

Stakeholder Comments Template

Resource Adequacy Enhancements

This template has been created for submission of stakeholder comments on the Resource Adequacy Enhancements fourth revised straw proposal that was published on March 17, 2020. The proposal, stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: <http://www.caiso.com/StakeholderProcesses/Resource-Adequacy-Enhancements>

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **April 14, 2020**.

Submitted by	Organization	Date Submitted
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Please provide your organization’s overall position on the RA Enhancements fourth revised straw proposal:

- Support
- Support w/ caveats
- Oppose
- Oppose w/ caveats
- No position

Thank you for the opportunity to provide comments.

MSCG opposes two key provisions of the CAISO’s Fourth Revised Straw Proposal (“4th Proposal”) related to the import RA product (“Import RA”). (1) The requirement for firm transmission service source to sink (“FTS Source to Sink”) in order to sell Import RA; and (2) the disqualification of WSPP energy contracts that identify their source in the Day Ahead timeframe.

The above two provisions, if enacted, would (i) severely limit supply due to the FTS Souce to Sink requirement while (ii) simultaneously increase demand for replacement capacity RA should WSPP energy contracts that identify their source in DA be prohibited.

It is puzzling that the CAISO would be advocating to both reduce supply and increase demand for RA at a time California faces a resource adequacy shortage.

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

1. System Resource Adequacy

Please provide your organization's feedback on the System Resource Adequacy topic as described in section 4.1. Please explain your rationale and include examples if applicable.

MSCG notes that in Section 4.1 of the 4th Proposal, the CAISO states that its proposed (RA) changes are intended to better align with the counting rules and RA assessments currently utilized by the CAISO. Therefore, the CAISO has proposed to incorporate forced outage rates in capacity valuation and assess resource adequacy on a UCAP basis. However, the language within section 4.1 does not specifically address the unique characteristics of Import RA products. In addition to our comments below on Section 4.1.3, MSCG would like to point out that many current RA products, and we hope, future products, by virtue of their status as Import RA, are not "unit" contingent products, and therefore do not have forced outage rates that can or should be assigned to their attested capacity values. This beneficial aspect of Import RA products should be maintained.

MSCG supports the concepts of a supplier attestation to identify the specific resource, group of generating facilities or host balancing authority associated with such sale ("Supply Attestation"). This Supply Attestation should be required at the time of Import RA showing. However, no forced outage rate is applicable to an Import RA Attestation. It is important to recognize that the Import RA product differs from internal resources in a number of important aspects:

- i. Import RA is an hourly product.
- ii. Import RA is backed by operating reserves and is firm. Therefore, if a unit goes offline, not only is that schedule kept whole for the next 60 minutes, the supplier of Import RA is obligated to replace that supply for future hours.

Some aspects of this 4th Proposal suggest that Import RA is to be only a unit contingent product, while the CPUC has inferred that only direct tie or pseudo-tie resources should be acceptable as Import RA products. We continue to fundamentally dispute both of those assertions. However, we will not go into lengthy discussions here to repeat our comments (previously submitted in both the CAISO and CPUC processes) other than to assert, that if our Supply Attestation proposals are deemed satisfactory within this stakeholder process (or at FERC), forced outage rates, and planned outage process enhancements in Section 4.1.2, will not likely apply to Import RA.

- a. Please provide your organization's feedback on the System RA Showings and Sufficiency Testing topic as described in section 4.1.1. Please explain your rationale and include examples if applicable.

The CAISO states in the 4th Proposal that it will conduct two sufficiency tests for system capacity: an individual deficiency test and a portfolio deficiency test. These tests are designed to ensure there is both adequate UCAP to maintain reliability for peak load and that the portfolio of resources work together to provide reliable operations during all hours at the system level. MSCG supports this approach to sufficiency testing with the caveat that Import RA, especially system firm Import RA, does not have a forced outage rate applied to the capacity source and would only suffer a forced outage derate caused by its reliance on intertie transmission to the CAISO controlled grid. Further, any such Forced Outage rates applied to Intertie transmission should be comparable to Forced

Outage rates on Internal (CAISO Controlled Grid) transmission recognizing that approved path ratings are already “de-rated” via a robust planning process generally employing N-1 path ratings.

- b. Please provide your organization’s feedback on the Planned Outage Process Enhancements topic as described in section 4.1.2. Please explain your rationale and include examples if applicable.
 - i. Please provide your organization’s feedback on when bids should be submitted and how and when they could be changed under Option 2: CAISO procures all planned outage substitution capacity, and what are the implications of doing so under any proposed option.
 - ii. Please provide your organization’s feedback on whether or not the Planned Outage Substitution Capacity Bulletin Board is necessary and, if so, why given the effort to develop and maintain.

In MSCG’s experience bulletin boards become quickly outdated and redundant as sophisticated market participants find other means to transact. Already, third party brokers are getting more active in RA products and they may be a more efficient conduit for this type of activity. It also would preserve CAISO resources from having to develop and maintain a bulletin board.

- c. Please provide your organization’s feedback on the RA Import Provisions topic as described in section 4.1.3. Please explain your rationale and include examples if applicable.

In this 4th Proposal, the CAISO identifies two RA related concerns regarding imports:

- i) Double counting of Import RA resources; and
- ii) Speculative Import RA supply being used on RA showings

MSCG agrees with the need to address the above concerns but disagrees with two important aspects of CAISO’s method of implementation to achieve these goals; namely, the requirement for FTS Source to Sink and the disqualification of energy imports that identify their source in the day ahead timeframe.

The CAISO proposed three (3) criteria that the CPUC should require for resource adequacy imports:

1. **Provide source specific information at the time of the resource adequacy showings. Source specification can be a specific generating unit, specified aggregation or system of resources, or specified balancing authority area, but should be clearly identified in advance.**

MSCG has previously stated that to demonstrate that a physical resource is backstopping the sale of Import RA, a supplier attestation should be required to identify the specific resource, group of generating facilities or host balancing authority associated with such sale (“Supply Attestation”) for capacity type Import RA contracts.

The exception to this advance source identification should be energy imports, where the energy is delivered to the CAISO utilizing a WSPP Schedule C product that has operating reserves and is kept whole even in the event of an outage. An energy import is actually delivered to California so by definition it isn’t speculative and it cannot be used to serve the needs of another area. The CAISO’s rules should not prohibit this product from continuing to serve an important role in meeting Import RA demand.

Similarly, the transmission requirement for the Import RA should remain as currently defined by the CPUC, or be limited to firm transmission on the last leg of transmission immediately preceding the CAISO control area (as further discussed below).

2. **Provide an attestation or other documentation that the resource adequacy import is a specific resource, aggregation of physically linked resources, or capacity in excess of the host balancing authority area or supplier’s existing commitments that is dedicated to CAISO balancing authority area needs; and**

MSCG agrees this Supply Attestation should be required at the time of Import RA showing. Importantly, the rules for the Import RA should permit substitution of supply at the time of energy delivery in the event the original source is unavailable due to an outage (or substitute supply can be delivered more efficiently). This flexibility will enhance the reliability of the Import RA product and maintain its unique benefits.

To address CAISO’s stated concern about speculative supply and the price at which Import RA is bid into the CAISO, an offer cap similar to the concept proposed by SCE at the CPUC Workshop could be applied to the Import RA product. MSCG believes any offer cap should not be so low as to discourage participation. Requiring a Supply Attestation should alleviate concerns regarding speculative supply.

It is important to recognize that Import RA product differs from internal resources in a number of important aspects:

- i. Import RA is an hourly product that cannot be block bid. The CAISO could in theory select just one hour a day of this product (i.e. HE19 or HE20). When suppliers are evaluating how much Import RA to sell forward they will factor into their analysis the forgone block sales they will miss out on in other markets in order to commit to the Import RA market.
- ii. Import RA is backed by operating reserves and is firm. Therefore, if a unit goes offline, not only is that schedule kept whole for the next 60 minutes, the supplier of Import RA is obligated to replace that supply for future hours.

Placing an offer cap on the Import RA product translates into creating an hourly fixed price call option sold months or years (for annual showing) in advance. Hourly call options are illiquid at the best of times in electricity markets due to the volatility inherent in these markets. The level of the offer cap will have a direct impact on the price and liquidity of the Attestation Product.

Since the source is being identified upfront through a Supply Attestation, and for the other reasons outlined above, MSCG believes the offer cap consistent with the approach advocated by SCE and Shell where the initial cap is \$250 and resets with underlying regional gas prices is a workable solution. Together, these provisions should address CAISO's 2nd concern of speculative supply.

3. Can be delivered to the CAISO balancing authority area boundary via firm transmission.

This is the most troubling aspect of the CAISO's proposal. MSCG reiterates its position that the transmission requirement for the Import RA Product should remain as currently defined by the CPUC¹, or be limited to firm transmission only on the last leg of transmission immediately preceding the CAISO balancing authority.

This definition provides for a high degree of delivery certainty, without being too restrictive by unnecessarily relying on labels (i.e. firm) that may prevent reliable physical suppliers from selling Import RA.

MSCG, and others, have illustrated the concern regarding the adverse effect on liquidity and the potential for market power that would result from imposing requirements for FTS Source to Sink or the implementation of day-ahead e-tag requirements. It is troubling that the CAISO continues to promote FTS Source to Sink in support of arguments advanced largely by one market participant over the objections of a vast majority of the parties that filed comments in the CPUC proceeding.² Most parties agree that FTS Source to Sink requirements would result in a much-diminished supplier pool and would not promote reliability.

¹ “The qualifying capacity for import contracts is the contract amount if the contract (1) is an Import Energy Product with operating reserves, (2) cannot be curtailed for economic reasons, and either (a) **is delivered on transmission that cannot be curtailed in operating hours for economic reasons or bumped by higher priority transmission** or (b) **specifies firm delivery point** (i.e., is not seller's choice).” (emphasis added)

² *Southern California Edison Company's (U 338-E) Comments on Track 1 Proposals* (March 2020); *Comments on Track 1 Proposals of the Department of Market Monitoring of the California Independent System Operator Corporation* (March 2020); *Comments of the Alliance for Retail Energy Markets on Resource Adequacy Import Proposals* (March 2020); *Opening Comments of the California Community Choice Association on Track 1 Proposals* (March 2020); *Opening Comments of Shell Energy North America (US), L.P. on Track One Proposals* (March 2020); *Comments of the Utility Reform Network on Track 1 Proposals* (March 2020); *San Diego Gas & Electric Company (U 902 E) Comments on Track 1 (Import Issues) Proposals & Workshop* (March 2020); *Comments of Pacific Gas and Electric Company (U 39 E) on Track 1 Proposals* (March 2020); *Comments of the Public Advocates Office on Resource Adequacy Proposal for Imports* (March 2020).

- (1) The CAISO itself has openly expressed a concern in the past that the resource adequacy rules implemented here should ensure that there are, in fact, adequate capacity resources available to serve California demand. However, the requirement for FTS Source to Sink needlessly disqualifies legitimate physical suppliers from participating in this market.
- (2) MSCG (and the majority of parties that submitted comments to the CPUC) agree that there needs to be a comprehensive stakeholder process going forward before any FTS Source to Sink requirement is imposed, specifically addressing liquidity concerns that would come from any requirements placed on Import RA. Without proper consideration and study, electing to implement overly restrictive transmission and e-tagging requirements would have a significant and lasting adverse impact on the CAISO markets and reliability.

We believe that this 4th Proposal is premature in putting forth a policy requiring FTS from Source to Sink. At a minimum, the CAISO cannot impose such a new regime without a thorough review of the transmission market power impacts of such an imposition upon extra-regional RA suppliers.

MSCG's CPUC comments showed that a FTS Source to Sink requirement would concentrate close to 80% of the available supply of Import RA at the Nevada Oregon Border ("NOB") with one single supplier. Moreover, this requirement would result in stranded Import Allocation Rights (IAR) at NOB.

Concentrating a reliability product with a single supplier that is sourcing from one single balancing authority and transmission path is inherently less reliable than a utilizing a diverse pool of suppliers able to use various generators and transmission paths to access the Southern Intertie that interconnects with California.

Consider, for example, the resources of B.C.Hydro. While B.C.Hydro is a reliable supplier with flexible assets, it is also true that its resources have to be delivered across the Northern Intertie that interconnects British Columbia with the United States. On the very coincident peak load days across WECC that CAISO is worried about, the Northern Intertie can be de-rated due to thermal limits and local area Seattle high loads. We highlight this as an example of why over reliance on one supplier, or limiting participation to only FTS source to sink linearly along multiple transmission legs is inherently less reliable than a diverse group of suppliers each using different generation sources and transmission paths to serve their Import RA commitments.

It also goes without saying that the CAISO RA policy and tariff considerations are FERC jurisdictional. Notwithstanding the seams issues, market power issues and liquidity issues that we have previously commented on, MSCG believes that the proposed requirement for FTS Source to Sink for Import RA is not comparable to treatment afforded to in-state RA.

- **The CAISO proposal to require FTS from source to sink for import RA is not comparable to the treatment afforded instate RA supply.**

In-State RA supply does not have, nor is granted Firm Transmission Service as a condition for inclusion in RA showings by any LSE subject to the CAISO Tariff. However, In-State System RA does have to be designated “Deliverable” to qualify as RA, and MSCG does not object to that requirement as we understand it.

Similarly, Import RA does need to have MIC and Import Allocation Rights assigned for it to be deemed deliverable to load inside the CAISO.

The CAISO “Deliverability” standard is not Firm Transmission Service, inasmuch as FTS is a commercial arrangement that is often a “point to point” service, which is an archaic construct generally abandoned in organized markets. Deliverability is not, in its most general form, a commercial service offered by a BA or transmission owner. Deliverability is an a-priori designation specific to a resource, which grants a permissive right of that resource to bid to provide RA Capacity. There is no generic offer of exceptional dispatch to facilitate the use of a transmission path for any resource or portfolio of resources. No sacrifice or accommodation is required to be made by the BA or Transmission owner other than to accept a schedule in the Day Ahead market and to be counted in a RA sufficiency test.

Deliverability status cannot be reserved by a granted resource, to the exclusivity of others similarly situated, especially when combined with the CAISO MOO and other market participation rules.

Deliverability is not subject to commercial self-dealing or monopoly control – as stated previously by MSCG and others, FTS in the Northwest, among other locations, is a commercial service that may be reserved by existing right holders and not released until after the CAISO RA showings. This makes FTS open to hoarding and market power abuse, unless the FERC sanctioned release rules are allowed to function and operate as designed.

- **A FTS Source to Sink requirement “at time of RA supply plan showing” could lead to unintended consequences of transmission ‘hoarding’.**

If the CAISO requires FTS Source to Sink as a prerequisite to Import RA participation, there will be a significant loss of supply which will be detrimental to California loads and ratepayers. The CAISO may also unwittingly make their market susceptible to transmission hoarding. For example, the holders of firm transmission rights to Big Eddy or John Day could redirect the transmission to serve their own loads, but strategically wait to do so until after the RA showing deadline has passed. By waiting to redirect these rights to their intended path after the monthly RA showing, these firm rights holders would prevent any other supplier from selling Import RA for fear of being in violation of the FTS Source to Sink tariff requirement. Worse still, after the fact there will be ample space to access Big Eddy or John Day that will be left unused and stranded.

The CAISO’s proposal to require a FTS for Import RA would require the CAISO Department of Market Monitoring (DMM), to have the capability and authority to monitor transmission usage outside of its footprint to ensure transmission capacity is efficiently used for RA deliveries. This would be difficult to do and likely it would be months later when data is available for analysis. By that time the damage of reduced competition and higher Import RA prices for load will have already been incurred.

- **A blanket FTS Source to Sink requirement does not consider the complex seams issues that exist in the transmission markets outside the CAISO.**

By way of example: To move energy from any source in the Pacific Northwest to California requires at least two legs of transmission and often three. Generally, one leg of BPA “network” transmission to access either Big Eddy or John Day and another leg of “Southern Intertie” transmission to access Nevada Oregon Border (“NOB”) and California Oregon Border (“COB”), respectively and often an ‘upstream’ leg of transmission to get to the BPA Network. The Southern Intertie is linear (i.e.: Big Eddy to NOB or John Day to COB) and has been fully subscribed for years (if not decades) and is generally accepted to be the constrained path when moving energy south from PNW to California. The BPA “network” transmission on the other hand is like spaghetti with multiple points interconnected and Available Transmission Capacity (“ATC”) determined by flow gates. MSCG has found that network transmission to access Big Eddy and John Day is available in the operating horizon, but not necessarily as firm in time for the annual or monthly RA showing. Even when released, the network transmission to access John Day or Big Eddy may not have the label of ‘firm’ but it is reliable to flow. CAISO should clearly present data why it feels transmission labelled as ‘firm’ only on the BPA network is the only reliable means of accessing John Day or Big Eddy. It has not provided any analysis to back up its recommendation for FTS source to sink. Enacting this requirement without further study into the unintended consequences and adverse impacts of such a policy will undermine the credibility and reliability of the import RA markets.

- **Substituting the California concept of Deliverability assigned to resources within the PNW network to access John Day and Big Eddy for the CAISO’s proposal to require FTS Source to Sink would solve many of these problems.**

This is due to seams issues around how network transmission is reserved, evaluated, released and awarded.

For example, there are several pre-FERC 888 grandfathered blanket transmission contracts on the “network” that reserve many path combinations across the network. Once these contracts are scheduled however, the remaining paths are released to market. The majority of time these grandfathered contracts are used to move energy to the load of the utilities holding these grandfathered contracts. But the way the grandfathered rights work, the space to Big Eddy and John Day cannot be released until these grandfathered contracts are scheduled or redirected in advance. Therefore, there could be ample firm transmission available (2000MW +) to get to Big Eddy and John Day but it won’t be available for market participants to purchase it until it is released. We contend that that resources utilized to provide Import RA, would, however, be deemed “Deliverable” to Big Eddy or John Day as that term is defined internal to the CAISO. This deliverability designation to John Day or Big Eddy combined with firm rights on the last leg of transmission immediately preceding CAISO BA (i.e.: Southern Intertie) and further combined with Import Allocation Rights of loads internal to CAISO should be sufficient in proving reliable delivery of Import RA, and comparable to internal resources.

As previously stated in prior comments, the transmission system in place to facilitate NW BA(s) to CAISO deliveries can be viewed as containing the following elements:

NW Network transmission to John Day / Big Eddy; NW southern intertie from John Day to COB, or Big Eddy to NOB; California intertie from COB or NOB to the CAISO Controlled grid; CAISO Network transmission to CA Load. Both the Southern (NW) interties and the CA intertie are constrained paths limiting flows from a larger pool of resources north of the constraint trying to get to a much larger load south of the constraints - California. That is why a firm transmission showing on the leg immediately preceding the CAISO BA makes sense, whereas any firm transmission requirement further upstream is unnecessary.

2. Backstop Capacity Procurement Provisions

Please provide your organization's feedback on the Backstop Capacity Procurement Provisions topic as described in section 4.2. Please explain your rationale and include examples if applicable.

- a. Please provide your organization's feedback on the Capacity Procurement Mechanism Modifications topic as described in section 4.2.1. Please explain your rationale and include examples if applicable.
- b. Please provide your organization's feedback on the Making UCAP Designations topic as described in section 4.2.2. Please explain your rationale and include examples if applicable.
- c. Please provide your organization's feedback on the Reliability Must-Run Modifications topic as described in section 4.2.3. Please explain your rationale and include examples if applicable.
 - i. Please provide your organization's feedback on an appropriate availability incentive design to apply to RMR resources after the removal of the RAIM tool.
- d. Please provide your organization's feedback on the UCAP Deficiency Tool topic as described in section 4.2.4. Please explain your rationale and include examples if applicable.

3. Please provide your organization's feedback on the implementation plan, including the proposed phases, the order these policies must roll out, and the feasibility of the proposed implementation schedule, as described in section 5. Please explain your rationale and include examples if applicable.

4. Please provide your organization's feedback on the proposed decisional classification for this initiative as described in section 6. Please explain your rationale and include examples if applicable.

Additional comments

Please offer any other feedback your organization would like to provide on the Resource Adequacy Enhancements fourth revised straw proposal.