



Comments of Pacific Gas & Electric Company

Regional Resource Adequacy Initiative – Regional Framework Proposal

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) appreciates the opportunity to comment on the California Independent System Operator’s (CAISO) December 1, 2016 Regional Framework Proposal for Regional Resource Adequacy. PG&E supports a larger regional footprint that benefits energy customers, and will continue to constructively participate in stakeholder processes supporting that objective. CAISO has stated in its plan for stakeholder engagement that stakeholders should view the Regional Framework Proposal as “close to final.” PG&E is concerned with the significant changes introduced in the Regional Framework Proposal that were not contemplated in previous drafts.

PG&E believes that the CAISO has made a good faith effort to balance stakeholder concerns over most of the duration of the Regional RA stakeholder initiative. However, three new aspects of the Regional Framework Proposal¹ are not fully developed and PG&E has not had an opportunity to comment on these aspects until now. While all three proposals could possibly have merit, and are worthy of continued discussion, we do not believe these aspects of the proposal should be adopted in their current form. As a result, PG&E cannot support CAISO using this draft to represent what a Regional RA program would look like under a Regional ISO. Before setting aside this Proposal to work on regional governance, PG&E asks the CAISO to commit in advance to revising these sections of the draft as soon as there is resolution on the regional governance issues.

¹ Regional RA Regional Framework Proposal, Sections 5.4, 5.51, and 5.5.2

PG&E offers comments on the following topics:

1. PG&E recommends the CAISO revisit the opportunity for short-term arrangements to count for Resource Adequacy after the CAISO has become a regional entity.
2. The proposal to modify the treatment of forced outages should be removed from the Regional Framework Proposal as it does not conform to the stated purpose of the RAAIM.
3. PG&E does not support the CAISO's proposal to selectively weaken the requirements for forced outage substitution for external resources and instead recommends the CAISO revisit must offer obligation requirements for all resources to align with subset of hours contracts.

1. PG&E recommends the CAISO revisit the opportunity for short-term arrangements to count for Resource Adequacy after the CAISO has become a regional entity.

In the Regional Framework Proposal, the CAISO has significantly changed its approach to counting rules for import transactions that are allowed to count towards Resource Adequacy requirements. In the Third Revised Straw Proposal, the CAISO would have allowed only those contractual arrangements for imports secured prior to RA showing deadlines for the month-ahead time frame. While PG&E voiced concerns related to enforcement of the new requirements, PG&E viewed this approach as a reasonable first step to harmonize RA requirements for internal and external resources. The Regional Framework Proposal instead creates potentially more inconsistency between internal and external resources by allowing short-term (intra-month) import arrangements to count for a defined percentage of an LSE's overall system RA requirement.

There are many issues remaining in this new aspect of the proposal. PG&E's six issues with the Section 5.4 of the current proposal are:

- 1) The CAISO's current proposal appears to directly contradict a current RA rule that forbids liquidated damages contracts from counting for RA.²
- 2) The CAISO has not offered any mechanisms to assure the same physical capacity cannot be shown to meet the capacity requirements of more than one LSE.

² CAISO Tariff Section 40.8.1.5

- 3) It is not equitable to allow LSEs to procure 10% of their RA requirement from short-term imports without also allowing LSEs to procure short-term internal energy transactions for the same percentage of their RA requirement.
- 4) The amount of short-term import arrangements that are allowed to count for RA appears arbitrary with little to no justification.
- 5) The penalty structure is similarly undeveloped and the data and documentation is undefined and insufficient for this stage of the initiative.
- 6) PG&E asks the CAISO to recognize that by broadening the ability of LSEs to use short term Import RA resources, concerns related to the risk of retirement of flexible resources needed in the longer term is greatly amplified.

Based on all of these factors, PG&E asks the CAISO to recognize that the concept of short-term RA import arrangements is not ripe for consideration at this stage of the initiative, and should be dropped from the proposal moving forward.

2. The proposal to modify the treatment of forced outages should be removed from the Regional Framework Proposal as it does not conform to the stated purpose of the RAAIM.

In the Reliability Services stakeholder initiative, the stated goal of the Resource Adequacy Availability Incentive Mechanism (RAAIM) was to enhance reliability by aligning the CAISO's need for high quality resources with market participants' incentives to provide RA capacity. In order to reduce potential gaming of the availability incentive mechanism, the measurement of performance is based on a monthly, rather than a daily or hourly value.³ The proposed changes to measuring RAAIM based on a daily forced outage assessment call into question whether the CAISO believes that a monthly value is still appropriate. Allowing certain days to be exempt from RAAIM creates perverse incentives that will promote the exact opposite behavior of what the CAISO intended when it created the RAAIM.

By reducing the penalties of unavailability for an unknown number of days throughout the month, while still keeping RA as a monthly product, the only market participants that could benefit from this change will be those participants that choose not to substitute for forced outages regardless of the daily exemptions. The reason this change is limited to these market participants is because acquiring

³ Reliability Services Initiative Phase 2 ("RSI2"), Draft Final Proposal, pg. 32

substitute capacity takes longer than a day. Thus, it is likely that the vast majority of substitute capacity is procured before the delivery month has already begun. A more constructive way to reduce the cost of availability penalties would be to reduce the availability percentage threshold for when a penalty occurs. To ensure strong incentives for making resources available, the CAISO should increase the RAAIM penalty price. PG&E continues to believe what it has argued in the past; namely, the RAAIM penalty price should be set at the CPM soft offer cap.

3. PG&E does not support the CAISO's proposal to selectively weaken the requirements for forced outage substitution for external resources and instead recommends the CAISO revisit must offer obligation requirements for all resources to align with subset of hours contracts.

In the Regional Framework Proposal, the CAISO states that it no longer believes that the substitution resource requires a similar must-offer obligation condition for the outage resource. The CAISO argues that it has changed its views due to the potentially disparate treatment between external substitute resources and the “subset of hours” import contracts the CAISO currently allows. PG&E does not agree with this premise. The “subset of hours” contracts are provided to the CAISO more than a month in advance, and are limited by the CPUC’s rules related to Maximum Cumulative Capacity Buckets. By providing the contracts more than a month in advance, the CAISO is able to study the potential impact of these imports. In contrast, external substitution resources could be provided a day in advance, which gives the CAISO limited options to address any potential shortfalls.

Regardless of differences between external substitute resources and “subset of hours” import contracts, PG&E asks the CAISO to consider the potential disparate treatment the CAISO is creating between external substitution resources and internal substitution resources in the current proposal. Unless the CAISO is proposing to reduce the must offer obligation hours of all substitute resources, LSEs will have a strong economic incentive to procure imports over internal resources as substitute RA under the CAISO’s proposal. The discussion related to “subset of hours” contracts points out an inconsistency in treatment of RA imports between CPUC jurisdictional entities and new entities. Therefore, if the CAISO continues to consider allowing external substitution, rather than solely relaxing the must offer obligation rules for import substitution resources, the CAISO should instead consider whether the “subset of hours” that the CAISO currently allows for imports could be used as the generic must offer obligation for all resources.