

Comments of Powerex Corp. on 2019 Draft Policy Initiatives Catalog

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Powerex appreciates the opportunity to submit suggestions for inclusion in the 2019 Draft Policy Initiatives Catalog. In the following sections, Powerex offers suggestions regarding initiatives that Powerex believes should be included in the 2019 Draft Policy Initiatives Catalog.

I. CAISO Should Convene A Stakeholder Proceeding To Make Necessary Improvements To The Resource Adequacy Program

Powerex believes that there is mounting evidence that the existing resource adequacy (“RA”) program contains numerous gaps that impede the ability of the RA program to achieve its objectives of *efficiently* committing *sufficient* resources in advance to maintain reliability. Most notably, DMM’s 2017 Annual and Quarterly Reports, as well as CAISO published market data, illustrate that the RA program

- (i) did not require a sufficient RA commitment level to meet system-wide peak demand (plus contingency reserves) on multiple days in both June 2017 and September 2017;
- (ii) had an average availability level on RA commitments of only about 90% in its day-ahead and real-time markets during the 210 highest load hours; and
- (iii) included RA commitments from certain import resources and proxy demand resources that did not reflect real physical capability and/or a willingness to perform when called upon.

Powerex believes this has resulted in the CAISO *extensively leaning* on voluntary internal and external energy offers from non-RA resources in both the CAISOs day-ahead and real-time markets to maintain reliability.

For that reason, Powerex recommends that the CAISO convene a stakeholder proceeding focused on how the RA program can be enhanced to achieve its critical reliability objectives. Among other things, Powerex believes that this stakeholder proceeding should include an evaluation of the following issues:

- **Calculation Of System RA Requirements:** Recent experience shows that the calculation of the existing System RA requirement—which is based on a 1-in-2 forecast of peak load in each month plus a planning reserve margin of approximately 15%—does not accurately capture actual reliability needs, leading to actual peak loads exceeding

the monthly System RA requirements in numerous days and hours. It is becoming increasingly clear that the 15% planning reserve margin is insufficient to accommodate (i) upward deviations in demand from a 1-in-2 monthly forecast (ii) contingency and regulation reserves, and (iii) failures to perform on RA commitments.

- **Accounting For Resource Outages:** Under the existing RA program, the quantity of RA that resources can provide is based on the Net Qualifying Capacity of the resource. Currently, the calculation of Net Qualifying Capacity does not take into account the frequency or magnitude with which a resource is rendered unavailable due to forced or planned outages. Powerex believes that this is highly problematic, as it increases the risks that resources that have been committed to satisfy RA requirements and that CAISO is counting on to maintain reliability may not actually be available when called upon by CAISO.
- **Elimination of Month-Ahead Showing:** Under the existing RA program, an LSE is not required to demonstrate that it has procured 100% of its allocated share of RA requirements until 45 days prior to each month. Although Powerex supports the monthly shaping of RA requirements to reflect changes in CAISO system conditions throughout the year, Powerex believes that allowing LSEs to procure capacity on a month-ahead basis creates unnecessary reliability risks and undermines the ability of the RA program to incent the development of new resources. For that reason, Powerex believes that each LSE should be required to procure 100% of its share of RA requirements on at least a year-ahead basis (*i.e.*, in the annual showing).
- **Revised Must-Offer and Performance Requirements:** Under the existing RA program, RA capacity is only required to submit bids into the CAISO day-ahead market in a subset of availability assessment hours. While limiting the must-offer obligation to a subset of hours may have been appropriate when the CAISO system experienced predictable peak load hours, changes in California's resource mix have made the need for dispatchable capacity less predictable, with peaks occurring more frequently in non-availability assessment hours. In addition, in practice, a high percentage of resources committed to provide RA do not submit offers into the day-ahead market.¹ Powerex recommends that CAISO consider how program requirements can be refined to ensure that resources that agree to provide RA are actually available during those periods when they are actually needed to maintain reliability.
- **Stronger Performance Requirements For Import RA:** Under the existing RA program, CAISO may not know whether import RA contracts are backed by physical resources and transmission until the deadline for submitting an e-Tag (*i.e.*, 20 minutes prior to the start of the operating hour). In order to ensure that resources that are counted towards meeting RA requirements can be relied upon to perform when needed to maintain reliability, Powerex recommends that the rules for imported RA be revised to ensure that

¹ Cal. Indep. Sys. Operator Corp. Dept. of Market Monitoring, 2017 Annual Report on Market Issues & Performance at Table 10.1. (June 2018).

CAISO has greater transparency into the underlying resources and transmission arrangements supporting the RA requirement. Specifically, Powerex believes that sellers of import RA should be required to specify the source balancing authority, the e-Tag generation source, and the transmission path from which the RA capacity will be provided to a specified CAISO intertie, both at the time that an RA contract is executed and through the submission of e-Tags on a day-ahead basis.

- **Modification of the Maximum Import Capability (“MIC”) Allocation Framework:** Currently, in order for a contract with an external resource to count towards meeting an LSE’s RA requirement, the LSE must demonstrate that it has received an allocation of MIC through a 13-step process outlined in the CAISO Tariff. As Powerex has explained at length in other proceedings, Powerex believes that the existing MIC allocation framework results in the vast majority of MIC being allocated to large LSEs, who do not use their fully allocated MIC to support RA contracts, to the detriment of external suppliers, smaller LSEs, and the efficiency of the RA framework as a whole. Ultimately, the result of the current framework is to limit RA procurement from external resources, resulting in fewer supply options and higher prices for California consumers.

II. EIM Resource Sufficiency

As Powerex noted in its April 30, 2018 presentation at the EIM Offer Rules Technical Workshop, Powerex believes that there a number of improvements that are necessary to enhance the workability, efficiency, and transparency of the EIM resource sufficiency mechanism. Improvements are also necessary to ensure the reliable and equitable application of the EIM resource sufficiency framework to the CAISO BAA. Powerex is encouraged by the initial discussions that have taken place in the EIM Offer Rules proceeding regarding these issues, but recognizes that additional dialogue with stakeholders regarding these issues is necessary. To the extent that CAISO believes that these enhancements cannot be completed in the context of the EIM Offer Rules proceeding, Powerex encourages CAISO to convene a separate stakeholder proceeding focused exclusively on enhancing EIM resource sufficiency.

III. Price Formation

Powerex believes that well-crafted shortage and scarcity pricing is critical to ensuring just and reasonable prices when there are insufficient resources available to meet system requirements. While CAISO previously commenced the “Stepped Constraint Parameters” proceeding with the goal of improving shortage and scarcity pricing in the CAISO markets, CAISO closed this proceeding in March 2017 and explained that it planned to take up these issues in a subsequent stakeholder proceeding. Powerex encourages CAISO to follow-through on its commitment and convene a new stakeholder proceeding to consider the issue of shortage and scarcity pricing.