

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations.

Rulemaking 19-11-009
(Filed November 7, 2019)

**COMMENTS ON PROPOSED DECISION OF
THE DEPARTMENT OF MARKET MONITORING OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The Department of Market Monitoring (DMM) of the California Independent System Operator Corporation (CAISO) submits these comments on the Commission’s *Proposed Decision Adopting Local Capacity Obligations for 2022-2024, Flexible Capacity Obligations for 2022, and Refinements to the Resource Adequacy Program*, issued on May 21, 2021. The Commission’s proposed decision “adopts refinements to the Resource Adequacy program and addresses issues scoped as Track 3B.1 and Track 4.”¹

I. INTRODUCTION

DMM supports the Commission’s proposal to discontinue applying 6 percent of the 15 percent planning reserve margin adder to demand response capacity values, which is associated with operating reserves and ancillary services. DMM has observed that the planning reserve margin adder applied to demand response capacity values has resulted in demand response capacity being over-counted compared to the actual resource adequacy contribution from underlying resources in the operating timeframe. DMM would recommend removing the

¹ *Proposed Decision Adopting Local Capacity Obligations for 2022-2024, Flexible Capacity Obligations for 2022, and Refinements to the Resource Adequacy Program*, R.19-11-009, CPUC, May 21, 2021 (“Proposed Decision”)

remaining 9 percent of the planning reserve margin adder given there is no compelling evidence that supply side demand response reduces load forecast error or forced outages. However, if the Commission believes that further research is necessary, then DMM supports the Commission's proposal to study these issues further and re-evaluate how to treat the remaining 9 percent of the planning reserve margin adder after the 2022 resource adequacy year.

DMM supports the Commission's proposal to revise MCC buckets to include Saturday availability. Because high load days have been observed on Sundays as well, DMM believes that extending required availability to Sundays could improve reliability further. However, DMM supports the Commission continuing to monitor this issue and potentially making further adjustments as needed.

DMM supports the Commission's decision to defer consideration of the ISO's import resource adequacy proposal given a lack of consensus on some key issues. While DMM supports many aspects of the ISO's import resource adequacy proposal, DMM agrees with the Commission that there are some key issues that should be discussed and developed further including firm transmission requirements and ensuring that the energy backing import resource adequacy cannot be recalled by external BAAs.

The Commission proposes to adopt a new system resource adequacy penalty framework which could result in much higher penalties for load serving entities with repeated showing deficiencies. DMM suggests that the Commission and the ISO consider the interactions between steeper resource adequacy showing penalties and the ISO's availability incentives, in order to ensure that suppliers are not incentivized to sell (and load serving entities are not incentivized to contract for) capacity which may ultimately be unavailable or unreliable when the ISO needs resources the most.

II. DISCUSSION

A. DMM supports the Commission's proposal to discontinue applying 6 percent of the 15 percent planning reserve margin adder to demand response capacity values associated with operating reserves.

DMM supports the Commission's proposal to discontinue applying 6 percent of the 15 percent planning reserve margin adder to demand response capacity values, which is associated with operating reserves and ancillary services. DMM believes that the planning reserve margin adder applied to demand response capacity results in overstating underlying resources' contribution to resource adequacy requirements and displaces other supply which could effectively provide resource adequacy value.

As noted by the ISO, in the operating timeframe the ISO procures supply and reserves to serve all load, including load that may be curtailed in real-time by demand response resources which are modeled as supply.² Removing the portion of the demand response adder that is intended to represent avoided operating reserve procurement is therefore justified and will help close the gap between capacity counted towards meeting resource adequacy requirements and actual capacity available to the ISO.

The Commission also proposes that the remaining 9 percent of the planning reserve margin adder applied to demand response capacity be retained for 2022, but should be studied further in a CEC-led stakeholder process. The Commission acknowledges that it is reasonable to remove the portion of the planning reserve margin adder associated with load forecast error, but that further study is needed to quantify this amount. DMM agrees with the Commission that there is no evidence that the existence of supply side demand response capacity reduces load

² *Track 4 proposals of the California Independent System Operator Corporation*, R.19-11-009, California ISO, January 28, 2021, p. 9: <http://www.caiso.com/Documents/Jan28-2021-Track-4-Proposals-ResourceAdequacyProgram-R1911009.pdf>

forecast error and that the planning reserve margin adder applied to demand response should be reduced further.

DMM also has not observed any compelling evidence that supply side demand response reduces forced outages. In fact, some demand response capacity was not made available to the ISO up to resource adequacy values on high load days in August and September 2020. For example on August 14 from 6:00 to 8:00pm, about 180 to 200 megawatts of demand response resource adequacy capacity was not offered in the ISO day-ahead or real-time markets (not including the planning reserve margin adder or transmission and distribution loss gross-ups). While outages were not submitted on this day to reflect this unavailable capacity, this capacity was not available for the ISO to dispatch, effectively becoming equivalent to capacity on outage. In this example, rather than reducing forced outages on the system, some demand response contributed to the amount of unavailable resource adequacy capacity on the system.

DMM would recommend removing the remaining 9 percent of the planning reserve margin adder applied to demand response given a lack of evidence that supply side demand response reduces load forecast error or forced outages. However, if the Commission believes that further research is necessary, then DMM supports the Commission's proposal to study these issues further and reconsider how to treat the remaining 9 percent of the planning reserve margin adder applied to demand response after the 2022 resource adequacy year.

B. DMM supports the Commission's proposal to revise MCC buckets to include Saturday availability. DMM believes that extending required availability to Sundays could improve reliability further and supports continued monitoring on this issue.

As noted by several parties, some of the highest load days in 2020 fell on weekends where several resources were not available that would otherwise be available on weekdays. Extending availability requirements for resource adequacy capacity to Saturdays represents an

improvement over the current framework and should help improve reliability when high demand days fall on Saturdays. While DMM believes that extending required availability to Sundays could improve reliability further, DMM supports the Commission continuing to monitor this issue and potentially making further adjustments as needed.

DMM notes that while MCC buckets may be extended to require Saturday availability, the ISO's RAAIM remains limited to non-holiday weekdays. Thus, there may be little financial incentive for resources to actually be available to the ISO on weekends despite changes in MCC buckets. DMM suggests that the ISO also consider extending RAAIM to weekends to better incentivize weekend availability.

C. DMM supports the Commission's proposed decision to defer adopting the ISO's import resource adequacy proposal, pending further discussion on some key issues.

While DMM supports many aspects of the ISO's import resource adequacy proposal, DMM agrees with the Commission that there are some key parts of the proposal that should be developed further. DMM has supported the ISO's proposal to require that import resource adequacy be backed by a specified resource or source BAA in order to mitigate potential double-counting of capacity across the West. DMM also supported the ISO's proposed attestation framework and the ISO's proposal to extend the must-offer obligation for import resource adequacy into real-time. However, DMM agrees with the Commission that issues surrounding firm transmission requirements and the ability for other BAAs to potentially recall the energy backing resource adequacy imports warrant some further discussion.

DMM suggests that the firm transmission aspect of the ISO's proposal be developed further alongside the ISO's forthcoming policies which will address reserving import capability and transmission across the ISO system for wheel-through transactions. Requirements for

transmission procurement for ISO load serving entities should be discussed further as the ISO develops its policy for external entities to reserve import capability and transmission across the ISO system.

D. The Commission proposes to adopt a new system resource adequacy penalty framework. DMM suggests that the Commission and the ISO consider the interactions between steeper penalties and the ISO's availability incentives to ensure that suppliers are not incentivized to sell capacity which may be unreliable and unavailable when the ISO needs resources the most.

The Commission's proposed system resource adequacy penalty framework could result in much higher penalties for load-serving entities with repeated system resource adequacy showing deficiencies. Under the proposed revised penalty structure, load-serving entities with prior showing deficiencies may have a financial incentive to contract for resource adequacy for a month at prices over four times the ISO's CPM soft offer cap. In comparison, the ISO's RAAIM penalty is based on 60 percent of the ISO's CPM soft offer cap.

DMM has some concern that if the CPUC's resource adequacy penalties and the ISO's RAAIM penalties diverge significantly, then entities could be incentivized to sell unreliable resource adequacy to load-serving entities who are willing to pay high prices for system capacity. If the ISO's RAAIM penalties become insignificant compared to potential resource adequacy payments, suppliers may be willing to sell resource adequacy capacity that is more likely to be unavailable or to incur forced outage for a significant portion of the month. A supplier could also avoid RAAIM penalties by offering capacity into the ISO market even though this capacity fails to perform when called upon by the ISO. While the ISO's recent summer readiness enhancements may enhance real-time pricing during tight system conditions and create stronger financial incentives for resources to deliver expected energy, DMM still has

some concerns that if capacity payments are very high, there could be limited incentives for resources receiving these payments to actually perform in the ISO market.

DMM suggests that the ISO and the Commission consider developing a resource adequacy incentive mechanism that is based on resource performance which could result in potentially very high penalties that act as a claw back of a very large portion of capacity payments when resources do not deliver on critical days. This type of incentive mechanism may become increasingly important for incentivizing availability and performance of resource adequacy capacity if resource adequacy payments increase even more significantly compared to the magnitude of potential RAAIM charges from the ISO. This type of mechanism could also better incentivize suppliers to sell highly available and dependable capacity up front.

Respectfully submitted,

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Dated June 10, 2021