

**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)

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

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I. Introduction

The California Independent System Operator Corporation (CAISO) hereby provides opening comments on the *Proposed Decision Adopting Resource Adequacy Import Requirements* (Proposed Decision) issued in this proceeding on May 18, 2020. The CAISO appreciates this opportunity to provide opening comments.

II. Discussion

The CAISO appreciates the Commission's efforts to modify its resource adequacy import rules to address double counting and speculative supply issues identified by the CAISO, Energy Division staff, and other parties. The CAISO recognizes that adopting an effective framework to address issues raised by resource adequacy import is challenging. The CAISO believes the Commission should pursue source specification requirements for resource adequacy imports to ensure they are backed by real, physical supply resources. The CAISO will continue to pursue the necessary changes to its tariff to ensure that the Commission can adopt a source specification requirement in the next annual resource adequacy cycle.

A. The Proposed Decision Should Clarify that the Adopted Revisions to the Resource Adequacy Import Rules are an Interim Measure.

The Proposed Decision adopts Energy Division's proposal, with modifications, to refine resource adequacy import rules for the 2021 compliance year. Specifically, the Proposed Decision allows both resource-specific and non-resource specific import contracts to provide system resource adequacy.

The CAISO has expressed its concerns with allowing non-resource specific energy

contracts to count toward resource adequacy needs. These resources provide inferior capacity benefits when compared with imports with source specific imports. As the CAISO has explained, any self-scheduling requirement will limit market efficiency without providing commensurate reliability benefits. Most importantly, non-resource specific energy contracts do not provide real, physical capacity resources, nor do they guarantee energy delivery when system needs are highest. Nonetheless, the CAISO understands the Commission is not yet ready to adopt a source specification requirement without further development.¹

The Proposed Decision specifies that the resource adequacy import rules it adopts “shall apply for the 2021 [resource adequacy] compliance year.”² The CAISO appreciates this limitation on the duration of the new resource adequacy import rules and recommends that the Commission modify the Proposed Decision to explicitly state that these rules are an interim measure. In addition, the Commission should clarify that it will reconsider these rules prior to the 2022 resource adequacy compliance year. Revisiting the resource adequacy rules prior to the 2022 compliance year will allow the Commission to consider CAISO market enhancements—including any extension of the real-time must offer obligation—into the record. With this additional record development, the Commission should again consider adopting a source-specification and transmission requirements for resource adequacy imports that effectively mitigates double counting and speculative supply concerns.

B. The Commission Should Clarify the Non-Resource Specific Self-Scheduling or Bidding Requirements.

Notwithstanding the CAISO’s general opposition to allowing non-resource specific energy contracts to count toward system resource adequacy requirements, the CAISO proposes certain modifications to the Proposed Decision for efficiency and clarity. The Proposed Decision requires that the sale of energy from non-resource specific resource adequacy imports are self-scheduled or bid between negative \$150/MWh and \$0/MWh. Further, the Proposed Decision states that bidding between negative \$150/MWh and \$0/MWh is “tantamount to a self-scheduling requirement.” As the CAISO has stated previously, imposing a self-scheduling or “must flow” requirement: (1) reduces flexibility for grid operations across all hours including ramping periods, for renewable integration and uncertainty; (2) causes an increased need for

¹ Proposed Decision, p. 35.

² Proposed Decision, p. 48.

other dispatchable resources; (3) reduces the amount of resources eligible for imbalance reserves currently under development; (4) increases the instances of Energy Imbalance Market (EIM) resource sufficiency evaluation failure; (5) likely reduces incentives for imports to offer capacity into the resource adequacy program, (6) increases market price distortions resulting in increased capacity prices for internal resources; and (7) inflexible block energy may run counter to state policy on renewable integration and emissions.³

Though the CAISO does not support a self-scheduling requirement, the Proposed Decision's option to allow non-resource specific resource adequacy imports to bid between negative \$150/MWh and \$0/MWh is preferable to a strict self-scheduling requirement. This additional bidding flexibility will provide the CAISO with economic bids it can optimize in the market clearing process and allows somewhat more flexibility than a strict self-scheduling requirement. However, the CAISO reiterates that it is unable to prevent scheduling coordinators from participating in its markets in a manner inconsistent with these requirements imposed by the Commission.

The CAISO recommends the Commission clarify that this self-scheduling or limited bidding window applies only during the CAISO's availability assessment hours (AAH). The Proposed Decision implies that the self-scheduling/bidding window only applies during the AAH, stating that "[t]he Commission is convinced that limiting the self-schedule requirement to the AAH window, consistent with the MCC buckets, minimizes concerns of self-scheduling during negative pricing periods by delivering energy when there is high demand."⁴

However, in Ordering Paragraphs 2(b) and 2(c), the Proposed Decision states that energy "must self-schedule (or in the alternative, bid in at a level between negative \$150/MWh and \$0/MWh)" into the CAISO day-ahead and real-time markets during all contract hours. Such a requirement would be overbroad, and increase the concern that resources will self-schedule or bid at artificially low prices during negative pricing periods outside the AAH, exacerbating oversupply conditions or reducing operational flexibility. Requiring self-scheduling during all contract hours is inconsistent with the Proposed Decision's intent to limit the requirement to periods of high demand. To remedy this inconsistency, the Commission should modify Ordering

³ See pp. 3-4: <http://www.aiso.com/Documents/Sep26-2019-Comments-ProposedDecision-RAImportRules-RAProgramProceeding-R17-09-020.pdf>

⁴ Proposed Decision, p. 42.

Paragraphs 2(b) and 2(c) into a single new paragraph that reads as follows:

(b) The energy must self-schedule (or in the alternative, bid in at a level between negative \$150/MWh and \$0/MWh) into the CAISO day-ahead and real-time markets for delivery during the Availability Assessment Hours throughout the RA compliance month, consistent with the Maximum Cumulative Capacity (MCC) buckets; and

Amending this paragraph will reduce confusion and limit the self-scheduling requirement only to the AAH periods, thereby allowing import resources to bid economically during non-AAH periods.

C. Other Clarifications

The CAISO seeks clarification on the Proposed Decision's direction to require resource adequacy import contracts to: (1) denote the sale of energy to the load serving entity in \$/MWh or \$/kWh; and (2) specify the sale of energy delivery to the load serving entity specifically, not the CAISO generally.⁵ With respect to the first point, the Commission should clarify how contracts based on energy sales will be converted into MW values for capacity showings. For example, one interpretation is to base the conversion on the maximum cumulative capacity (MCC) bucket in which the resource is shown (*i.e.*, dividing the MWh designated in the contract by the minimum monthly hour requirement for the relevant MCC bucket to determine the capacity value in MW). Failure to provide this additional clarity will likely result in load serving entities to report these resource adequacy-eligible energy contracts differently.

On the second point, it is unclear what is meant by or why there is a need to specify that the energy has been sold directly to a specific load serving entity. Ultimately, these resource adequacy-eligible energy contracts will be delivered to the CAISO Balancing Authority Area at the identified point of interconnection and used to meet system needs. The CAISO does not expect these resources to be delivered to any specific P-node or custom load aggregation point internal to the CAISO Balancing Authority Area. Further, the resource adequacy contract will be between the load serving entity and the resource adequacy-eligible energy contract provider. The CAISO interprets this requirement to require that the LSE act as the resource's scheduling coordinator for these resource adequacy-eligible energy contracts in order to provide the Commission with some ability to monitor compliance for its jurisdictional LSEs. If this is

⁵ Proposed Decision, p. 40.

accurate, then the Commission should state this unambiguously to ensure there are no unintended consequences.

III. Conclusion

The CAISO appreciates the opportunity to provide comments on the Proposed Decision and looks forward to working with the Commission to adopt effective resource adequacy import rules.

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