

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

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local and Flexible Procurement Obligations
for the 2019 and 2020 Compliance Years

Rulemaking 17-09-020
(Filed September 28, 2017)

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION**

Roger E. Collanton
General Counsel
Anthony Ivancovich
Deputy General Counsel
Anna A. McKenna
Assistant General Counsel
Jordan Pinjuv
Senior Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom California 95630
Tel.: (916) 351-4429
jpinjuv@caiso.com

Date: July 26, 2019

Table of Contents

I.	Introduction.....	1
II.	Discussion.....	2
	A. The Commission Should Focus on Resource Adequacy Import Contracting Rules that are Within the Scope of this Proceeding.....	2
	B. The CAISO Agrees with Parties to Rely on the CAISO Market for Dispatch and Recommends Energy Hedging Provisions.....	3
III.	Conclusion	4

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**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION**

Pursuant to the Assigned Commissioner’s Ruling Seeking Comment on Clarification to Resource Adequacy Import Rules (Ruling), issued in this proceeding on July 3, 2019, the California Independent System Operator Corporation provides reply comments in response to opening comments filed on July 19, 2019.

I. Introduction

Opening comments on the Ruling indicate broad-based party agreement that the resource adequacy import rules should be clarified to ensure that resource adequacy imports provide reliable capacity and energy. The CAISO continues to recommend that the Commission adopt rules that require resource adequacy imports to (1) provide “firm energy,” *i.e.*, by being backed by identified physical resource(s) or, at a minimum, an identified source balancing authority; and (2) not be subject to recall by the resource’s native balancing authority. Several parties recommended that the Commission adopt similar resource adequacy import rules.¹ The CAISO believes that the Commission can adopt and implement such rules prior to the 2020 resource adequacy year, thereby at least partially alleviating concerns with double counting and speculative supply.

In these reply comments, the CAISO notes that certain issues raised in opening comments are outside of the scope of this proceeding and should be addressed in the CAISO’s stakeholder

¹ Department of Market Monitoring (DMM), *Comments on Ruling Seeking Comment on Clarification to Resource Adequacy Import Rules*, July 19, 2019; Bonneville Power Administration, *Comments in Response to Assigned Commissioner’s Ruling Seeking Comment on Clarification to Resource Adequacy Import Rules Dated July 3, 2019*, July 19, 2019.

initiative on Resource Adequacy Enhancements. The CAISO also clarifies its recommendations regarding energy hedging provisions in resource adequacy import contracts.

II. Discussion

A. The Commission Should Focus on Resource Adequacy Import Contracting Rules that are Within the Scope of this Proceeding.

The resource adequacy rules proposed by the CAISO in its opening comments are squarely within the Commission’s authority to adopt and implement. Specifically, the CAISO recommends that the Commission adopt rules that require resource adequacy imports to (1) be backed by identified physical resource(s) or, at a minimum, an identified source balancing authority; and (2) not be subject to recall by the resource’s native balancing authority. The Commission has the authority to require such terms as part its broad jurisdiction under Public Utilities Code Section 380.

In contrast, many of the proposals made by other parties in opening comments are more properly addressed in the CAISO’s Resource Adequacy Enhancements Initiative. Issues that are out of scope include the following:

Changes to the Maximum Import Capability (MIC) - San Diego Gas & Electric (SDG&E) claims that the MIC is “a conservative minimum level for reliable imports” and that “significantly more than 100 percent of the historically-based MIC could be reliably be [sic] used for RA imports, although the CAISO has never determined this level.”² Any adjustments to the MIC calculation should be addressed through a CAISO stakeholder process. In any event, the CAISO notes that the current MIC methodology does not constrain resource adequacy imports, as total resource adequacy imports are typically well below the MIC.

Bidding Rules and Must-Offer Obligations – Numerous parties discussed whether to implement a real-time must-offer obligation for resource adequacy imports. Rules pertaining to must-offer obligations are outside of the scope of this proceeding and the CAISO is currently conducting a review of real-time must-offer requirements in the Resource Adequacy Enhancements and Intertie

² San Diego Gas & Electric Company, *Comments in Response to Assigned Commissioner’s Ruling Seeking Comment on Clarification to Resource Adequacy Import Rules*, July 19, 2019, p. 5.

Bidding Cost Justification initiatives. The CAISO recommends that any party suggesting changes to real-time must-offer obligation participate in those initiatives.³

- **Capacity Procurement Mechanism (CPM) Modifications** – Powerex states that “CPM mechanism should be modified to implement an annual penalty that is applied based on the magnitude of the maximum shortage in any month.”⁴ The CAISO notes that the CPM is a CAISO-tariff backstop process and changes to the CPM outside the scope of this proceeding.

B. The CAISO Agrees with Parties to Rely on the CAISO Market for Dispatch and Recommends Energy Hedging Provisions.

Most parties agree with the CAISO’s initial comments opposing a resource adequacy import requirement for actual energy delivery. Instead, most parties supported reliance on the CAISO market to determine the most efficient dispatch of resources. The CAISO agrees with PG&E, which states that:

Requiring RA import contracts to include the actual delivery of firm energy with firm transmission, however, could lead to inefficiencies in the energy market. To ensure delivery, such energy must self-schedule into the CAISO market and would be delivered to the CAISO regardless of its cost. Consequently, there is a conscious decision to forgo dispatching cheaper and possibly cleaner generators located within California in favor of RA imports.

As noted by several parties in opening comments, including the CAISO and Southern California Edison Company, if the Commission is concerned about the energy prices provided by resource adequacy imports and the potential for speculative supply, there are a variety contractual hedging mechanisms that load-serving entities could employ, which could incentivize bidding to marginal cost. The Commission could require an energy hedging mechanism for import contracts to count toward meeting a load-serving entity’s resource adequacy obligation.

³ Some of the Parties opposed to real-time must-offer obligations are Morgan Stanley Capital Group, Inc.; California Community Choice Association (CALCCA); Alliance for Retail Energy Markets (AReM). The DMM supports real-time must-offer obligations.

⁴ Powerex Corporation, *Comments on Assigned Commissioner’s Ruling Seeking Comment on Clarification to Resource Adequacy Import Rules*, July 19, 2019, p. 17.

III. Conclusion

The CAISO appreciates the opportunity to provide these reply comments and looks forward to working with the Commission to refine and tailor the resource adequacy import rules.

Respectfully submitted,

By: /s/ Jordan Pinjuv

Roger E. Collanton
General Counsel
Anthony Ivancovich
Deputy General Counsel
Anna A. McKenna
Assistant General Counsel
Jordan Pinjuv
Senior Counsel
California Independent System
Operator Corporation
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