

**Comments of Powerex Corp. on  
Regional Resource Adequacy Stakeholder Working Group**

<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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Powerex appreciates the opportunity to submit comments on CAISO's July 10, 2016, Regional Resource Adequacy ("RA") Stakeholder Working Group Meeting. Powerex submits these comments to address two aspects of the discussion that occurred at the July 10 Working Group Meeting:

- CAISO's proposal to clarify the RA requirements applicable to import resources; and
- Potential changes to CAISO's Maximum Import Capability ("MIC") framework.

Each of these issues is addressed below.

**I. Qualification of Import Resources for Resource Adequacy**

At the July 10 Working Group Meeting, CAISO explained that it had determined that it would be beneficial to clarify the requirements that must be met in order for an import resource to qualify as RA capacity. In particular, CAISO explained that existing CAISO rules allow load-serving entities ("LSE") to meet system RA requirements using contracts with external suppliers, without any requirement that the contract be tied to a specific physical resource or set of resources. In addition, CAISO explained that it had determined that it would be beneficial to consider how "firm" such contracts with external suppliers need to be in order to qualify as RA capacity. To facilitate additional discussion of this issue, CAISO sought comment on a range of related issues, including:

- what types of import resources or products should be allowed to qualify as a RA resource; and
- how "firm" the transmission service backing an import should be in order for the import to qualify as RA.

Powerex strongly supports CAISO's decision to broaden this initiative to include a discussion of the RA requirements applicable to imports. As Powerex explained in its earlier comments in this proceeding,<sup>1</sup> Powerex believes that the failure of the existing RA framework to require an entity selling RA to identify the physical resources capable of meeting its commitment has the potential to undermine reliability and create challenges within the context of an expanded RTO footprint.

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<sup>1</sup> See *generally* Comments of Powerex Corp. on Regional Resource Adequacy Second Revised Straw Proposal (June 15, 2016), available at <http://www.caiso.com/Documents/PowerexComments-RegionalResourceAdequacy-SecondRevisedStrawProposal.pdf>.

In order to ensure that import RA contracts represent capacity commitments that can be relied upon to meet firm load, Powerex believes that only resource-specific imports should be eligible to qualify as RA capacity. Powerex notes, however, that the requirement that import RA contracts be “resource-specific” should not be interpreted to require the designation of an individual unit associated with the RA capacity obligation. Instead, a resource-specific RA capacity requirement must be broad enough to allow a seller to designate either an individual generation unit or a discrete system of generation resources—such as a co-optimized, multi-unit hydroelectric system—as the physical resources supporting the sale of RA capacity. Because hydro system operators typically dispatch individual units within a hydro system in order to meet a myriad of constraints and to achieve optimal system-wide performance (as opposed to dispatching each unit in isolation), it may be impractical and/or inefficient to require the operator to “carve out” an individual generating unit within its system for RA purposes. Such a requirement would, in fact, be incompatible with the manner in which coordinated hydro systems are efficiently and reliably operated in the Northwest. Thus, a strict requirement that RA capacity be associated with a single generating unit is likely to needlessly exclude a large category of external physical capacity and flexibility from offering RA capacity.

A resource-specific RA capacity designation can be implemented in a manner that is consistent with regional practices and does not artificially limit participation in providing this product. Specifically, in order to ensure that import RA contracts represent capacity commitments from actual physical resources, Powerex recommends that CAISO require that a seller of RA capacity from external resources: (1) specify, at the time the RA contract is executed, the Source BA and the e-Tag generation source from which the RA capacity will be provided, as well as the CAISO intertie scheduling point to which it will be delivered; and, (2) during the performance term of the RA contract, 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, together with the firm transmission service necessary to deliver this capacity to the designated CAISO intertie scheduling point.

Imposing such an e-Tagging requirement would leverage the existing framework and practices that have successfully been used to commit physical resources located in one balancing authority area (“BAA”) to be available to meet the firm load requirements of other BAAs in the Western Interconnection. As Powerex previously commented,<sup>2</sup> a valid e-Tag would require that the source BA approve the e-Tag, as well as intermediary transmission providers, and would thus provide additional verification of the availability of the physical resources. Importantly, this framework is sufficiently flexible to accommodate the participation of multi-unit hydro systems, as existing e-Tagging practices permit the generation source of an e-Tag to be either an individual generating unit or a group of coordinated generating units within a specific BAA. But just as importantly, this framework will ensure that capacity commitments are supported by identifiable physical resources.

Powerex also believes that there should be a clear requirement that any imports must be backed by firm transmission service with a NERC curtailment priority of 7-F. Scheduling delivery of an import RA contract with curtailment priority other than 7-F creates the possibility that the delivery may be curtailed if another transmission customer with higher priority transmission schedules on

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<sup>2</sup> *Id.* at 4.

the same path. The risk of curtailment may be particularly high during peak periods when the demand for energy and transmission are more likely to be at their limit. Because the goal of the RA program is to ensure that there is sufficient physical generation capacity to meet the anticipated peak load of a BAA, it would be inappropriate to allow import RA capacity to be supported by transmission service arrangements that may not be available when the capacity is most needed. This is likely the same reason that CAISO requires that Ancillary Services provided by external resources be delivered on firm transmission, and Powerex does not see any reason to hold RA capacity—which is also procured to support reliability—to a lesser standard.

Finally, Powerex believes that CAISO should reject any proposal to allow entities to rely upon generic bilateral spot market energy purchases to satisfy RA requirements. In effect, allowing such purchases to qualify as RA would permit an entity to simply “go short” on the capacity needed to ensure reliability. In Powerex’s view, there is no difference between allowing an entity to count expected spot market purchases towards meeting its RA obligation and simply lowering the obligation itself. In other words, allowing 100 MW of spot market purchases to count towards meeting an LSE’s RA requirement is akin to lowering the total RA requirement for an LSE by 100 MW and requiring the LSE to meet the balance of its obligation with forward capacity commitments from physical resources.

Rather than procuring sufficient physical resources in advance to meet peak load and reserve requirements, an entity relying upon spot market energy purchases is assuming that there will be uncommitted resources available—somewhere—to preserve reliability. The problem with such an assumption, however, is that uncommitted resources may not be available when needed, particularly if unexpected conditions, such as extreme weather events or forced outages of significant generating facilities, occur. In other words, such purchases may leave the respective LSE seeking supply in the spot markets exactly when there is no energy available to be purchased. This is precisely the “musical chairs” concern expressed during the July 10 Working Group Meeting. Simply put, such a framework is incapable of ensuring reliability.

## **II. MIC Framework**

At the July 10 Working Group Meeting, CAISO stated that it is proposing adjustments to the existing MIC calculation and allocation process that it believes are necessary to extend that framework to the PacifiCorp BAA following its integration into CAISO. While CAISO recognized that a holistic review of the existing MIC framework may be necessary in the future, CAISO stated that it believes that the current proceeding should be limited to addressing the immediate needs of a regional market. CAISO further explained that a comprehensive redesign of the MIC could take over a year to complete, which would not be feasible within the timeframe of the current initiative.

Powerex recognizes CAISO’s desire to proceed with efforts to integrate PacifiCorp on a timely basis. But the goal of this proceeding should be to establish a durable regional RA construct that is capable of ensuring just and reasonable results over the long term. It would be counterproductive and inappropriate to extend elements of the existing California RA framework to an expanded multi-state RTO footprint when there is a concern that these elements may be flawed and may lead to unjust and unreasonable results.

As noted in its earlier comments,<sup>3</sup> Powerex believes that the existing MIC framework represents a significant impediment to the efficient and non-discriminatory procurement of RA from external resources. Because MIC allocated to one LSE is not automatically made available to other LSEs, *even when it goes unused*, the existing MIC framework results in the unnecessary stranding and rationing of intertie capacity—preventing external resources from meeting the need for RA capacity in CAISO, even when they may be the most efficient option available. While one of the primary goals of regional integration is to facilitate greater interregional trade, extension of the MIC framework may actually serve to create new barriers to trade in those areas that are ultimately integrated into an expanded CAISO footprint.

For these reasons, Powerex urges CAISO to consider improvements to the MIC within the context of this stakeholder proceeding. Alternatively, CAISO could commit to commence a separate stakeholder process to take up this initiative. Although redesigning the MIC allocation may take additional time and effort, Powerex views such reforms as necessary to promote the efficient and non-discriminatory procurement of RA capacity across an expanded RTO footprint.

In the alternative, in the event that CAISO simply believes that there is not sufficient time to consider this issue further, then CAISO should consider suspending the current MIC framework altogether. In particular, if RA capacity from external resources is required to be delivered on firm transmission, as Powerex proposed above, then the concern that RA contracts at CAISO's interties may exceed the transfer capability of those interties may be largely addressed. In the rare event that RA commitments ultimately do reach the limit of CAISO's ability to receive RA deliveries at a particular intertie during a particular delivery period, the CAISO could simply refuse to accept additional RA contracts at that location.

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<sup>3</sup> *Id.* at 6.