

## Comments on Review of Reliability Must-Run and Capacity Procurement Mechanism Straw Proposal

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to comment on the June 26, 2018 Review of Reliability Must Run and Capacity Procurement Mechanism Straw Proposal (“Straw Proposal”). In the Straw Proposal, CAISO explains that it is reviewing and considering potential improvements to its existing capacity procurement mechanism (“CPM”) and reliability must-run (“RMR”) agreement framework. Among other things, CAISO states that it plans to clarify the use of RMR and CPM procurement, develop a *pro forma* RMR agreement, and evaluate whether load-serving entities (“LSE”) are relying upon CPM for their primary capacity procurement.

Powerex generally supports CAISO’s effort to explore what changes can be made to enhance the effectiveness of the existing CPM and RMR frameworks while reducing the potential that LSEs will rely on these mechanisms to meet system needs. In particular, Powerex agrees that a holistic examination of the existing CPM and RMR frameworks is warranted and that additional efforts are needed to strike an appropriate balance between ensuring that CAISO has appropriate backstop procurement authority to maintain reliability while continuing to promote the primary procurement of capacity by LSEs through the resource adequacy program.

Powerex believes, however, that additional efforts are necessary to ensure that CAISO’s backstop procurement needs can be met using the most efficient and cost-effective set of resources available. In particular, Powerex believes that there are elements of the existing CPM framework that act as barriers to external resources competing to obtain a CPM designation. Among other things, at an August 2, 2018 web conference concerning CAISO’s upcoming intra-month Competitive Solicitation Process (“CSP”) for September 2018, CAISO stated that it believes that external resources are ineligible to offer to supply capacity in the intra-month CSP. In addition, under the CAISO Tariff, a resource located outside of the CAISO balancing authority area may not offer to supply capacity in the annual and monthly CSPs unless the resource obtains an allocation of maximum import capability (“MIC”) in accordance with Section 40.4.6.2.1 of the CAISO Tariff.

Powerex believes that limiting the ability of external resources to participate in the CPM process is highly inefficient, as well as inappropriate. As a practical matter, the effect of the limitations set out above is to prevent external resources from competing to meet CAISO's backstop procurement needs, even when they are fully capable of providing the services being procured, and are able to do so efficiently and cost-effectively. Powerex believes that it is counterproductive to artificially limit the pool of resources that are eligible to meet CAISO's backstop procurement needs and that there is no technical justification for categorically excluding external resources from participating in CPM CSPs.

Powerex urges CAISO to take steps to facilitate the participation of external resources in CPM CSPs. As a first step, CAISO should immediately clarify that external resources are eligible to participate in the intra-month CSP. Notwithstanding CAISO's statement at the August 2 web conference, there does not appear to be any basis in the CAISO Tariff for prohibiting external resources from participating in the intra-month CSP. Moreover, while CAISO cited Section 5.3.3(6) of the Business Practice Manual for Reliability Requirements in support of excluding external resources from the intra-month CSP, that section does not prohibit external resources from participating in the intra-month CSP process. Instead, that section merely states that external resource offers into the annual and monthly CSPs must be less than or equal to the "available (net) import capability on the branch group to which the resource is associated." Thus, there is no apparent legal or technical basis for excluding external resources from the intra-month CSP. Accordingly, Powerex requests that CAISO clarify that external resources may participate in the intra-month CSP, subject to meeting the eligibility requirements set out in the CAISO Tariff (e.g., the requirement to obtain MIC). If CAISO cannot provide such clarification, Powerex would appreciate the CAISO further identifying which tariff provisions or business practices prevent the participation of external resources.

Powerex also believes that CAISO should take steps to ensure that the existing MIC allocation framework does not stand in the way of ensuring that CAISO is able to meet its backstop procurement needs using the most efficient and cost-effective resources possible. As Powerex has explained at length in comments filed in numerous CAISO stakeholder proceedings,<sup>1</sup> Powerex believes that the existing MIC allocation framework represents a substantial barrier to the competitive and efficient procurement of resource

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<sup>1</sup> See, e.g., Comments of Powerex Corp. on Flexible Resource Adequacy Criteria and Must Offer Obligation – Phase 2 Straw Proposal (Jan. 6, 2016), *available at* <https://www.caiso.com/Documents/PowerexComments-FlexibleResourceAdequacyCriteria-MustOfferObligation-StrawProposal.pdf>.

adequacy capacity, and that CAISO should convene a stakeholder process focused on revising the MIC allocation framework.

At a minimum, however, CAISO should modify the CPM framework to ensure that the MIC allocation framework – and the inefficient stranding of capacity associated with that framework – does not stand in the way of CAISO efficiently procuring backstop capacity. In the event that CAISO believes that any procurement of backstop capacity from external resources needs to be supported by a MIC allocation, then CAISO should broaden the scope of this proceeding to consider how the CAISO Tariff can be modified to prevent the stranding of intertie capability from impairing CAISO's procurement of backstop capacity. Among other things, Powerex believes that it would be appropriate for CAISO to evaluate the quantity of unused intertie capability that is available at the time that it conducts the CPM CSP and “clawback” unused MIC allocations as necessary to support its backstop procurement. It is important to recognize that, at the time that CAISO conducts its monthly and intra-monthly CSPs, the deadline for the submission of annual and monthly RA plans will have closed. As a practical matter, any LSEs holding unused intertie capability at that time are either stranding the capacity or treating it as a “costless” option that they can use to support resource substitution in the event that a resource that they are using to meet RA requirements is unavailable due to a forced or planned outage. Powerex believes that there is no justification for allowing certain LSEs to strand intertie capability to the detriment of the efficiency of the CPM framework.