

# Resource Adequacy Enhancements Issue Paper

Comments by Department of Market Monitoring

November 30, 2018

## Overview

DMM appreciates the opportunity to comment on the ISO's *Resource Adequacy Enhancements Issue Paper*.<sup>1</sup> DMM supports the scope of issues outlined in the ISO's *Issue Paper* and agrees that improvements can be made to each area the ISO identifies. Resource Adequacy (RA) rules should ensure that sufficient capacity with the characteristics needed to maintain system and local reliability is procured by LSEs and is also made available operationally in the ISO markets. DMM believes the potential reforms identified in the *Issue Paper* could contribute towards achieving these objectives. DMM provides additional detail on specific topics below.

## Resource adequacy import rules

DMM supports the ISO moving forward with modifications in rules for RA imports. DMM supports the ISO addressing DMM's longstanding concerns that existing rules for RA imports could allow a significant portion of RA requirements to be met by imports that may have limited availability and value during critical system and market conditions.

DMM's concerns with the current RA import framework are provided in our comments on the *Intertie Deviation Settlements Straw Proposal*.<sup>2</sup> As expressed in those comments, DMM recommends that the ISO facilitate a thorough public stakeholder discussion and come to a policy decision on whether or not RA capacity must be backed by specific generation resources and how any such requirements should be enforced in practice. In developing its RA import rules, the ISO may want to consider how other balancing areas may count imports towards meeting resource sufficiency obligations in any extended day-ahead market design.

The ISO also explicitly states that price caps for import RA bid submissions are out of the scope of the RA Enhancements initiative.<sup>3</sup> The ISO has indicated that it will consider whether or not to require cost verification for import bids over \$1,000 in a potential stakeholder process on system market power mitigation in the second quarter of 2019. However, cost verification for import RA bids over \$1,000 is relevant to the ISO's import RA policy even if the ISO determines that there is not sufficient system market power to warrant action in the potential system

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<sup>1</sup> *Resource Adequacy Enhancements Issue Paper*, California ISO, October 22, 2018 (*Issue Paper*), <http://www.caiso.com/Documents/IssuePaper-ResourceAdequacyEnhancements.pdf>

<sup>2</sup> *Intertie Deviation Settlement Straw Proposal Comments by Department of Market Monitoring*, DMM, November 13, 2018, pp. 1-3: <http://www.caiso.com/Documents/DMMComments-IntertieDeviationSettlement-StrawProposal.pdf>

<sup>3</sup> *Issue Paper*, p. 9:

market power mitigation initiative. Depending on the import RA rules determined in this initiative, having different cost verification rules for internal RA than for import RA could exacerbate the extent to which import RA has limited availability and value during critical system and market conditions. Therefore, DMM recommends that the ISO reconsider not including the cost verification of import RA bids over \$1,000 in the scope of this initiative.

### **Must-offer-obligations, substitution rules, and RAIM**

DMM supports the ISO reviewing its must-offer obligations, substitution requirements, and considering significant changes to RAIM. DMM agrees with the ISO that the current RAIM mechanism and substitution rules are complicated. DMM shares the ISO's concerns that the existing design creates incentives to hold back contracted capacity from the RA market to be used as substitution capacity. RAIM may be incentivizing market participants to take actions that avoid penalties but that do not increase resource availability.

DMM supports the ISO considering an availability incentive mechanism that triggers only under certain system conditions when capacity is most needed. DMM suggests the ISO also consider an incentive mechanism that depends on resources' actual performance when dispatched rather than whether resources simply submit bids or not. If RA resources do not perform according to the characteristics that the ISO and local regulatory authorities assume the resources will provide, the RA process may not ensure system or local reliability.

DMM also believes the design of penalty values under a reformed availability incentive mechanism is integral to drive efficient behaviors. To incentivize availability during high load days or under stressed system conditions, the ISO could consider very steep penalties for unavailability or the ISO could tie availability incentives to real-time performance and spot prices.

The ISO Issue Paper states that "By considering outages as part of the NQC calculation (see Section 3.1, above) the ISO can reassess the need for, and value of, existing substitution rules as well as the current RAIM construct."<sup>4</sup> DMM notes that considering outage rates as part of NQC calculations would reflect expected resource outages, likely reflecting *average* outage levels over a period of time. DMM believes that an availability incentive mechanism triggered by peak load or certain system conditions could be complementary to potential NQC reforms (i.e. changing NQC calculations to consider resource outages over time does not obviate the need for an availability incentive mechanism applied to specific days). A more targeted availability incentive mechanism could be effective to ensure RA capacity is made available on days when the ISO needs resources the most.

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<sup>4</sup> Issue Paper, p. 10

## CPM/RMR review

DMM supports the ISO reassessing cost allocation mechanisms for backstop CPM and RMR procurement. DMM has been actively engaged in the RMR-CPM Enhancements stakeholder process and has recommended the ISO make comprehensive changes to its backstop procurement framework to improve the efficiency of CPM and RMR mechanisms.

Even if the ISO makes changes to CPM and RMR frameworks under the CPM-RMR initiative, DMM still sees value in the ISO reassessing how it allocates backstop procurement costs among LSEs. Allocation of backstop procurement costs based on the effectiveness of LSE portfolios in meeting reliability requirements should help ensure that LSEs with more effective portfolios are not allocated a disproportionate share of backstop procurement costs. More targeted cost allocation should also incentivize LSEs to consider the ISOs reliability requirements and resource effectiveness in bilateral procurement decisions.

DMM notes that if the CPUC adopts the full procurement, multi-year central buyer framework for local RA (as detailed in the CPUC's Proposed Decision under R. 17-09-020) individual LSE local requirements would no longer exist.<sup>5</sup> This is because central buyers would procure RA to meet local requirements on behalf of all load in a TAC area. Therefore, targeted allocation of backstop procurement costs to address local deficiencies may no longer be relevant. However, if the Proposed Decision is adopted, there may still be some value in refining the backstop cost allocation method for system or flexible capacity deficiencies.

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<sup>5</sup> *Decision Refining the Resource Adequacy Program*, Rulemaking 17-09-020, Proposed Decision of ALJ Chiv and ALJ Allen, November 21, 2018:

<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M243/K570/243570563.PDF>