

Comments on Resource Adequacy Enhancements Working Group September 15 and 17

Department of Market Monitoring

October 1, 2020

I. Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on issues discussed at the Resource Adequacy Enhancements Working Group on September 15 and September 17, 2020.¹ DMM provides comments on the following aspects of the proposal which were discussed in the working group meetings:

- The ISO proposes to require substitution for all planned outages up front. While DMM supports the ISO moving away from the Option 1 proposal, the ISO's revised proposal does not address the issue of resource-controlling entities holding back capacity from bilateral markets. Instead of holding back excess capacity to mitigate risks associated with cancelled planned outages, entities would be required to have excess capacity to cover planned outages regardless of whether the ISO actually needed the excess capacity. The ISO should continue to work with stakeholders to develop an alternative planned outage framework that addresses concerns with the planned outage substitution process which have been repeatedly raised by stakeholders.
- DMM supports the ISO's efforts to develop a resource-specific framework for import resource adequacy. DMM also appreciates the ISO's efforts to detail transmission service options under the general OATT framework. However, DMM agrees with other stakeholders that the processes for release of firm transmission rights specific to different BAAs should be reviewed further to understand whether the ISO's proposed transmission requirements would create competitive advantages for entities that hold significant long-term firm transmission rights. There are also several details that the ISO should address before the ISO's proposal can be considered a viable replacement for the CPUC's revised resource adequacy import rules.
- DMM continues to suggest that the ISO evaluate all hours in a season in its UCAP calculations and apply a weighting to hours based on severity of the difference between available resource adequacy capacity and load plus reserve margins. A weighting mechanism which impacts UCAP values most significantly when all resource adequacy capacity is needed to meet load and reserve margins, would create stronger incentives for

¹ *Resource Adequacy Enhancements Working Group*, California ISO, September 15 and September 17, 2020: <http://www.caiso.com/InitiativeDocuments/Presentation-ResourceAdequacyEnhancements-Sep15-17WorkingGroup.pdf>

resources to remain available and operational on very high load days such as those experienced in August and September.

- DMM remains concerned that local resource adequacy resources will have little incentive to increase availability under a UCAP framework if the ISO removes RAAIM and local resource adequacy requirements continue to be defined in terms of NQC. If the ISO continues to base local requirements on NQC, DMM suggests that the ISO maintain a separate availability incentive mechanism for local resources. Under the ISO proposal, pivotal resources (which typically are local resources needed to meet specific reliability criteria) would have little incentive to increase availability if capacity will be needed to meet NQC-based local requirements, regardless of resources' UCAP values.

DMM provides additional comments on these issues below.

II. Planned outage process enhancements

The ISO has indicated that it will not move forward with its Option 1 proposal to develop a planned outage reserve margin and will instead require substitute capacity to cover planned outages up front.² While DMM supports the ISO moving away from Option 1, the ISO's revised proposal does not address concerns about resource-controlling entities withholding excess capacity from the bilateral market. Instead of holding back capacity to manage risks associated with cancelled planned outages, suppliers would require excess capacity to cover planned outages regardless of whether the ISO actually needs the substitute capacity. The ISO states that planned outages are cancelled infrequently today³, indicating that substitute capacity required up front may be excessive and rarely needed by the ISO. Additionally, risks associated with cancelled or denied planned outages would still exist for entities that cannot find substitute capacity. Furthermore, it may become more difficult to find excess supply under the ISO proposal if substitution is required for all planned outages.

Stakeholders have suggested that the ISO consider planned outage process enhancements in a separate initiative so that more thought and discussion could be devoted to issues with the existing planned outage substitution framework.⁴ DMM supports these suggestions and believes the ISO should consider alternative designs that more comprehensively address concerns about entities withholding capacity from bilateral markets and risks associated with

² *Resource Adequacy Enhancements Working Group*, Slide 122.

³ *Resource Adequacy Enhancements Working Group*, Slide 123.

⁴ *Six Cities Comments on Fifth Revised Straw Proposal*, Six Cities, August 10, 2020, p. 7:
<http://www.caiso.com/InitiativeDocuments/SixCitiesComments-ResourceAdequacyEnhancements-FifthRevisedStrawProposal.pdf>

SDG&E Comments on Fifth Revised Straw Proposal, SDG&E, August 10, 2020, p. 12:
<http://www.caiso.com/InitiativeDocuments/SDG&EComments-ResourceAdequacyEnhancements-FifthRevisedStrawProposal.pdf>

cancelled planned outages. The ISO also has not explained how its proposal would address planned-to-forced outage reporting issues that it was directed to address under PRR 1122.⁵

Several stakeholders including DMM have offered alternative designs and ideas over the course of this initiative that the ISO could use as a basis to develop a more comprehensive solution to improve the planned outage substitution process.⁶ As suggested by stakeholders, these proposals and ideas could be vetted further in a separate stakeholder process as little time has been devoted to discussing alternative designs suggested by stakeholders in the RA Enhancements policy development process so far.

III. Resource adequacy imports

DMM continues to support the ISO's efforts to develop a resource-specific framework for import resource adequacy. DMM also appreciates the ISO's efforts in the working group to detail transmission service options under the general OATT framework. However, DMM agrees with other stakeholders that the processes for release of firm transmission rights that are specific to different BAAs should be considered further to understand whether the ISO's proposal would create competitive advantages for entities that hold significant long-term firm transmission rights.

While DMM supports the ISO's direction in developing a resource-specific framework, there are also parts of the ISO's proposal that require additional detail before it can be considered a viable replacement for the CPUC's revised import resource adequacy rules which will go into effect in 2021. These include provisions to ensure import capacity remains dedicated to the ISO and can be bid competitively in ISO markets. For example, the ISO previously discussed ensuring that resource-specific import characteristics are reflected in the master file, and that the ISO would collect and monitor source operational data to ensure external resources remain

⁵ *Decision on Appeal of PRR 1122*, BPM Appeals Committee, March 11, 2020:

<http://www.caiso.com/Documents/ExecutiveAppealsCommitteeDecision-PRR1122-Mar112020.pdf>

⁶ *DMM comments on RA Enhancements Fifth Revised Straw Proposal*, August 13, 2020, pp. 3-5:

<http://www.caiso.com/InitiativeDocuments/DMMComments-ResourceAdequacyEnhancements-FifthRevisedStrawProposal.pdf>

SDG&E comments on RA Enhancements Fourth Revised Straw Proposal, April 14, 2020, pp. 4-6:

<http://www.caiso.com/InitiativeDocuments/SDGComments-ResourceAdequacyEnhancements-FourthRevisedStrawProposal.pdf>

Six Cities comments on RA Enhancements Fourth Revised Straw Proposal, April 14, 2020, pp. 2-4:

<http://www.caiso.com/InitiativeDocuments/SixCitiesComments-ResourceAdequacyEnhancements-FourthRevisedStrawProposal.pdf>

Calpine comments on RA Enhancements Straw Proposal, Calpine, July 24, 2019, pp. 4-5:

<http://www.caiso.com/InitiativeDocuments/CalpineComments-ResourceAdequacyEnhancements-RevisedStrawProposal.pdf>

available to the ISO.⁷ However, these details are not included in the Fifth Revised Straw Proposal. Additionally, to ensure that external supply is truly dedicated to the ISO, particularly when other BAAs also face supply shortages, the ISO should ensure that BAAs cannot recall or curtail energy backing resource adequacy imports even in the absence of transmission congestion.

DMM and other parties supported the CPUC's decision (D.20-06-028) on resource adequacy import requirements⁸ as a viable interim measure to improve the reliability of resource adequacy imports as the ISO further developed a resource-specific framework. In order to effectively replace the CPUC's decision, the ISO's proposal should ensure that import capacity is reliable and dedicated to the ISO when other BAAs also face supply shortages. Rules should also be in place to ensure import resource adequacy would be bid competitively into ISO markets.

IV. UCAP weighting

DMM continues to suggest that the ISO evaluate all hours in a season and apply a weighting to hours used in UCAP assessments.⁹ DMM believes that there should be discrepancy in weighting among hours even within the top 20% of supply cushion hours. The ISO has shown that the range of supply cushion observed in the top 20% of supply cushion hours can be very wide ranging between shortages of 1,100 MW to surpluses of over 8,000 MW in peak months of 2019.¹⁰

Instead of treating these hours equally, there should be greater incentives for resources to be available when all resource adequacy capacity is needed to cover load plus reserve margins. For example, resources on forced outage in peak net load hours on high load days such as those observed in August and September should face greater penalties for being unavailable (i.e. impacts to UCAP) than resources on outage when the ISO has thousands of MWs of excess resource adequacy supply on the system. Treating impacts to UCAP equally across several hundreds of hours in a season (about 880 hours in the summer season) could mute the financial impact and thus incentives for resources to be available and operational on critical days like August 14 or August 15.

⁷ *RA Enhancements Fourth Revised Straw Proposal*, California ISO, July 24, 2019, pp. 29-30:

<http://www.caiso.com/InitiativeDocuments/FourthRevisedStrawProposal-ResourceAdequacyEnhancements.pdf>

⁸ *Decision Adopting Resource Adequacy Import Requirements*, D.20-06-028, CPUC, June 25, 2020:

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M342/K516/342516267.PDF>

⁹ *DMM comments on RA Enhancements third revised straw proposal*, January 30, 2020, p. 5:

<http://www.caiso.com/InitiativeDocuments/DMMComments-ResourceAdequacyEnhancements-ThirdRevisedStrawProposal.pdf>

¹⁰ *Resource Adequacy Enhancements Working Group*, Slide 34.

V. UCAP for local resource adequacy

Under the ISO proposal, local capacity studies will continue to be based on NQC. Local requirements assigned to local regulatory authorities will then be translated to UCAP. However, resource sufficiency to meet local requirements will ultimately be assessed by the ISO based on NQC as it is today.

The UCAP conversion process does not appear to add efficiency to the local procurement process. The conversion process may even add uncertainty to the local procurement process if UCAP and NQC values diverge significantly in local areas and if TAC-wide forced outage rates diverge significantly from resource-specific forced outage rates. Instead of the UCAP conversion process, the ISO should consider further whether local requirements can be defined in terms of UCAP to maintain consistency with system resource adequacy procurement requirements.

DMM also remains concerned that many local resource adequacy resources will have little incentive to increase availability if the ISO removes RAIM and local resource adequacy requirements continue to be defined in terms of NQC.¹¹ Under the ISO proposal, pivotal resources (which typically are local resources needed to meet specific reliability criteria) would have little incentive to increase availability if capacity will be needed to meet NQC-based local requirements, regardless of resources' UCAP values. If the ISO cannot develop UCAP-based requirements, DMM recommends that the ISO maintain a separate availability incentive mechanism for local resources.

¹¹ *DMM comments on RA Enhancements third revised straw proposal*, January 30, 2020, pp. 5-6: <http://www.caiso.com/InitiativeDocuments/DMMComments-ResourceAdequacyEnhancements-ThirdRevisedStrawProposal.pdf>