

Stakeholder Comments

Resource Adequacy Enhancements Straw Proposal Part 1

Submitted by	Company	Date Submitted
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SCE appreciates the opportunity to provide the following comments on the CAISO Resource Adequacy (RA) Enhancements Straw Proposal Part 1 (the Proposal) dated Dec 20, 2018¹.

Comments

SCE agrees with the CAISO’s premise of taking a holistic view of existing issues and the framework of the CAISO RA program². However, the enhancements proposed by the CAISO would lead to more stringent requirements³ on resources participating in the RA program. The Proposal does not address the fundamental issue: the disincentive for RA participation.

As raised by stakeholders during the January 23rd call and recognized by the CAISO at multiple occasions⁴, the current RA rules do not provide appropriate incentives for entities to show RA resources above their RA requirement, and potentially drives some market participants to not make all their RA capacity available to RA compliance entities to serve as substitution resources to avoid potential RAAIM⁵ charges making the RA market less liquid. Even if the RAAIM was modified to obviate the incentive to hold excess capacity to serve as substitution, the mere fact that there is the potential for penalty will have entities showing the bare minimum of resources necessary to meet their RA obligation.

The existing RAAIM is not aligned with the objective of maximizing RA showings at the system level because, instead of looking from a portfolio perspective, RAAIM charges are assessed to individual resources that can discourage those resources from participating in the RA program. While some of the trigger mechanisms proposed could lessen the probability of a penalty, they do not eliminate it. SCE believes that markets have a difficult time addressing low probability events

¹ Resource Adequacy Enhancements Straw Proposal – Part 1, dated Dec 20, 2018,

<http://www.caiso.com/Documents/StrawProposalPart1-ResourceAdequacyEnhancements.pdf>

² *Ibid*, at 4, 5, 11.

³ The Proposal includes rules that would impose more stringent requirements on RA resources compared to today; examples are proposed rules on trigger-based RAAIM penalties, proposed rules on import RA, and the proposal on how slow DR can be counted as local RA.

⁴ *Resource Adequacy Enhancements Straw Proposal – Part 1*, at 10-11, “While RAAIM provides an incentive to provide substitute capacity, it also provides an incentive to only show the minimum RA capacity needed for each capacity type because showing additional capacity exposes that capacity to RAAIM non-availability charges”. *Resource Adequacy Enhancements Issue Paper*, at 10, “For example, although RAAIM provides an incentive to provide substitute capacity, it also provides an incentive to only show the bare minimum of any RA capacity type. Additionally, the substitution rules may lead to LSEs holding back capacity under contract (i.e., not showing it as procured RA capacity or offering to sell the capacity to another LSE), just in case it is required to provide substitute capacity”.

⁵ RAAIM stands for Resource Adequacy Availability Incentive Mechanism.

with high potential consequences (e.g., a rarely enacted trigger mechanism with high penalty prices when activated). The impact then on the market for RA will be difficult to determine but should be assumed to either increase prices and/or decrease liquidity. Either way, there will be significant disincentive to show more than the minimum RA requirement. This is exactly the opposite of what a well-constructed RA model should accomplish.

The Proposal for trigger-based penalties would lead to the same dis-incentive issues seen today. Entities would continue to have incentives to avoid the risk of those penalties by showing the bare minimum and holding excess positions. The Proposal lacks a solution to support the rapid transformation to a resource fleet with greater reliance on many small resources, for which a portfolio-based RA assessment for entities may be more appropriate. In the end, the objective of maximizing RA showing cannot be achieved by the Proposal.

Based on these observations, SCE does not believe the Proposal should be the only solution that the CAISO and stakeholders should evaluate. To the contrary, to meet the objective of maximizing RA showings and ensuring resource sufficiency, the CAISO and stakeholders should look beyond the existing RAAIM paradigm and focus on methods that can address these fundamental incentive problems. One method could include the adoption of a program that derates NQC⁶ based upon historical forced outages as a key element to eliminate the need of imposing punitive penalties on individual resources. Such a mechanism could provide simplicity as well as provide sufficient incentive to all resources, not just RA resources to utilize planned outages instead of forced outages in order to provide the maximum value for future RA showings. When such method is properly designed, entities would not have an incentive to hold back excess positions. Resources would have incentives to apply for planned outages and avoid forced outages when possible. Such a proposal could be augmented by developing a seasonally shaped RA requirement for System RA in recognition that a 115% planning reserve margin may be insufficient during low load months. The combination of these two design features would likely lead to the CAISO having more capacity at the system level than at the bare minimum of the RA requirement. It would be compatible with a fleet of individually small and collectively sufficient resources. The RA market would be more liquid with available resources incentivized to participate. SCE understands that a set of detailed rules would need to be worked out⁷ and plans to bring forth an alternative proposal that addresses the above elements which can then be considered within this stakeholder process. Given the importance of this topic, the stakeholders and the CAISO should fully utilize this initiative to collaborate and develop a method that can address these fundamental issues described above.

In addition to addressing more fundamental concerns, SCE believes that the Proposal fails to provide a demonstration of the phantom import RA issue based on actual data. It is not clear to SCE

⁶ NQC stands for Net Qualifying Capacity.

⁷ Including but not limited to any potential changes to Planning Reserve Margin and a portfolio-based RA assessment, etc.

whether RA Imports have failed to deliver energy if called upon by the CAISO or if the mere presence of high prices for such imports is sufficient evidence that there is no reliable capacity behind the offer. SCE asks that the CAISO provide further evidence that a real and present reliability threat exists under the current structure so that the issue, cause, and potential solutions can be fully evaluated.

Furthermore, the Proposal fails to address the largest portion of the slow Demand Response (DR) available to the market – specifically the over 450 MW of SCE’s BIP-30 program, most of which is situated in Local RA areas and has proven to be available and perform when needed for emergency grid purposes.⁸ The CAISO needs to recognize that some portion of slow DR is capable of responding within a 20-minute time window; as such, a ramp rate concept, or a concept of pre-assigning a percentage on a program by program basis, is appropriate to count slow DR as eligible for local RA. Such a method would recognize the actual resource characteristics and performance.

⁸ BIP program provided verified and valuable reliability support during the May 3, 2017 and February 6, 2014 CAISO Stage 1 Emergency events, with most of the MW drop provided within the first 20 minutes.