

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

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations.)))))	Rulemaking 19-11-009
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**COMMENTS OF THE PUBLIC GENERATING POOL
ON TRACK 1 PROPOSALS**

I. Introduction

Under Rule 6.2 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure (“Rules”) and pursuant to the *Assigned Commissioner’s Scoping Memo and Rulings* issued on January 22, 2020, the Public Generating Pool (“PGP”) respectfully submits these comments. PGP’s comments address the workshop report and the Track 1 Proposals filed on February 28, 2020.

PGP is a not-for-profit corporation composed of eleven consumer-owned electric utilities located in Washington and Oregon. Collectively, PGP’s member utilities own 8,000 MW of non-federal generating resources that are 97% carbon-free and include more than 7,000 MW of renewable hydro generation. Four of the PGP member utilities operate their own Balancing Authority Areas (BAA), while the remaining member utilities reside in the Bonneville Power Administration (BPA) BAA.

PGP has long believed a well-designed and functioning Resource Adequacy (RA) program that ensures adequate capacity and flexibility procured from resources that perform

consistent with obligations is essential to well-functioning markets.¹ PGP supports the Commission's efforts to understand and address current issues with import RA. Furthermore, PGP appreciates the opportunity to contribute to this conversation and hopes these comments will aid in the process of deterring speculative supply and maintaining the integrity of imports as qualifying for RA requirements.

II. Speculative RA Imports Undermine Reliability

As defined by the CPUC,² the purpose of the RA program is to provide sufficient resources to the CAISO to ensure the safe and reliable operation of the grid in real-time and to provide appropriate incentives for the siting and construction of new resources needed for reliability in the future. In order to achieve the goals of the RA program, the RA resources (both internal and external to the CAISO BAA) that are provided to the CAISO *must* be physical and reliably perform when called upon. PGP believes that certain existing import RA rules have allowed for a lack of real physical capacity committed on a forward basis, which increases reliability risk. Unlike internal RA resources, import RA resources currently are not required to identify the physical resources behind the contract. This has allowed for the sale of speculative RA supply, where there is no real physical capacity behind the contract that is available to meet the needs of the CAISO grid.

Speculative RA supply undermines the RA program and reliability. If LSEs do not adequately procure their share of RA capacity today, CAISO uses its backstop procurement authority to procure the capacity shortfall to ensure it has enough resources to reliably meet load.

¹ [NW Public Power Day-Ahead Market Design Interests](#)

² See CPUC Resource Adequacy [website](#)

Speculative RA supply leaves CAISO blind to what real physical capacity is available until the real-time, creating dependence on voluntary supply in the short-term market and/or operator interventions that may or may not be available or effective, creating real reliability concerns. This is particularly concerning given the tightening supply conditions of the Western grid and could lead to reliability events down the road.

III. Speculative RA Imports Inhibit Market Expansion

If the allowance of RA speculative supply continues within the California RA program, it will inhibit market expansion across the West. Resource Sufficiency is a core design feature of the Energy Imbalance Market (EIM) and will be a core design feature of any extension of CAISO's day-ahead market to EIM Entities (i.e., extended day-ahead market (EDAM)). A resource sufficiency evaluation conducted prior to the hour for the EIM and prior to the operating day for EDAM is intended to ensure that entities participating in these markets are not "leaning" on the market for their energy, capacity, and flexibility needs. As such, only supply that is real, identified, non-recallable and capable of performing when dispatched should qualify to meet resource sufficiency requirements in the EDAM.³ EIM Entities will not likely be willing to participate in EDAM if the market design allows leaning by CAISO on EDAM to meet its energy, capacity, and flexibility needs.

Speculative supply will impede CAISO's ability to meet the resource sufficiency test. CAISO has stated that its RA imports should qualify to count towards meeting the day-ahead resource sufficiency evaluation,⁴ but the allowance of speculative RA import supply puts into

³ See slides 22 – 23 of the [EIM Entities Presentation on EDAM Resource Sufficiency Design](#)

⁴ See slides 18 – 19 of [CAISO's Extended Day-Ahead Market Workshop](#)

question whether RA imports can actually qualify towards meeting resource sufficiency requirements. If RA imports do not qualify towards meeting CAISO's resource sufficiency test, it may inhibit CAISO's ability to pass the test. The consequence of failing the day-ahead resource sufficiency test likely entails limiting transfers into/out of the BAA that has failed the test. In any instance that CAISO fails the resource sufficiency test, CAISO would be unable to rely on EDAM supply to make up for the short fall created by speculative RA supply, leaving CAISO with even fewer options to remedy the insufficiency.

The consequences of continuing to allow speculative supply in California's RA program are grave and *must* be addressed prior to any extension of CAISO's day-ahead market to EIM Entities.

IV. PGP Supports the Proposals of CAISO and Powerex

PGP supports import RA requirements that will allow for the maximum participation of imports in the RA program backed by real physical resources while ensuring CAISO's reliability needs are not compromised. The most efficient and effective way to ensure RA imports are backed by real physical resources is to put in place measures that allow for verification of the supply behind the RA contract, which is what the CAISO and Powerex proposals seek to do. PGP strongly supports these proposals. Specifically, PGP supports the proposals to require source-specification of resources supporting an import RA contract. Further, we support CAISO's clarification that a system or aggregation of generating units can be designated as a specified source. We believe this clarification is essential to ensure entities that operate their system in aggregate with real resources backing import RA contracts are not inadvertently excluded from participating in the program.

V. PGP Does Not Support Proposals That Would Artificially Suppress Market Prices or Reduce RA Obligations to the Detriment of the Reliability of the CAISO Grid

PGP specifically does not support the proposal outlined in the Energy Division Staff report that recommends addressing speculative supply by reducing system RA requirements based on average imports over time. The energy landscape is evolving throughout the West including tightening supply conditions, decarbonization policies, and the addition of new renewables to the grid. It is not clear that historical import patterns will hold going forward. Reducing system RA requirements based on the assumption that CAISO will receive historical levels of imports could subject the CAISO to rely on voluntary import supply and/or operator interventions, which are similar to the challenges from having speculative import supply in the RA supply stack. The current proposal does not appear to ensure supply and help sustain reliability of the CAISO grid.

PGP also disagrees with the argument that it may not be appropriate for California load to pay capacity prices for resources already paid for through cost-of-service ratemaking. When an entity enters into an import RA contract, that capacity is no longer available to the entity and its customers who paid for that resource. It is not clear to PGP why the funding mechanism through which the resource was built would have any bearing on the value of its capacity to either California load or to the funders of an external resource. PGP also does not support the Southern California Edison and Shell Energy North America proposals to require import RA resources to bid only up to a proposed strike prices in the CAISO markets in order to count towards RA requirements. PGP believes artificially capping RA import bids to these strike prices would only distort market prices, which runs counter to sound price formation practices. The proposal recognizes that import RA could be sourced from resources with an opportunity cost as their

applicable costs but goes on to say the strike price is designed to be equivalent to the marginal cost of a hypothetical gas unit with a high heat rate. One flaw of this proposal is that it fails to consider the opportunity cost of hydro resources, which have many different variables and different opportunity costs than gas units. More importantly, speculative RA supply creates larger issues and has much broader consequences than potential elevated market prices. The problem of speculative RA supply needs to be addressed efficiently and effectively at the source, eliminating speculative supply from being able to sell RA in the first place, rather than measures that simply artificially suppress market prices.

VI. Conclusion

PGP appreciates the Commission's consideration of these comments and looks forward to further engagement with the Commission on these issues.

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Respectfully submitted,

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