

**Comments of Powerex Corp. on
Regional Resource Adequacy Third Revised Straw Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s Third Revised Straw Proposal on Regional Resource Adequacy (“RA”). Powerex submits these comments to address two aspects of CAISO’s Third Revised Straw Proposal:

- The requirements for imports to qualify as RA resources; and
- The proposed extension of the Maximum Import Capability (“MIC”) framework to an expanded Regional Transmission Organization (“RTO”) footprint.

Each of these issues is discussed below.

I. Qualification of Imports for RA

In the Third Revised Straw Proposal, CAISO proposes to revise its tariff to provide additional clarity regarding the types of imports that may qualify for system RA purposes. CAISO expresses concern that ambiguity in the tariff regarding the requirements for imports to qualify for system RA could be interpreted as “allowing LSEs to demonstrate through RA showings that they have met their RA requirements and move into the operating month without securing these contractual obligations prior [to] the month-ahead timeframe.”¹ More specifically, CAISO notes that the existing ambiguities in the tariff have led to a discussion of whether “bilateral spot market purchases or short-term firm market purchases procured at market hubs outside of the BAA” were eligible to meet a portion of an LSE’s system RA requirements.² In order to ensure that LSEs’ month-ahead RA showings do not include prospective intra-month spot market purchases and/or unsecured contractual obligations, CAISO proposes to revise its tariff to require that any import RA contracts identified in the monthly RA showings³ due 45 days prior to each month are associated with executed agreements

¹ Third Revised Straw Proposal at 39.

² *Id.*

³ Under the CAISO Tariff, LSEs and suppliers that have agreed to provide RA submit showings in the year-ahead and month-ahead time frames. Specifically, an LSE will submit an RA plan identifying the RA capacity that the LSE has procured to meet its RA obligations and a supplier will submit a supply plan identifying its RA commitments. CAISO validates the RA and supply plans against each other to ensure that the LSE and supplier’s records are consistent and to determine the RA capacity that will be counted towards meeting the LSE’s RA obligation.

or have been otherwise secured. CAISO states that it will ensure that import RA contracts have been secured by comparing contract reference numbers provided in the relevant LSE's resource plan with the supply plan submitted by the seller.⁴

Powerex supports CAISO's efforts to modify the criteria for import RA contracts to ensure that only secured resources are relied upon to satisfy RA requirements. As Powerex has previously articulated, allowing purchases that are not backed by physical capacity to count towards meeting an LSE's RA obligation is inconsistent with the primary purpose of an RA program – to ensure the forward procurement of sufficient physical resources to meet peak load plus a planning reserve margin – and has the potential to undermine reliability within the context of an expanded RTO footprint.⁵

CAISO's proposal to require import RA resources to be secured in advance of the due date for the submission of monthly showings represents one important step to avoiding reliance on spot market energy purchases to meet RA requirements. But Powerex believes that additional requirements are necessary to achieve CAISO's stated objective.

In particular, while CAISO's proposal will require import RA contracts between an LSE and a supplier to be executed in advance of the due date for the monthly showings, it will not provide any assurance that the entity selling RA to the LSE has actually committed physical capacity to support the contract. Under CAISO's proposal, there does not appear to be any requirement that the LSE or seller identify the physical generating capacity dedicated to supporting the contract. Without such a requirement, neither the acquiring LSE nor CAISO would have any verifiable way of knowing whether the RA "capacity" is truly backed by physical capability or whether it is backed only by the seller's expectation to be able to purchase spot market energy to meet its contractual obligations to the LSE. As currently proposed, then, CAISO's revised tariff requirement would not actually prevent intra-month spot market purchases from counting towards meeting an LSE's RA requirement. Powerex does not believe that such an outcome is consistent with the CAISO's objectives.

In order to ensure that import RA contracts can be relied upon to maintain reliability, Powerex believes it would be useful for CAISO to consider revising its proposal to require that all import RA contracts must be supported by identification of an individual generating unit or group of coordinated generating resources that can be relied upon to serve firm load. More specifically, Powerex believes that CAISO should require that:

- In order for an import RA contract to be counted for RA purposes, the contract must identify both the Source BA and the generation source (*i.e.*, the individual

⁴ Third Revised Straw Proposal at 39.

⁵ Comments of Powerex Corp. on Regional Resource Adequacy Second Revised Straw Proposal at 2-3 (June 15, 2016).

resource or group of physical resources, such as a multi-unit hydro system, that will be used to meet the RA obligation), as well as the transmission service arrangement that will effect delivery of this capacity to a specific CAISO intertie; and

- During the performance term of the RA contract, import RA resources must submit e-Tags for every hour of the contract term identifying:
 - The same Source BA and generation source that was designated in the RA contract; and
 - The same transmission service from the generation source to the CAISO intertie scheduling point that was designated in the RA contract.

These additional requirements would leverage the well-established e-Tag framework used throughout the Western Interconnection to commit physical resources to meet firm load requirements,⁶ and would ensure that any contracts relied upon to meet RA requirements represent identifiable physical resources and transmission necessary to effectuate delivery. Most importantly, the requirement that the supplier identify the physical resources committed to support its RA obligation in advance of, and during, the delivery period would prevent spot market energy purchases from being relied upon to meet RA obligations.

Powerex notes that the proposal's focus is on the month-ahead RA showing, but the same general concern also applies to an LSE's year-ahead RA showing. Powerex believes that applying the proposed "import RA" requirements only to the month-ahead RA showing would leave a critical gap that has the potential to undermine the purpose of the year-ahead RA showing process. In particular, unless similar requirements are applied to the year-ahead showings, CAISO will have no assurance that import RA contracts identified in an LSE's yearly resource plan actually represent physical capacity commitments during the relevant delivery year, as opposed to an intention to procure capacity in the shorter-term markets. Such uncertainty contravenes the very purpose of a yearly RA showing for a certain portion of the RA requirement—which is to limit the extent to which RA capacity is procured for terms shorter than one year. In order to achieve this objective, Powerex believes it would be beneficial for CAISO to apply the proposed requirements on import RA—including those outlined above—to the year-ahead resource showings.

II. MIC Allocation Process

In the Third Revised Straw Proposal, CAISO proposes to extend a modified version of its existing MIC allocation framework to the expanded RTO footprint. While

⁶ For a full discussion of the existing framework, see *id.* at 3-4.

acknowledging requests by stakeholders for further changes to the MIC framework, CAISO states that it will “monitor the MIC process as the ISO and stakeholders gain experience with these proposed refinements in an expanded footprint and reevaluate the need for further MIC refinements in the future.”

As Powerex and other stakeholders have observed,⁷ the existing MIC allocation framework is opaque and undermines the efficient and non-discriminatory procurement of RA capacity. CAISO currently allocates MIC to LSEs regardless of whether the LSE has actually procured import RA. Moreover, CAISO does not require that unused MIC allocations be made available for other LSEs. As a result, the existing process needlessly “strands” intertie capacity and restricts external resources from competing to provide RA capacity, to the detriment of both consumers and external suppliers.

Powerex remains concerned that CAISO’s proposal will extend the shortcomings of the existing MIC framework across an expanded regional market footprint. For that reason, Powerex requests that CAISO consider re-designing the existing, multi-step allocation process in order to promote the efficient and least-cost procurement of RA capacity. In particular, Powerex recommends that CAISO allocate MIC only once an LSE makes an affirmative demonstration that they have executed an import RA contract. Specifically, each LSE would inform CAISO of executed import RA contracts on a year-ahead basis, at which time CAISO would allocate the corresponding quantity of MIC. If the total quantity of executed year-ahead import RA contracts on a given intertie exceeds the total MIC on that intertie, MIC would be allocated on a load-ratio share basis.⁸ Any MIC not allocated to support year-ahead import RA contracts would be available for allocation to support month-ahead import RA contracts. In other words, rationing of MIC on a load-ratio share basis would occur *only if* MIC is actually scarce. Such a modification is likely to provide substantial benefits. In particular, since MIC would no longer be allocated in advance of an LSE’s demonstration that it will actually use its allocation to receive import RA, the inefficient stranding of intertie capacity that occurs under the existing MIC allocation framework would be avoided.

⁷ Comments of San Diego Gas & Electric Company on Second Revised Straw Proposal on Regional Resource Adequacy at 3-4 (June 15, 2016) (stating that the current MIC allocation process does “not allow for an equitable and transparent process” and “leaves too many allocations unused and difficult to procure at a time of need”), *available at*: <http://www.caiso.com/Documents/SDG-EComments-RegionalResourceAdequacy-SecondRevisedStrawProposal.pdf>.

⁸ Comments of Powerex Corp. on Regional Resource Adequacy Second Revised Straw Proposal at 6-7.