



## CAISO RA Enhancements 4<sup>th</sup> Revised Straw Proposal

Comments Submitted by	Organization	Date Submitted
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The Public Generating Pool (PGP<sup>1</sup>) appreciates the opportunity to comment on CAISO's Resource Adequacy (RA) Enhancements 4<sup>th</sup> Revised Straw Proposal dated March 17, 2020. Resource adequacy is one of the key foundational aspects of CAISO's markets: it ensures there is adequate physical supply available and committed to serve California load and is essential to ensuring CAISO's markets are well-functioning.

Resource adequacy also impacts the CAISO's ability to meet resource sufficiency requirements for both the EIM and any potential future extended day-ahead market (EDAM). PGP commends the CAISO in its efforts to bolster its existing RA program with enhancements that will provide confidence in CAISO's ability to successfully meet hour-ahead and potential day-ahead resource sufficiency requirements.

PGP's comments on CAISO's 4<sup>th</sup> Revised Straw Proposal focus on import RA provisions and addressing concerns around speculative supply in CAISO's markets. We believe resolution of this issue is essential to not only ensuring a robust RA program but also to addressing price formation issues and ensuring the continued viability of the EIM and the potential development of an EDAM.

PGP is also a party to the California Public Utility Commission's (CPUC) proceeding, Docket R. 19-11-009 that is concurrently exploring changes to import RA rules. Our comments on this initiative complement our recommendations<sup>2</sup> in the CPUC docket.

### I. Speculative RA Imports Undermine Reliability and Lead to Price Formation Concerns

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<sup>1</sup> PGP represents eleven consumer-owned utilities in Oregon and Washington that own almost 8,000 MW of generation, 7,000 MW of which is hydro and over 97% of which is carbon-free. Four of the PGP members operate their own balancing authority area (BAAs), while the remaining members have service territories within the Bonneville Power Administration's (BPA) BAA. As a group, PGP members also purchase 45 percent of BPA's preference power.

<sup>2</sup> [https://www.publicgeneratingpool.com/wp-content/uploads/2020/04/PGP-CPUC-Comments-19-11-009-RA-Import-Rules .pdf](https://www.publicgeneratingpool.com/wp-content/uploads/2020/04/PGP-CPUC-Comments-19-11-009-RA-Import-Rules.pdf)

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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 reliability as it leaves CAISO blind to what real physical capacity is available until the real-time. This creates dependence on voluntary supply in the short-term market and/or operator interventions that may or may not be available or effective, resulting in real reliability concerns. Not procuring adequacy physical supply on a forward basis for the CAISO BAA is particularly troubling given the tightening supply conditions of the Western grid and could lead to reliability events down the road.

In addition, speculative supply leads to improper price formation in CAISO's markets. An inadequate supply position of the CAISO BAA may causes price spikes to extend across the EIM and/or EDAM footprint, including to entities that *are* resource sufficient. This means that entities may be exposed to prices that are higher than they otherwise would be were CAISO adequately resourced with reliable physical supply to meet the needs of its BAA. Proper price formation is foundational to the health of CAISO's markets and the ability for CAISO to extend that market to entities outside of its own BAA.

## II. Speculative Supply RA Imports Inhibit Future Market Expansion

Speculative supply impedes CAISO's ability to meet the resource sufficiency test of a potential future EDAM. CAISO has stated that its RA imports should qualify to count towards meeting a day-ahead resource sufficiency evaluation,<sup>4</sup> but the allowance of speculative RA import supply puts into question whether RA imports can actually qualify towards meeting resource sufficiency requirements. And 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.

If speculative RA supply is allowed to continue within the California RA program, it will inhibit market expansion across the West. Resource Sufficiency is a core design feature of the EIM and will be a core design feature of any extension of CAISO's day-ahead market to EIM Entities. 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. EIM Entities will

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

### III. CAISO's Import RA Proposal

PGP supports import RA requirements that would 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 contracts.

CAISO submitted a proposal in the ongoing CPUC RA proceeding in Docket R.19-11-009 addressing changes to import RA rules. The CAISO's proposal in that proceeding addresses the need to eliminate speculative import RA supply by strengthening import RA qualification and verification requirements. PGP submitted comments in support of CAISO's proposal in the CPUC RA proceeding and CAISO's proposal in this 4<sup>th</sup> Revised Straw proposal addressing import RA are consistent with its proposal in the CPUC docket.

Specifically, PGP supports CAISO's proposal to require source-specification of resources supporting an import RA contract, however the details of what qualifies as resource-specific and what is required to demonstrate resource-specific are important to get right. PGP supports CAISO's broad definition of source-specification, which includes a specific generating unit, specified aggregation or system of resources, or a specified balancing authority area, all of which should be clearly identified in advance. This flexibility in how resource-specification is defined is important in ensuring real physical resources are not blocked from offering import RA into CAISO's markets. With respect to allowing an aggregation of generating units to be designated as a specified source, we believe this is essential to ensure entities that operate their system in aggregate with real resources backing import RA contracts, such as the Bonneville Power Administration, are not inadvertently excluded from participating in the program. Similarly, PGP believes it is appropriate for a system of resources that may not be aggregated or physically linked, such as a monthly or annual product sold by a marketer with supply from multiple systems, to not be excluded from import RA contracts if backed by physical sources.

With respect to CAISO's proposal to modify its tariff to extend must-offer obligations to the real-time markets for all MWs included on RA showings, PGP notes that this requirement goes beyond what is currently proposed in the day-ahead market enhancements initiative. In the current DAME proposal, CAISO proposes that only RA resources that are awarded in the day-ahead market have a must offer obligation in the real-time market. PGP believes the import RA provisions should align with the proposal in DAME once implemented as DAME

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provides CAISO the ability to most efficiently and cost-effectively commit the day-ahead products it needs to meet real-time needs and uncertainties.

PGP thanks CAISO for its efforts in enhancing its RA program to ensure it is robust and able to meet the growing challenges of the CAISO grid. We appreciate the opportunity to provide these comments and look forward to continuing to participate in this initiative.

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