California ISO

**Stakeholder Comments Template**

**Resource Adequacy Enhancements – Straw Proposal Part 1**

This template has been created for submission of stakeholder comments on Resource Adequacy Enhancements Straw Proposal Part 1 that was published on December 20, 2018. The Straw Proposal Part 1, Stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/informed/Pages/StakeholderProcesses/ResourceAdequacyEnhancements.aspx

Upon completion of this template, please submit it to initiativecomments@caiso.com.

| Submitted by | Organization | Date Submitted |
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Submissions are requested by close of business on February 6, 2019.

**Please provide your organization's comments on the following issues and questions.**

The California Large Energy Consumers Association's[1] (CLECA) participation in Resource Adequacy (RA) Enhancements is driven by its members' concern about high rates as well as electric service reliability. CLECA members participate in reliability demand response to both help ensure reliable grid operations and mitigate the impact of the State's high electric rates on the competitiveness of their products and processes; this RA Enhancements proposal may impact the operation of demand response resources, the costs of meeting resource adequacy requirements, and impact energy prices.

## 1. Rules for Import RA

**Please provide your organization's feedback on the Rules for Import RA topic. Please explain your rationale and include examples if applicable.**

[1] CLECA is an organization of large industrial electric customers of Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (SCE); the member companies are in the steel, cement, industrial gas, mining, pipeline, cold storage, and beverage industries and share the fact that electricity costs comprise a significant portion of their costs of production. Some members are bundled customers, others are Direct Access (DA) customers, and some are served by Community Choice Aggregators (CCAs); a few members have onsite generation. CLECA has been active in California Public Utilities Commission proceedings since the early-to-mid 1980s and at the CAISO since its inception; CLECA strives for even-handed treatment of all customers.

Currently, the RA accounting rules allow purchases of import RA capacity from outside the CAISO balancing authority to be non-resource specific. Import RA resources have a day-ahead market bidding requirement, but if they do not clear the day-ahead market there is no longer an obligation to bid into the real-time market. The advantage of this arrangement is access to capacity at a lower cost because the obligation is not tied to a specific resource as substitution is allowed. This could be considered more reliable than a contract tied to a specific resource as the seller can provide capacity from multiple resources. RA is required to identify the import location.

This arrangement makes sense because once the two balancing authorities approve the schedule of the import, the power is expected to flow into the CAISO. It is the responsibility of the both balancing authorities to adjust their system to achieve the desired power flow. It is not clear why the CAISO needs to know the specific resource providing the power to operate the CAISO market or perform its balancing authority functions.

The current rules also allow providers of import RA to find another buyer, should the capacity not clear the day-ahead market. This also reduces the cost of capacity as the buyer does not have to compensate the seller for reserving uncleared day-ahead capacity for the real-time market.

CAISO has concerns about the current rules because this capacity could be double-counted if it is relied upon by two parties simultaneously. In addition, the CAISO is concerned about speculative capacity whereby there is no true physical capacity backing the import RA capacity.[2] To resolve these concerns, the CAISO proposes the following changes: (1) require resource-specific requirements for import RA; (2) require a real-time bidding requirement regardless of a day-ahead award; (3) imposition of a 24 hour by 7 days must offer requirement; and (4) imposition of a 15-minute bidding requirement.

<u>Resource Specific Requirement</u>

It is not clear how a resource specific requirement will prevent a negligent provider from selling the capacity twice. How would CAISO be able to know if the resource was sold to both a CAISO located entity and to another entity located somewhere else on the grid? While this might make an investigation easier, it does not prevent the action of double selling capacity.

A resource-specific proposal would prevent vertically-integrated utilities or a merchant with a portfolio of resources in a neighboring balancing authority from selling system capacity to load serving entities (LSEs) in the CAISO. Instead, the contracts would be replaced with resource-specific contracts likely at a higher cost with no apparent increase in reliability. Due to the possibility of forced-outage a resource specific contact would be less reliable.

The CAISO proposal attempts to mitigate the possible behavior of a few bad participants instead of increasing monitoring and investigation to discourage the activity. If speculative capacity is being sold, that is a serious violation of market

[2] CAISO, Resource Adequacy Straw Proposal Part 1, December 20, 2018 at 9.

bidding rules and the parties that knowingly sell or buy this capacity should be held accountable. Participants that are playing by the rules should not be forced to pay higher costs.

A reasonable compromise would be for the import RA to identify the balancing authority area location. This would still allow resource flexibility from purchases from neighboring verticality-integrated utilities. It would provide more assurances about the location and, if necessary, provide documentation for investigation of any speculative supply.

CLECA notes the need for a specific resource appears to be more of an issue with the day-ahead market enhancements. If a resource is located in a balancing authority that chooses to participate in the day-ahead market, then the CAISO will need to know that the resources are providing capacity to either native or external balancing authorities when performing resource sufficiency tests.

Real-Time Must Offer Requirement

CAISO is proposing to require a mandatory real-time bidding requirement for import RA regardless of the outcome of the day-ahead market. CLECA assumes this concern is partly due to the CAISO's Department of Market Monitoring (DMM) report which showed that in Aug 2018, of the 4000 MW of import RA, 484 MW (8%) were bidding above $750/MWh in the day-ahead market.[3] Furthermore, for the day-ahead market on the peak days in 2017 and 2018, about 500 MW of import RA was bid at the cap price of $1000/MWh. It is not clear why those resources do not want to clear the day-ahead market. Per the DMM report, 27% of the import bids above $200/MWh that cleared the day-ahead market and rebid into the real-time market did not clear the hour-ahead scheduling process.[4] This means that those resources made money by not having to deliver power because they sold at a higher price (in day-ahead) and then bought back at a lower price (in real-time).

There does not appear to be a shortage of resources in real-time because the average day-ahead price is often higher than the real-time price.[5] This occurred even during the annual peak on July 24, 2018, as shown in the figure below. The DMM report noted that a very high percentage (96%) of RA imports was delivered into the real-time market.[6] The DMM report did not quantify the amount of import RA that did not clear the DA market and then did not submit a real-time bid. It is also unclear of how much of this import RA that did not clear the day-ahead market, then bid into the Energy Imbalance Market, which would still provide capacity to the real-time market.

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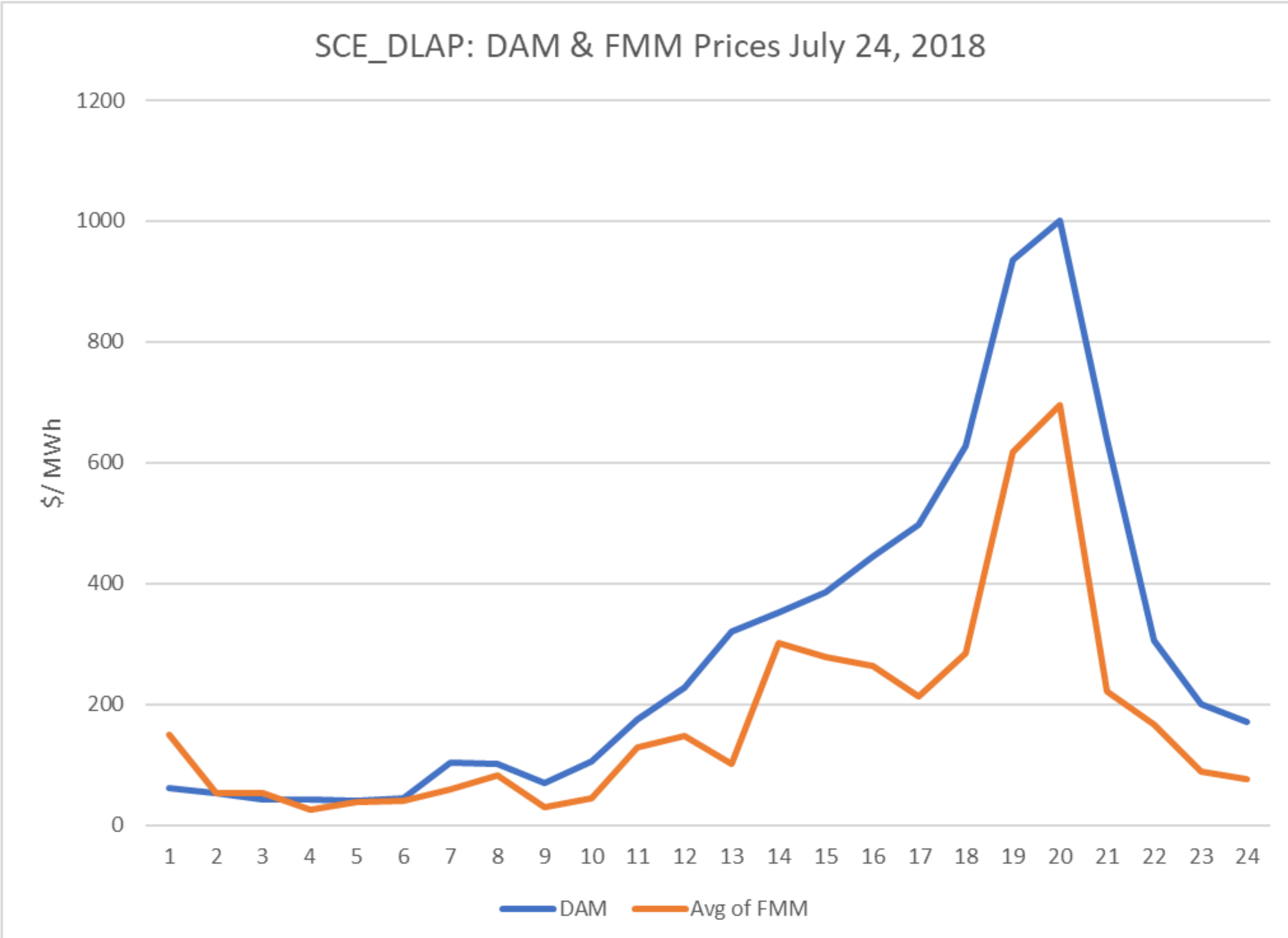
[3] CAISO Department of Market Monitoring, Import Resource Adequacy, September 10, 2018.

[4] The DMM report did not include specific data on the volume import RA resource bidding in real-time when they do not clear the day-ahead market.

[5] Thus, either real-time supply is greater than in the day-ahead or the real-time load is lower than day-ahead.

[6] CAISO Department of Market Monitoring, Import Resource Adequacy, September 10, 2018, page 3.




CLECA shares CAISO's and DMM's concern about import RA actually being available when system stress occurs as well as what appear to be very high bid prices that may not be based upon marginal or opportunity costs. Implementing a real-time import RA bidding requirement could simply be met by bidding $1000/MWh in the real-time with the hope that it still does not clear the market. If there is not real capacity behind these bids at the cap, then changing the must offer requirement does not change their bidding behavior. The resource can still meet its must offer obligation in both day-ahead and real-time by bidding at the cap and gamble that it will not be dispatched; it may be hoping that, should it be dispatched, the cost of imbalance energy will be less than the capacity payment. However, until CAISO and DMM investigate in more detail why some import RA is bidding at the cap, a proposed solution cannot be developed. Additional investigation and enforcement may be required to prevent provision of speculative capacity.

<u>24 hours by 7 days Must Offer Requirement</u>

CLECA is concerned that a 24-hours by 7-days (24 x 7) must offer requirement may be infeasible and may create excess cost when maximum capacity availability is not required. First, some resources simply may not be available 24 x 7 because of various operational restrictions or fuel availability (such as a solar photovoltaic resource). Second, requiring a resource level to serve the monthly peak during the night and weekend periods is not necessary. This has already been identified as a shortcoming in the current RA rules and the RA availability incentive mechanism. This requirement appears to be inconsistent with other proposals to create availability measures tied to trigger based mechanisms. This requirement would likely lead to unnecessary overbuilding of resources and increase costs. It should not be imposed.

Import RA 15-minute Bidding Requirement

Unlike the CAISO, other balancing authorities charge generation for the use of transmission. Transmission fees vary in structure. Some options have a fixed fee over a period of time. Other options are "pay-as-you-go" and may require the purchase of transmission for the entire hour based upon the peak flow. In those cases, a bid that cleared in one 15-minute interval and the same bid that cleared for the entire hour would pay the same costs. Therefore,15-minute bids coming from other balancing authorities that require the purchase of transmission for the entire hour have more risk of stranded transmission costs, which would increase the cost of bids at the intertie.[7] CLECA is concerned about increasing costs of energy without any increase in reliability. Therefore, the option for hourly or 15-minute minute bidding should remain as it allows the supplier to pick the transmission cost option that meets their forecast usage at least cost.

Summary

In summary, CLECA recommends that import RA be required to specify the source's balancing authority location and not impose a requirement of a specific resource. For the real-time bidding requirement, CLECA recommends more research to understand why increasing amounts of import RA are being bid at the price cap. DMM should investigate those import RA resources that are constantly bidding at the bid cap to evaluate the reasonableness and reasons for the bidding behavior. If there is a determination of speculative capacity, then it should be reported as a violation of FERC's rules preventing market manipulation. CLECA does not support a 24 x 7 must offer requirement or a 15-minute bidding requirement.

## 2. RAAIM Enhancements & Outage Rules

**a. Please provide your organization's feedback on the Addressing Planned and Forced Outage Issue topic. Please explain your rationale and include examples if applicable.**

CLECA does not have any comments at this time on this aspect of the proposal.

**b. Please provide your organization's feedback on the RAAIM Enhancements topic. Please explain your rationale and include examples if applicable.**

Currently, the RAAIM exempts weather-sensitive renewable generation resources. However, the CAISO continues to discriminate against weather-

[7] To ensure the recovery of transmission costs, the bidder would have to recover the transmission costs in one 15-minute interval instead of the energy over the entire hour.

sensitive demand response resources by not having a similar exemption. CLECA would like to see a more principle-based methodology for RAAIM design for comparable treatment among resources.

i. **Please provide your organization's feedback on the Availability & Performance Assessment Triggers options presented in the proposal.**

CLECA does not have any comments at this time on this aspect of the proposal.

**3. Local Capacity Assessments with Availability-Limited Resources**

**Please provide your organization's feedback on the Local Capacity Assessments with Availability-Limited Resources topic. Please explain your rationale and include examples if applicable.**

CAISO should address the ability to sequentially dispatch use-limited resources to meet duration requirements in local areas. For example, two four-hour use limited resources could be used to meet an eight-hour duration requirement. The initiative should investigate which changes to CAISO systems would be required to allow sequential dispatch of use-limited resources.

**4. Meeting Local Capacity Needs with Slow Demand Response**

**Please provide your organization's feedback on the Meeting Local Capacity Needs with Slow Demand Response topic. Please explain your rationale and include examples if applicable.**

Customers on the base interruptible program, which is a reliability demand response resource (RDRR), when they are informed of an event to reduce load, begin curtailing load in a managed process to ensure safety and reduce damage to equipment. This is similar to a ramp rate for a thermal resource. Thus, the term slow-start is misleading as it does not mean it requires more than 20 minutes to begin reducing load. In the case of a 30-minute base interruptible program, some amount of load reduction will be provided in 20 minutes. For example, for a 10 MW program, perhaps 8 MW would be available in 20 minutes. Since customers are providing load response in 20 minutes, that amount of response should be recognized for its contribution to reliability. The CAISO should clarify that amounts available in 20 minutes--using a measurement methodology approved by the local regulatory authority--will be recognized as counting for local RA. Failure to recognize this will lead to additional costs to procure resources that are not be needed because of the load drop that will occur.

The straw proposal mentions pre-dispatching a resource for a contingency but does not address how a pre-dispatch would occur for an unknown contingency, nor which criteria would be used to select a resource. Would it be price, location, effectiveness, or some combination of factors? There is insufficient information presented in the issue paper to provide a response at this point. Prior to any adoption, CLECA recommends further development of this proposal and testing of how many dispatches would occur using historical data.

If a DR resource is pre-dispatched, but the CAISO later determines that it is not needed, would the dispatch be cancelled or would it be dispatched regardless? If cancelled, how would a cancellation be notified? Would the resource still receive some type of payment?

CLECA notes that we have filed comments multiple times on this issue at the CPUC as well as at the CAISO in the past. The CAISO should respond to parties' concerns.[8]

This issue should also be taken up in the CPUC's resource adequacy proceeding.

## Additional comments

Please offer any other feedback your organization would like to provide on the RA Enhancements Straw Proposal Part 1.

[8] See for example Comments of CLECA on Rulemaking 17-09-020, dated October 30, 2017, at 2, Comments of CLECA on Resource Adequacy Track 1 workshop and Proposals, filed March 7, 2018, etc.