

**Comments of Powerex Corp. on
Regional Resource Adequacy Issue Paper**

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Powerex appreciates the opportunity to submit comments on CAISO's December 9, 2015 Issue Paper on Regional Resource Adequacy. The Issue Paper sets out CAISO's preliminary analysis of the key elements of CAISO's existing resource adequacy ("RA") construct that it believes may need to be modified in order to extend this framework beyond the borders of California as part of a possible transformation into a broader regional market if PacifiCorp integrates as a Participating Transmission Owner ("PTO"). CAISO states that it assumes that "many, if not most, of the ISO's current RA related tariff provisions will work under a regional organization" and that CAISO does not intend "to explore broader changes to the general RA construct."¹ Nevertheless, CAISO encourages stakeholder comments on CAISO's suggested changes and any other elements of the RA framework that should be discussed during the stakeholder process.

CAISO's Issue Paper skips a critical first step that should be taken prior to the implementation of any RA framework in the context of a broader regional market. In particular, rather than focusing on narrow wording changes that may be needed to extend CAISO's existing RA construct to a broader region, Powerex believes that CAISO should engage with its stakeholders in the broader discussion of whether the existing construct should be extended in the first place, or whether an alternative RA framework would be better suited to meeting the needs of a broader regional market.

CAISO rightly identifies the primary benefits of regional integration as improved market liquidity and pricing transparency resulting from centralized dispatch and commitment.² And Powerex recognizes CAISO's considerable efforts in recent years to extend the benefits of centralized dispatch over a broader regional footprint. For example, CAISO developed and implemented the Energy Imbalance Market, providing centralized dispatch in real-time to a much broader footprint. More recently, CAISO has begun to lay the foundation for external balancing authority areas ("BAA") to participate in centralized unit commitment and dispatch in the day-ahead timeframe by joining as PTOs, an option PacifiCorp is actively considering. Electricity markets elsewhere in the country have gone one step further by developing centralized markets for the forward procurement of capacity. These centralized forward capacity markets have provided both liquidity and transparency benefits in their respective regions, and help ensure that

¹ Cal. Indep. Sys. Operator Corp., Regional Resource Adequacy: Issue Paper at 3 (Dec. 9, 2015).

² Energy and Environmental Economics, Regional Coordination in the West: Benefits of PacifiCorp and California ISO Integration, Tbl. 4 (Oct. 2015), available at <http://www.caiso.com/Documents/StudyBenefits-PacifiCorp-ISOIntegration.pdf>.

resource adequacy needs are met from the least-cost available resources, regardless of the resource's location (*i.e.*, whether located inside or outside a particular BAA) or whether the capacity is from existing or new resources.

Centralized forward capacity markets have not yet been developed in the west. And CAISO's proposal in this initiative to merely extend CAISO's current bilateral RA framework, which is based on a procurement process that is not centralized, liquid, or transparent, does not advance CAISO's broader efforts to build markets that achieve the cost-saving benefits of centralized procurement. Under CAISO's existing RA framework, each Load Serving Entity ("LSE") is required to secure sufficient capacity—either through ownership or a bilateral agreement with a supplier—to meet its share of local, system, and flexible RA requirements. Because the actual selection, negotiation, and execution of RA contracts is generally left to the subjective judgment of each individual LSE, there is no assurance that such a framework will lead to least-cost outcomes that are free of undue discrimination and not adversely affected by barriers to entry to new or external resources. In fact, the limited information that exists on RA procurement activities shows a very broad range of prices³ and suggests that RA requirements were not satisfied at least cost.⁴ Additionally, since the pricing of RA capacity is left to the individual negotiations between an LSE and a supplier, the existing RA construct fails to produce transparent price signals regarding the value of RA capacity that could create long-term incentives for additional market entry where it is most needed.

Rather than taking the default position that the existing framework should be extended, CAISO should take the opportunity, at this important juncture in its market development in the region, to consider fundamental reforms that improve the transparency, liquidity, and efficiency of the RA framework. Any new BA that integrates into the CAISO as a PTO will need to expend considerable time and effort to implement whatever regional RA framework is required. Rather than being required to implement the approach to RA that CAISO adopted a number of years ago under very different circumstances, Powerex believes it would be a far better use of resources for BAs that become part of the CAISO to implement the most efficient RA framework possible. A CAISO-led regional discussion should include examining the possibility of implementing a centralized capacity procurement and auction framework that would cover the broader footprint of BAAs that elect to join the CAISO as PTOs. The efficiency and transparency benefits of centralized capacity markets are well known among other ISOs and RTOs, where such structures are commonplace. A properly designed centralized forward capacity market would enable voluntary participation by all suppliers capable of meeting the technical requirements for RA capacity—including suppliers located outside the CAISO footprint—allowing them to compete to meet these needs and thus ensuring CAISO's RA

³ See, e.g., Cal. Pub. Util. Comm'n, 2011 Resource Adequacy Report at 22-26 and Tbl. 15 (showing range of prices for various categories of RA capacity), available at <http://www.cpuc.ca.gov/NR/rdonlyres/58DCCE4F-4096-42A9-BFDC-EC891129E8D9/0/2011RAreportFinal252012.docx>.

⁴ See, e.g., Cal. Pub. Util. Comm'n, 2012 Resource Adequacy Report at 34 (finding that "CPUC jurisdictional LSEs used between nine and 56 percent of their monthly import allocations during the summer of 2012"), available at <http://www.cpuc.ca.gov/NR/rdonlyres/94E0D083-C122-4C43-A2D2-B122D7D48DDD/0/2012RARReportFinal.pdf>.

requirements are met at least cost to consumers. Additionally, a centralized forward capacity market would provide much-needed price transparency, which is vital to ensuring new capacity investments are made at the right time and in the right locations. Such a structure stands in stark contrast to the opaque bilateral framework utilized within the existing CAISO footprint, which seems fundamentally out of step with the movement, led by the CAISO, towards centrally dispatched markets for energy and reserves in the region.

As a potential alternative to a centralized forward capacity market, it would be useful for CAISO to also explore whether there are substantive changes to its existing RA framework that could be made to remove existing barriers to entry, encourage greater participation by external resources, and promote the transparent pricing of capacity.⁵ Ultimately, ensuring equal competitive opportunities for all resources capable of meeting RA needs will confer broad reliability and economic benefits, both within any expanded CAISO footprint and throughout the west.

⁵ Powerex has provided more extensive comments regarding enhancements to the existing RA framework in CAISO's ongoing "FRACMOO2" stakeholder process.