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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years.	R.17-09-020 (Filed September 28, 2018)

COMMENTS OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON ASSIGNED COMMISSIONER'S RULING SEEKING COMMENT ON CLARIFICATION TO RESOURCE ADEQUACY IMPORT RULES

Irene K. Moosen
Director, Regulatory Affairs
CALIFORNIA COMMUNITY CHOICE ASSOCIATION
One Concord Center
2300 Clayton Road
Suite 1150
Concord, CA 94521
Email: Regulatory@cal-cca.org

Evelyn Kahl
Ann Springgate
Buchalter, A Professional Corporation
55 Second Street, Suite 1700
San Francisco, CA 94105
415.227.0900 office
ekahl@buchalter.com

Counsel to the
California Community Choice Association

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California Community Choice Association (CalCCA)[1] submits the following comments on the Assigned Commissioner's Ruling Seeking Comment on Clarification to Resource Adequacy Import Rules dated July 3, 2019 (Ruling).

I. INTRODUCTION

The Ruling asks for responses to each of seven questions, the first several of which concern the possibility of requiring resource adequacy (RA) import contracts to include the actual delivery of firm energy with firm transmission, thereby deeming contracts that require only that the supplier bid into the DAM insufficient to meet RA rules. The remainder of the questions concern how an LSE would document compliance with the Commission's import rules, how the Commission would determine compliance, and whether the existing penalty structure for noncompliance is sufficient.

CalCCA concludes that there is no need for an immediate or material change in existing rules, although clarification of the rules would benefit the market. Indeed, the Commission's conclusions in Decisions (D.) 05-10-042, D. 06-07-03 and D. 06-12-037 should continue to

[1] California Community Choice Association represents the interests of 18 community choice electricity providers in California: Apple Valley Choice Energy, Clean Power SF, Clean Power Alliance, East Bay Community Energy, Lancaster Choice Energy, Marin Clean Energy, Monterey Bay Community Power, Peninsula Clean Energy, Pioneer Community Energy, Pico Rivera Innovative Municipal Energy, Rancho Mirage Energy Authority, Redwood Coast Energy Authority, San Jacinto Power, San Jose Clean Energy, Silicon Valley Clean Energy, Solana Energy Alliance, Sonoma Clean Power, and Valley Clean Energy.

assure that the energy associated with RA imports will be available when needed. Material changes at this time are neither necessary nor urgent. First, such changes could disrupt the existing market and drive up RA prices without significantly increasing system reliability. In addition, there are at least three other ongoing initiatives addressing issues related to import RA reliability, including two California Independent System Operator (CAISO) processes and the Commission's Integrated Resource Planning (IRP) proceeding. Finally, the view advanced by the Commission's Staff and the recent ruling in the IRP proceeding suggests that reliability concerns will arise, if at all, sometime after 2021. Thus, even if there were a need to address the reliability of RA imports, it is not urgent to undertake that effort in short order.

Given the lack of an urgent need to address this issue, and the fact that there are ongoing proceedings attempting to quantify and improve import RA's reliability, CalCCA suggests that action on rule changes contemplated by the Ruling be postponed. All stakeholders would benefit from an opportunity to analyze the proposals more fully. Parties would also benefit if the findings and solutions presented pursuant to this Ruling were harmonized with efforts in these other venues, resulting in a single set of rules applicable to LSEs statewide.

Subject to these general observations, CalCCA responds to the specific questions posed are set forth in Section VI below.

II. RESOLUTION OF THIS ISSUE IS NOT URGENT AND IS ALREADY UNDER CONSIDERATION

Almost simultaneously with the issuance of the Ruling, CAISO released its Revised Straw Proposal in the Resource Adequacy Enhancements stakeholder process, [2] which specifically addresses imported RA concerns related to double counting and "speculative supply" originally raised by the CAISO Department of Market Monitoring.[3] Additionally, on July 15, 2019 a public meeting was held of the CAISO System Market Power Analysis Working Group, [4] during which concerns about RA imports were discussed, and some novel solutions were

[2] California Independent System Operator Corporation, *Resource Adequacy Enhancements Revised Straw Proposal*, July 1, 2019.

[3] DMM Special Report: Import Resource Adequacy, September 10, 2018: http://www.caiso.com/Documents/ImportResourceAdequacySpecialReport-Sept102018.pdf

[4] http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=AC14AAA7-AA27-4FE8-936A-33B91E905981

proposed. [5] In addition, a ruling in the Integrated Resource Planning Proceeding raises a concern that based on an Energy Division analysis, LSEs may need to rely more heavily on import RA in coming years.[6] All of these proceedings are ongoing, and are expected to devote considerable time to the study of import RA.

Unlike those proceedings, the Commission has in this Ruling sought responses to the questions posed on a very tight timeline. In order to consider the issue holistically, the parties in this proceeding would benefit from a longer timeline in which to consider their responses as such responses relate to the solutions and issues discussed in the other proceedings. The stakeholder process at the CAISO has provided some additional analysis that suggests the "problem" of potentially unavailable import RA identified by the Commission in this Ruling is unlikely, even if such problem exists, to affect overall system reliability before at least 2021 (emphasis added). Thus, CalCCA questions whether the urgency implicit in the Ruling is necessary.

III. THE "PROBLEM" MAY NOT BE AS IMPACTFUL AS INITIALLY FEARED

In describing the background to the Ruling, Assigned Commissioner Randolph notes that it appears that under some LSEs' contracts, the import provider/counterparty will only provide energy and operating reserves if its bids in the DAM are selected. According to the Commissioner, this interpretation of current rules potentially leads to a situation where suppliers may bid above projected prices during critical system and market conditions to ensure they do not clear in the DAM, and would thereby receive capacity payments with no intention of providing energy into the market. The Ruling states that "current Commission rules appear to require imports to include firm energy and firm transmission. . ."[7] and seeks information that may be used to "ensure the integrity of the RA program."[8]

This view, that the integrity of the RA program itself is under some threat from import RA, appears to have its inception in the CAISO's Department of Market Monitoring (DMM). In

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[5] For example, PG&E presented a straw proposal for assigning default energy bids to out of state imports, which currently do not exist, and which could mitigate concerns about speculative supply for RA imports. See: http://www.caiso.com/Documents/PG-EPresentation-System-LevelMarketPowerWorkingGroup-Jul15-2019.pdf

[6] R.16-02-007, Assigned Commisioner and Administrative Law Judge's Ruling Initiative Procurement Track and Seeking Comment on Potential Reliability Issues, June 20, 2019 at 6-7.

[7] Ruling at 5.

[8] Id.

that department's September, 2018 special report on import RA[9] CAISO originally posited two "problems" with respect to import RA. The first is the possibility that resources shown as import RA in California could also be relied upon by the resource's native balancing authority to serve native load or otherwise be relied upon to meet capacity needs of others in addition to CAISO load. This is referred to as "double counting." The second issue is referred to as "speculative supply," which occurs when RA imports shown on RA supply plans have no physical resource backing the showing or no firm contractual delivery obligation secured at time of the showing.[10]

In its recent July 1 Straw Proposal on the RA rules, CAISO noted that its initial analysis of these problems was not conclusive.[11] The Straw Proposal details the further analysis undertaken by CAISO to determine the extent of this potential problem based on the amount of "non delivered" RA– that is, the MWh quantity that did not meet the real-time schedule. Following its analysis, CAISO observed "the amount of non-delivery is a relatively small fraction of the RA imports the CAISO anticipated."[12] The data show that the worst case scenario for every month (the one hour of the month with the most non-delivery of RA imports), is approximately 10 percent of the RA showing (i.e., maximum monthly non-delivery observed in a single hour averages approximately 10 percent).[13]

Because approximately 10 percent average non-delivery of RA imports is comparable to WECC-wide average forced outage rates, CAISO "believes the potential reliability impact of RA import non-delivery may be less a concern than previously thought. The analysis indicates that non-delivery of RA is not a significantly large or overly concerning magnitude, and therefore may not represent as substantial a reliability concern as CAISO's initial analysis had suggested."[14]

In its Stakeholder Meeting on July 8-9 CAISO detailed its recommendations. To deal with the "double counting" issue, CAISO proposes to require specification of the source balancing authority for all RA imports on RA and Supply Plans for monthly showings.[15] CAISO

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9 DMM Special Report: Import Resource Adequacy, September 10, 2018: http://www.caiso.com/Documents/ImportResourceAdequacySpecialReport-Sept102018.pdf

10 *Id*. at 40.

11 *Id*.

12 *Id*. at 42.

13 *Id*. at 42.

14 *Id*. at 43.

15 California Independent System Operator Corporation, *Resource Adequacy Enhancements: First Revised Straw Proposal Stakeholder Meeting*, July 8-9, 2019 at 80.

also proposes all LSEs submit supporting documentation that any non-specified RA import resource being shown on annual and monthly RA and Supply plans have firm energy delivery with equivalent supporting documentation.[16] Thus, with the benefit of this analysis, CAISO has determined that the problem of "speculative supply" can be resolved via measures other than amending the import RA rules.

IV. FURTHER ANALYSIS IS NECESSARY

As noted, CAISO's review and ultimate recommendation not to require real time bidding appears to have been based on the amount of "non delivered" import RA. Interestingly, the CAISO determined that a 10 percent non-delivery factor was acceptable. Whether or not the Commission reaches the same conclusion, however, CAISO's analysis focuses on non-delivery only. In other words, the analysis does not account for import RA that was not bid into the real-time (hour ahead) market at all. Thus, the analysis performed by the CAISO raises additional questions, and points to the need for further analysis.

It is CalCCA's understanding that the analysis performed by the CAISO in its Intertie Deviation Settlement Initiative compared imported RA showings to non-delivery in real-time, which omits the critical element raised by the Commission in the present Ruling pertaining to shown RA offering in the Day-Ahead Market, but having no further obligations in Real-Time. CalCCA shares the Commissions concerns about imported RA not providing the reliability value expected. CalCCA believes, however, that time should be taken at this stage to perform further analysis to identify the magnitude and potential impact of this problem. Ultimately, CalCCA seeks to ensure that the CAISO has the actual capacity required to maintain reliability when it is most needed, and looks forward to the results of analysis that can address this concern.

V. THE PROPOSED CHANGES WILL INCREASE RATES

The proposed changes in the existing import RA rules addressed in the Ruling will affect the potential cost of procuring RA in the future. CAISO recognized that requiring a real-time bidding obligation for all non-resource specific RA imports "could have a negative impact on the efficient utilization of the transmission, potentially increasing overall costs to serve load."[17]

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[16] *Id*. at 82.

[17] California Independent System Operator Corporation, *Resource Adequacy Enhancements Revised Straw Proposal*, July 1, 2019 at 47.

CAISO noted that this could occur if an RA import resource's bid in the real-time was priced at a level that would not clear the market, precluding the utilization of that reserved transmission capability. Additionally, requirements that firm transmission be included in all future import RA contracts may both shrink the volume of import RA available to California LSEs and cause inefficient use of intertie transmission capacity, resulting in price hikes that ultimately affect California ratepayers.

The rule changes proposed in this Ruling will likely have a large impact on the price of RA for all LSEs and, therefore, ratepayers. The changes proposed may also have the unintended consequence of further restricting an already tight supply market without achieving the shared objectives of ensuring the imported RA provides equivalent reliability value as in-state RA. More time and additional analyses will be needed to understand the implications of these proposed changes on both the reliability value and costs of import RA.

VI. RESPONSES TO SPECIFIC QUESTIONS POSED IN THE RULING

Question 1 Should Commission decisions require RA import contracts to include the actual delivery of firm energy with firm transmission and clarify that only a bidding obligation is deemed not sufficient to meet RA rules?

CalCCA agrees that an RA import contract should be firm energy backed by spinning reserves, but disagrees that actual delivery is required: the fact that the CAISO does not dispatch a particular resource does not mean that resource constitutes unacceptable capacity. What is critical is that the resource is required to deliver energy when required when the import receives an award in the day-ahead market. CalCCA interprets the current rules requiring firm energy backing the contracts to preclude contracts with only a bidding obligation and no obligation to deliver power if required.

This approach is consistent with the Commission's previous articulation of its rules: RA import contracts should provide for "firm energy" (energy backed by spinning reserves), [18] but may not require firm transmission.[19] It is also consistent with the Commission's determination in D.06-12-037 that firm import RA contracts "specify a firm delivery point at an

[18] D.05-10-042 at 68.
[19] D.06-07-031 at 18.

interconnection with the CAISO control area or a CAISO scheduling point to qualify as RA resources."[20]

Question 2 Do parties agree that firm transmission capacity is required in addition to firm energy? Please explain why or why not

CalCCA notes that the Commission has not previously required firm transmission[21] and has no basis for suggesting that this interpretation should change. Any change should be based on further analysis, including analysis on the impact of a firm transmission requirement, including considerations of market power and potential cost.

Question 3 Should the commission clarify its rules, or are existing decisions and requirements sufficient? If the former, please propose clarifying language and/or how such clarifications should be established.

CalCCA agrees that additional clarity would be optimal, noting again the Commission's earlier statements on the definition and requirements of "firm energy." Differences in the language used in the relevant decisions – D.04-10-035, D.05-10-042, D.06-07-031, and D.06-12-037– fails to provide a clear delineation of the rules. The Commission would benefit from waiting to make these clarifications, however, until the CAISO and IRP import-RA related processes conclude so that the rule changes can be harmonized with CAISO tariff requirements to provide certainty to LSEs and aid in compliance.

Question 4 If the Commission determines that RA import contracts with a bidding obligation, but without delivery of firm energy with firm transmission, do not qualify as RA, how should these types of contracts be addressed going forward? Should these contracts be disallowed for the balance of 2019, beginning in 2020, or at a later date?

If the Commission determines that such contracts do not qualify as RA, contracts should be disallowed as late as possible to avoid market interruption and to maintain value in existing contracts to prevent price increases. Thus, CalCCA would propose either a grandfathering provision to permit executory contracts to continue, and that no contracts be disallowed prior to 2020 at the earliest. CalCCA does not believe the marginal perceived increase in reliability

[20] D.06-12-037 at 1.
[21] *Id*.

justifies interference with executory contracts. For the same reason, any disallowance should only take effect at the beginning of the year.

Question 5 How should LSEs document that their RA import resources meet the Commission's import rules?

CalCCA suggests that existing attestation requirements be augmented to include statements that RA import resources shown meet the Commission's import rules. CalCCA recommends whatever attestation requirements are implemented mirror the CAISO requirements so the market is following the same set of rules and requirements for compliance.

Question 6 If necessary, how should Energy Division staff determine compliance?

CalCCA recommends all LSEs using import RA in their filings be required to submit the attestation.

Question 7 If it is determined that the imports used by an LSE do not meet the Commission's firm energy requirements, does the existing RA penalty structure provide enough deterrence to prevent further transactions of this type? If not, what additional remedies or corrective measures should be imposed?

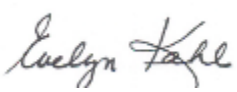
CalCCA suggests that the existing penalty structure provides sufficient deterrence. Noncompliant import RA contracts should be treated the same as other "short" system RA positions. .

VII. CONCLUSION

As established LSEs with vested interests in serving their customers throughout the state, CalCCA members are committed to assisting the Commission in making the best decisions possible regarding the use and limitations of import RA. In order to do so, further analysis must be performed. Therefore, CalCCA respectfully asks for more time to analyze data regarding the extent of the identified issue, and to ensure actions pursuant to this Ruling are consistent with efforts outstanding in other venues regarding the use of import RA. CalCCA also suggests that the proposals being considered for implementation by the CAISO, including tariff changes

requiring attestations similar to those required by the Commission of firm energy and operating reserves backing imported RA, are likely to address many of the concerns raised in this Ruling.

Respectfully submitted,



Evelyn Kahl
Counsel to the
California Community Choice
Association

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