy rules must not discriminate between independently owned generation and generation owned by LSEs. In the current CAISO market structure, generation resources owned by LSEs are able to recover the fixed costs of that generation through their retail rates - and need to recover only their operating costs through the energy market. Independently owned generators that do not have contracts with the regulated utilities for the output of their generation, however, must recover both their fixed and variable costs through their energy bids into the market. This difference in the treatment of fixed costs threatens the long-term viability of independent power to participate in the marketplace and provide low cost/low risk generation resources to loads across the West. This issue of procuring adequate capacity on fair and reasonable terms is a challenge in organized markets across the country. But this has also been an issue in the bilateral markets in the West. For example, in the Pacific NW, the NW Power and Conservation Council has struggled with how to account for the seasonal availability of independently owned generation that is installed in the region but not under contract. While NIPPC recognizes that this process is not the appropriate one in which to undertake a wholesale review of the CAISO’s RA mechanisms, these issues will need to be revisited in the future.

5. NIPPC also recognizes that the ability of LSEs to procure capacity to meet RA requirements from a broader geographic footprint is one of the primary benefits of regional expansion. A larger regional footprint offers LSEs more choices in meeting their RA obligations -- and increased competition among generators will result in lower costs in meeting those RA obligations.

Tariff Clean Up

Assuming that PTOs from outside of the State of California formally join the CAISO, NIPPC agrees that the CAISO tariff needs to be made more generic to eliminate specific references to California regulatory bodies and to update tariff provisions that are out of date.

Default Tariff Provisions v. Standardized Requirements:

The CAISO specifically asks whether default tariff provisions should be updated, or if a more standardized approach is required to ensure that all LSEs provide an equal contribution to meet operational needs within the CAISO footprint.

NIPPC believes that the tariff should contain default RA provisions. At this time, NIPPC believes that these default provisions should reflect - and be no more stringent - than the North American Electric Reliability Corporation (NERC) reliability requirements.

The CAISO should have the ability to enforce a higher RA standard *if* a LRA has chosen to set a higher standard for its jurisdictional LSEs. There is no reason for LSEs to share RA requirements equally, if one LRA chooses to set a higher standard. And there is no reason that all LRAs should be required to accept a single RA standard established by any particular state or the CAISO. A market structure that requires different jurisdictions to accept a single set of standards will likely inhibit expansion of the CAISO footprint. Nevertheless, while the CAISO should be able to respect jurisdictional differences and enforce more stringent local RA requirements when called upon to do so by an LRA, regional flexibility in RA must be done in a way that ensures good market formation and a fair sharing of reliability requirements. All LRAs have an interest in ensuring that ratepayers of LSEs outside their jurisdiction are contributing their fair share to the overall capacity requirements of the entire system.

Establishing Deliverability

In its Issue Paper, the CAISO describes how it currently establishes deliverability, but the CAISO does not describe how the rules establishing deliverability might need to change with expansion. Future papers and presentations should highlight any impact an expanded footprint might have on the CAISO's deliverability rules.

The CAISO deliverability rules recognize internal constraints within the current CAISO footprint. As the Issue Paper notes, an expanded footprint will likely have transmission transfer constraints between the CAISO and PacifiCorp. However, further expansion including, for example, Nevada Energy joining as a PTO could increase transmission capacity between the CAISO and intermountain West.. Future stakeholder meetings should discuss how internal constraints are currently managed, and explore to what extent this approach to constraint management can be applied to an expanded footprint as well as what new complexities – and opportunities -- need to be considered in establishing deliverability of resources across an expanded footprint.

In the earliest stages of an expanded geographic footprint, transmission transfer capability between the CAISO and PacifiCorp will be limited. Accordingly, NIPPC recommends that the CAISO outline the formal process it will use to establish the Local RA requirements in consultation with LRAs. NIPPC also recommends that the CAISO describe its process for conferring with LRAs and LSEs to establish local RA requirements upon expansion of the CAISO footprint. The description of the process should include a list of topics for resolution along with a timeline, and as discussed below, the respective roles of the CAISO and the LRA in enforcing RA requirements.

Backstop Provisions

NIPPC recognizes CAISO must have some authority to respond when an LSE proves to be deficient in meeting RA requirements. The CAISO should consider whether there may be alternatives to backstop procurement of generation resources. While NIPPC recognizes that the CAISO has never exercised its backstop authority to acquire RA on behalf of an LSE, LRAs considering whether to allow their PTO to participate in an expanded regional energy market may perceive backstop procurement of resources by the CAISO as interfering with their regulatory responsibilities. The CAISO's use of backstop procurement authority in any expanded footprint must be reviewed in the overall context of how the existing RA requirements in the new jurisdictions work. How the CAISO's backstop authority would apply in an expanded footprint is an issue that requires careful consideration to ensure that it is modified as necessary to work well with existing RA programs in the expanded footprint area.

Transition Issues

As noted above, LSEs are currently subject to state requirements and NERC reliability standards, which cover their obligation to procure generation resources and meet their loads. Any default provisions in the CAISO tariff related to RA should not trigger changes in the quantity or type of resources LSEs must acquire in the near term. To the extent CAISO default provisions would result in higher requirements than currently exist under NERC standards, the CAISO and its stakeholders should explore whether the CAISO's current standards are higher than absolutely necessary to ensure reliability. To the extent California regulators have set - and the CAISO enforces - a higher resource adequacy obligation than NERC standards require, the CAISO's current resource adequacy obligations on LSEs should be modified. Alternatively, the CAISO should develop a white paper explaining why resource adequacy obligations above those set forth in NERC standards are required.

In addition to its existing process to periodically review specific system, local and flexible RA requirements with LRAs, the CAISO should also consider developing a mechanism to periodically review its overall RA rules. Over time the CAISO will develop experience in ensuring RA across a broader geographic footprint - just as LRAs will gain experience in how their priorities are actually implemented by their LSEs within the context of new market structures. The CAISO may be more successful in expanding its footprint if LRAs are confident that there is a defined timeline allowing a full review of RA requirements after the CAISO, LRAs and load serving entities have gained more experience working with the rules and each other.

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