

**Comments of Powerex Corp. on
Maximum Import Capability Stabilization and Multi-Year Allocation
Revised Straw Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s March 12, 2020 Maximum Import Capability Stabilization and Multi-Year Allocation Revised Straw Proposal (“Revised Straw Proposal”).

The Maximum Import Capability (“IC”) allocation framework seeks to achieve a rational goal: ensuring that total import resource adequacy (“RA”) contracts at an intertie delivery point do not exceed the expected import capacity of that intertie. But this goal has been pursued through a woefully inefficient process that *prevents* California load-serving entities (“LSEs”) from contracting with external sellers to provide import RA *when there is ample import capability to support such contracts*.

Absent significant changes to the IC allocation process, Powerex anticipates that multiple California LSEs will be unable to meet their System RA requirements, perhaps as early as this year.¹ To make matters worse, the CAISO’s ability to obtain backstop capacity through the Capacity Procurement Mechanism (“CPM”) to compensate for these deficiencies is also severely limited by the IC allocation framework, increasing the risk that the CAISO balancing authority area will not have sufficient capacity to meet System RA requirements. Importantly, this may occur in periods when surplus capability in external markets could have been committed on a forward basis to meet California’s needs, but RA (and CPM) market design inefficiencies, including the highly inefficient and discriminatory IC allocation framework, are preventing such forward commitments from occurring.

Powerex opposes measures that fail to address the core inefficiencies of the current IC allocation process. Powerex urges the CAISO and stakeholders to replace the existing IC allocation process with one that allocates IC *only* in connection with a pending import RA contract. If—and only if—pending import RA contracts exceed the anticipated import

¹ *Cal. Pub. Util. Comm’n*, The State of the Resource Adequacy Market – Revised at 40 (Jan. 13, 2020) (“In 2019, 11 LSEs had year ahead local deficiencies, six had year ahead system deficiencies, and five had year ahead flexible deficiencies, and many of these deficiencies persisted through the year in month ahead filings . . . This trend continued in the 2020 year ahead filings, in which, preliminarily, 20 LSEs had year ahead local deficiencies, five had year ahead system deficiencies[.]”), *available at*: <https://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442463739>.

capability at the associated intertie scheduling point would any type of rationing be necessary, such as an allocation based on an LSE’s load-ratio share.

I. The Current IC Allocation Process Strands Import Capability, Creates Artificial Scarcity, And Leads To Discriminatory Outcomes For External Suppliers Of RA

The most problematic aspect of the current framework is that it allocates IC to LSEs upon request, without any need for a requesting LSE to demonstrate that such an allocation is needed in connection with a pending import contract under California’s RA program. Moreover, an LSE receiving an allocation of IC is under no obligation to enter into an import RA contract, nor is it required to make its unused IC available to any other entity. And since LSEs do not pay a charge for IC allocations they receive, there is no incentive *not* to accumulate as much IC as possible. Even CAISO, when serving as the backstop purchaser of RA to address deficiencies or other challenges, does not have any way to access IC that was allocated to LSEs but that is not being used by the LSE to support an import RA contract.

As Powerex has demonstrated on multiple prior occasions², the current allocation process leads to large amounts of “stranded” IC that is neither used by the LSEs that requested it nor released for use by others. Recent information from the California Public Utilities Commission’s (“CPUC”) State of the Resource Adequacy Market reports confirms that large amounts of IC continue to be stranded. In 2019, between 25% and 75% of IC went unused in every month, as shown in the table excerpted below.³

Table 13: Remaining Import Capability

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Total MIC	10,193	10,193	10,193	10,193	10,193	10,193	10,193	10,193	10,193
CPUC Imports on RA Plans	2,014	1,803	1,910	1,590	2,501	3,472	4,954	5,238	5,928
Non-CPUC Imports on Supply Plans	1,017	875	979	864	1,060	1,293	1,367	1,362	1,580
Remaining MIC	7,161	7,515	7,304	7,738	6,632	5,429	3,873	3,593	2,685

The same is true in 2020, as shown in the excerpted table below:

² Comments of Powerex Corp. on Maximum Import Capability Stabilization and Multi-Year Allocation Issue Paper (Dec. 24, 2019), *available* at <http://www.caiso.com/InitiativeDocuments/PowerexComments-MaximumImportCapabilityStabilization-Multi-YearAllocation-IssuePaper.pdf>.

³ *Cal. Pub. Util. Comm’n*, The State of the Resource Adequacy Market at 19 (Sept. 2019), *available* at: <https://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442462515>.

Table 25: Remaining Import Capability (MW)

	May	Jun	Jul	Aug	Sep
Total MIC	10,193	10,193	10,193	10,193	10,193
CPUC Imports on RA Plans	2,666	3,235	3,389	3,804	4,328
Non-CPUC Imports on Supply Plans	1,244	1,364	1,516	1,574	1,497
Remaining MIC	6,283	5,594	5,288	4,815	4,368

By stranding large quantities of unused IC such that it is unavailable to support forward capacity purchases (and/or forward firm energy purchases) from external suppliers, the IC allocation framework creates artificial scarcity, making it *appear* as if additional IC is not available at an intertie, even when the actual quantity of import RA contracts at an intertie are far below the reliable import capability. This artificial scarcity can be observed in the prices for bilateral transfers of IC, which have exceeded \$6/kW-month on several occasions; a level that is nearly the full amount of the soft offer cap for capacity under the CAISO’s backstop CPM. This has occurred despite there being significant quantities of unused IC.

The artificial scarcity of IC is also reflected in the significantly lower prices paid for System RA from imports compared to System RA from internal resources. For instance, the CPUC’s most recent annual RA report, for 2018, indicates that the reported price of RA imports was, on average, approximately 30% less than the price of System RA from internal resources.⁴ Importantly, this price divergence does not reflect any underlying physical market fundamentals: there is ample ability to increase the quantity of import RA contracts without exceeding the actual capability of the associated intertie, and the import RA contract would be providing the exact same service as an internal resource (*i.e.*, meeting a California LSE’s System RA requirement).

The apparent price divergence between import System RA and internal System RA is troubling given the significant quantities of IC that are consistently left unused at CAISO’s major interties. Such outcomes are inconsistent with a well-functioning, competitive market. It appears to reflect the manner in which the current IC allocation limits buyer competition between and among California LSEs in procuring RA from external suppliers. In a competitive market, if a purchaser seeks to price discriminate against external suppliers - by offering to pay them less for System RA than the prevailing internal market price for System RA - competing purchasers would appropriately thwart such efforts. But the highly inefficient IC allocation framework prevents this type of competition between

⁴ Tables 11 and 12 of the 2018 report show that the weighted average price of System RA contracts for 2018-2022 that excluded imports exceeded the average price of contracts when imports were included. *Cal. Public Util. Comm’n*, 2018 Resource Adequacy Report (Aug. 2019), available at https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Energy/Energy_Programs/Electric_Power_Procurement_and_Generation/Procurement_and_RA/RA/2018%20RA%20Report%20rev.pdf. The two tables appear to imply a weighted average price of import System RA of \$2.07/kW-month, compared to \$2.84/kW-month for internal System RA (*i.e.*, the price of imported System RA was nearly 30% less than the price of internal System RA).

California LSEs, as each LSE is effectively able to position itself—at no cost and without facing competition (and/or open access more generally)—as the “exclusive buyer” of import RA on its allocated share of CAISO import capability. An LSE can thus withhold demand on its share of the intertie in an effort to drive down the price of its import RA purchases, while still holding on to its (unused) IC allocation and thereby prevent other California LSEs from stepping in and entering into additional import RA contracts. For the reasons above, arguments to keep the IC allocation unchanged amount to an attempt to retain a glaring market inefficiency that negatively impacts reliability and efficient market outcomes.

II. IC Should Only Be Allocated In Connection To A Pending RA Contract

Comprehensive reform is urgently needed to ensure that the IC of the CAISO grid is fully and efficiently utilized for its intended purpose: *enabling* rather than *blocking* import RA contracts. It should be recognized as unacceptable for an LSE to request and receive a free allocation of IC from the CAISO, in the absence of a pending import RA contract, and then simply “sit” on this allocation while *other* LSEs are unable to obtain the IC they need to enter into import RA contracts and fulfill their RA requirements.

Powerex believes the deficiencies of the existing IC allocation must be addressed by replacing the existing “IC allocation upon request” approach with a framework that only allocates IC once the CAISO is presented with a pending import RA contract that would actually encumber import capability at an intertie. An LSE would request an allocation of IC by demonstrating that it has a pending RA contract with an external resource at a specific intertie. The CAISO would then allocate available IC in the specific months and in the specific quantities committed to under the pending contract. To the extent a pending contract is for a term of longer than one year, the IC allocation also could be for a period longer than one year, providing the multi-year certainty that the current stakeholder process seeks to achieve. If the total capacity of pending RA contracts at a given intertie exceeds the remaining available IC at that intertie, then—and only then—would IC be genuinely scarce, and need to be rationed among the requesting LSEs. The allocation of scarce IC could continue to reflect the requesting LSEs’ load-ratio share, or the CAISO and stakeholders may wish to explore alternative methods.

The approach proposed above would fulfil the original purpose of the IC allocation by ensuring that import RA contracts at an intertie do not exceed the actual expected capability of that intertie. Importantly, however, IC would not be “stranded” and no artificial scarcity would be created. Instead, this type of approach would maximize the efficient utilization of import capability, providing all California LSEs with the maximum range of options for meeting their RA requirements.