BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Develop an Electricity Integrated Resource Planning Framework and to Coordinate and Refine Long-Term Procurement Planning Requirements	)))))	Rulemaking 16-02-007

COMMENTS OF THE PUBLIC GENERATING POOL ON RULING INITIATING PROCUREMENT TRACK AND SEEKING COMMENT ON POTENTIAL RELIABILITY ISSUES

I. Introduction

Under Rule 6.2 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure ("Rules"), the Public Generating Pool (PGP) respectfully submits comments to the Order Instituting Rulemaking 16-02-007. PGP is responding to the June 20, 2019 *Ruling Initiating Procurement Track and Seeking Comment on Potential Reliability Issues* ("Procurement Track Ruling").

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 is 97% carbon-free with over 7,000 MW of which is 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) framework that ensures adequate capacity and flexibility is procured from resources that perform consistent with obligations is essential to a well-functioning market.[1] As such, PGP commends the Commission's goal of understanding and guiding Load-Serving Entities (LSEs) toward avoiding system reliability issues in the near-, medium-, and long-term. Furthermore, PGP appreciates the opportunity to contribute to this conversation and hopes these comments will aid in the process of maintaining a reliable and least-cost approach to a changing power system.

II. PGP's Response to Question 2: Are you concerned about increasing reliance on imported capacity for meeting resource adequacy requirements?

While PGP understands the Commission's objective to identify a diverse and balanced system portfolio, PGP does not believe the Commission should be concerned about increased reliance on firm imported capacity for meeting resource adequacy requirements. PGP believes imports, and specifically, the sale of surplus capacity across the West, is critical to ensuring an efficient and coordinated power system that supports and integrates existing and new renewables. The use of certain firm imports is critical to transitioning and maintaining a power system that supports environmental policy objectives to remove greenhouse gases from its system. In fact, PGP believes more firm imports would be made available to California LSEs if it were not for the current barriers in California's current RA program.

a. Firm imports to California from the Northwest have historically been a reliable and necessary resource for an integrated and adequate power system.

Daily, seasonal and annual Pacific Northwest hydropower surplus has been sold to utilities in California for decades. The very purpose behind construction of the Pacific Northwest-Pacific Southwest Intertie was to provide the benefits of coordinated markets to the

[1] Public Generating Pool 2016 Market Principles

two regions. California utilities shared in the investments in this transfer capability to optimize the economical exchange of electricity resources taking advantage of the diversity of resources and seasonal load timing in both regions.

Surplus Northwest hydropower imports provide cost and environmental benefits to the state of California. E3 conducted an analysis for Chelan County PUD that showed that Northwest hydro imports to California in 2015, recognized by the Air Resources Board as a specified source or an asset controlling supplier, reduced carbon emissions in California by 6 million metric tons and reduced California's electricity GHG emissions by about 7 percent.[2]

Pacific Northwest hydropower resources have surplus capacity and flexibility that could be used to further integrate renewables and maintain RA. Large Pacific Northwest hydro resources are able to provide carbon-free, battery storage-like services to California by accepting excess solar generation from California during the mid-day hours and then providing energy to California during the morning and critical evening ramp hours. The E3 analysis noted above also shows that flexible dispatch of just 1500 MW of Northwest hydropower can help the state of California avoid over 1800 combustion start/year, reduce local NOx emissions, and provide greater GHG emissions reductions than those provided by the EIM in 2016.[3]

b. Import capacity is being under-procured because of the barriers that exist in the current RA program.

Import resources are being under-procured because there are several obstacles in the current RA program that prevent further procurement of import capacity. One of the major barriers to additional procurement of import capacity is the current allocation process for

[2] PGP presentation on NW Hydro and California, citing E3 Study http://www.publicgeneratingpool.com/wp-content/uploads/2015/01/CA-and-NW-Hydro_Jul-Aug-2017_8-11-17-version-1.pdf, page 6

Maximum Import Capability (MIC). The Commission's RA program requires LSEs to obtain import capability in order to procure import resources. The data provided regarding MIC suggests that import capability is presently *underutilized*.[4] PGP and other stakeholders have suggested in comments that the reason for this underutilization is that there is currently no mechanism to ensure unused intertie capability is made available to other LSEs and external suppliers who are unable to obtain the intertie capability necessary to support an import RA contract.[5] The CAISO is actively addressing this issue through its Resource Adequacy Enhancements stakeholder process[6].

Another hurdle for import resources is that imports are largely not allowed to qualify for flexible RA, which can make them less attractive than other in-state resources. PGP has engaged in the CAISO and Commission proceedings on this issue for years without successful result. This issue is also being addressed through CAISO's Resource Adequacy Enhancements stakeholder process.

Lastly, the RA procurement and demonstration timelines for LSEs may impact the ability for California LSEs to compete for surplus import capacity. For example, Northwest resource owners typically have opportunities outside California to sell their surplus capacity in yearly blocks or longer. Better alignment with other market and seasonal procurement planning may make more imports available to California LSEs.

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[3] Id at pages 10-11.
[4] CPUC *Procurement Track Ruling*, pages 11-13, See System RA Supply Graphic pg. 12. June 20, 2019.
[5] PGP Stakeholder Comments to CAISO on RA Enhancements, page 2. November 14, 2018.
[6] CAISO *RA Enhancements Revised Straw Proposal*, page 5. July 1, 2019. http://www.caiso.com/informed/Pages/StakeholderProcesses/ResourceAdequacyEnhancements.aspx

c. <u>Issues related to the deliverability of imports and speculative supply are being adequately addressed through the CAISO stakeholder process and Commission Proceeding 17-09-020.</u>

Discussions about the reliability of energy delivery from RA imports and the potential for speculative supply are occurring in both a current CAISO stakeholder process and Commission Proceeding 17-09-020.[7] CAISO conducted analysis demonstrating that the vast majority of RA imports are from firm physical resources that have consistently delivered as required and specified in their contracts and is proposing additional modifications to its RA import rules to mitigate reliability concerns. As described further below, PGP is participating in both the CAISO stakeholder process and the Commission Proceeding and supports CAISO's adoption of commonsense rules to deter speculative RA import supply. PGP believes concerns related to RA import deliverability and speculative supply are being adequately addressed through the CAISO stakeholder process and Commission Proceeding 17-09-020 and should not be conflated in this proceeding.

III. PGP Response to Question 13: Other Comments on the Commission's June 20, 2019 Ruling.

a. <u>Imports should be treated equitably to resources inside California.</u>

The Commission's proposed application of a 1/3 discount rate to imports procured to meet the 2,000 MW of new peak capacity is inappropriate and unduly discriminatory to resources outside California that have surplus that can be used to serve California load. As long as current and future qualifying capacity rules for imports are met, there is no reason to discount the capacity of any imports procured to meet the obligations of LSEs under the Commission's procurement track. Further, discounting the capacity of RA imports will impair the ability of LSEs to achieve the least-cost approach to meeting the needs of the system. A discount could result in LSEs either (a) procuring more imports than are actually needed to meet the new peak-capacity requirements or (b) procuring alternative resources that might not be as cost-effective as procuring imports. The Commission should not encourage the procurement of new in-state resources to meet near- and medium-term reliability by discriminating against out-of-state resources through discounting the capacity of imports and potentially increasing costs to LSEs. Rather, imports should be treated equitably to other resource options for RA purposes as long as current and future RA requirements for imports are met.

b. <u>Discounting future import procurement in favor of conventional thermal resources is inconsistent with the state's environmental objectives.</u>

As stated above, current procurement rules have resulted in barriers for RA import capacity, a good portion of which comes from surplus carbon-free hydropower. By discounting imports, the state is in effect giving financial priority to conventional in-state thermal resources and limiting the potential for surplus carbon-free resources from outside the state to be made available. PGP understands the Commission's immediate concern to address near- and medium-term resource adequacy of the California power system as the system transitions to more renewables and retires thermal resources. And PGP believes firm imports, especially surplus carbon-free hydropower, should be treated as an equitable resource option to meet resource adequacy needs in this period of transition.

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[7] CAISO RA Enhancements Revised Straw Proposal July 1, 2019 and CPUC R.17-09-020 Ruling Seeking Comment on RA Import Rules July 3, 2019.

c. <u>The use of a 1/3 discount rate is arbitrary and unsupported.</u>

Lastly, the Commission offers no explanation or rationale in its ruling on the proposed discount on imports. As such, the discounting of imports appears to be an arbitrary penalty applied to out-of-state resources that meet all eligibility requirements for providing System Resource Adequacy.

PGP understands the Commission's goal in this procurement track is to test assumptions about various resources and begin the acquisition process for the types of resources needed and wanted to support the transition to 2030. PGP believes that applying a 1/3 discount rate will deter LSEs from procuring imports and effectively prevent the Commission from obtaining an accurate survey of the availability of imports to meet LSE and system-wide RA requirements.

Some parties have indicated concern about increased reliance on imports because of recent discussions about the reliability of energy delivery from RA imports or the potential for speculative or unreliable supply. While PGP strongly supports this issue being addressed, as mentioned above we believe the Commission's Procurement Track is not the right forum to address this concern as CAISO and the Commission RA proceeding are already developing enhancements to prevent speculative supply and non-performance.

If the Commission's reason for the discount was regarding the reliability of imports, a discount rate is not the appropriate way to address the issue. A discount rate is a blunt instrument that financially disadvantages all imports when the issue has been deemed to only apply to a small percentage of imports.

Further, the options proposed by CAISO are more direct and will better address the issues that might allow for speculative supply. One of CAISO's proposed modifications is to require specification of the Source Balancing Authority (BA) for all RA imports for monthly showings and to adopt provisions similar to current Commission RA program rules for RA imports to provide firm monthly delivery in CAISO's tariff to ensure similar treatment among all LSEs. CAISO believes requiring the source BA will also assist in ensuring that RA imports are not also being relied upon by the native BAA to serve native load or sold to a third party. Additionally, CAISO proposed incorporating requirements for RA imports from the CPUC RA proceeding into its tariff—specifically, requiring LSEs to submit supporting documentation that any non-specified RA import resource shown on annual and monthly RA and Supply plans have firm energy delivery. PGP believes these targeted remedies are more appropriate and effective in addressing concerns about deliverability and the reliability of imports.

IV. Recommendations for the Procurement Track

In response to this ruling and Question 13, PGP respectfully urges the Commission eliminate any discount on the capacity of imports that LSE's procure to meet the 2,000 MW of new peak capacity by August 1, 2021.

V. Conclusion

PGP appreciates the Commission's consideration of these comments in its initiation of this Procurement Track Ruling.

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Respectfully submitted,

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