

**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.

Rulemaking 17-09-020
(Filed September 28, 2017)

**REPLY COMMENTS OF POWEREX CORP. ON LIMITED REHEARING OF
DECISION 19-10-021**

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Pursuant to *Administrative Law Judge’s Email Ruling Setting Process and Schedule for Limited Rehearing of Decision 19-10-021*, issued on March 20, 2020, Powerex Corp.

(“Powerex”) submits these reply comments on the issues set forth in the California Public Utilities Commission’s (“Commission”) March 12, 2020 Decision 20-03-016, *Order Granting Limited Rehearing of Decision 19-10-021* (“March 12 Order”).

I. THE COMMISSION SHOULD NOT ADOPT A SELF-SCHEDULING REQUIREMENT

Not a single party expresses support for a self-scheduling requirement.¹ To the contrary, there is broad agreement that a self-scheduling requirement would be highly problematic and impair the efficient functioning of the California Independent System Operator Corporation (“CAISO”) markets. The Commission should heed the comments submitted by parties on the

¹ See Rulemaking (“R.”) 17-09-020, California Independent System Operator Corporation Comments on Rehearing of Decision 19-10-021 (“CAISO Comments”); Western Power Trading Forum Comments on Rehearing of Decision 19-10-021 (“WPTF Comments”); California Community Choice Association Comments on Limited Rehearing of Decision 19-10-021 (“CalCCA Comments”); Opening Comments of Shell Energy North America (US), L.P. Addressing Issues for Limited Rehearing of Decision 19-10-021 (“Shell Energy Comments”); The Protect Our Communities Foundation Comments in the Limited Rehearing of D.19-10-021 (“POC Comments”); Comments of Powerex Corp. on Limited Rehearing of Decision 19-10-021 (“Powerex Comments”) (Apr. 6, 2020).

March 12 Order that unanimously urge the Commission to eliminate, reverse, withdraw, or reconsider the self-scheduling requirement.²

Among other things, parties explain that a self-scheduling requirement would:

- Limit the CAISO's ability to reliably operate the grid³;
- Limit the CAISO's ability to economically dispatch resources, resulting in distorted short-term CAISO market prices, exacerbated oversupply conditions and increased transmission congestion/line overloads⁴;
- Increase costs and uncertainty for suppliers, resulting in reduced willingness to enter into, and higher prices for, Resource Adequacy ("RA") contracts⁵;
- Pose insurmountable implementation issues for the CAISO⁶; and
- Limit supply options for California load-serving entities ("LSEs").⁷

To make matters worse, adopting a self-scheduling requirement would not prevent external marketers from continuing to engage in speculative sales of paper capacity to California. In particular, external marketers would still have the ability to enter into a RA commitment that is not backed by real physical capacity, with the marketer instead attempting to support deliveries to the CAISO with short-term purchases of energy.

Under the self-scheduling requirement, as under the existing framework, California ratepayers will continue to bear the costs of contracts that do not result in a forward commitment of real physical capacity and that increase the reliability risks to the CAISO grid. Rather than resolve the issues that the Commission set out to address in commencing an inquiry into import RA, the primary effect of adopting a self-scheduling requirement is to further undermine the reliability and efficiency of the RA program and CAISO markets. The Commission should not adopt a self-scheduling requirement.

² See e.g., R.17-09-020, CAISO Comments at 4-5; Shell Energy Comments at 2-5; WPTF Comments at 2; POC Comments at 3-4; CalCCACComments at 3; Powerex Comments at 9-10.

³ See e.g., Powerex Comments at 10.

⁴ See Shell Energy Comments at 3.

⁵ See *id.* at 4.

⁶ See CAISO Comments at 4-5.

⁷ See Powerex Comments at 5-6.

II. THE COMMISSION SHOULD MODIFY THE RA PROGRAM TO ENSURE ALL CONTRACTS ARE BACKED BY REAL PHYSICAL SUPPLY AND FIRM TRANSMISSION

The CAISO and Powerex have both recommended frameworks that require upfront verification that each import RA contract is backed by real physical capacity coupled with ongoing performance and verification requirements that ensure that the committed capacity is actually made available to the CAISO and can be counted to deliver when called upon.⁸ Thus, the Commission should not adopt a self-scheduling requirement when the CAISO and other parties have identified more appropriate changes to the RA program that would actually *eliminate* the ability of external marketers to sell paper capacity and also avoid the myriad issues associated with a self-scheduling requirement.

While many of the requirements necessary to implement these frameworks are matters that should be addressed through the CAISO Tariff (*e.g.*, must-offer obligations, e-tagging requirements, etc.), the Commission can help achieve the objective of eliminating speculative supply by modifying its RA program to require that all import RA contracts be supported by:

- physical resource(s) that are identified at the time of the annual RA showing;
- a representation from the supplier that the resource capacity supporting the RA contract is expected to be surplus to the needs of the source balancing authority and any commitments to other entities;
- a commitment that all energy deliveries will be firm energy and will be supported by necessary contingency reserves and balancing reserves; and
- a commitment that energy deliveries will be scheduled on firm transmission or conditional firm transmission rights from the source to a designated CAISO intertie.

Unlike a self-scheduling requirement, modifying the RA program to require the upfront demonstrations above—coupled with CAISO Tariff revisions to verify that a supplier meets its commitments—will eliminate the ability of marketers to sell paper capacity and ensure that all

⁸ See R.19-11-009, CAISO Track 1 Proposal at 3-6 and Powerex Track 1 Proposal at 19 (Feb. 28, 2020).

import RA contracts are backed by a forward commitment of real physical supply. Without such a requirement, there is no guarantee that sufficient capacity will be committed on a forward basis to allow the CAISO to reliably operate its system.

III. THE COMMISSION SHOULD ALLOW THE CAISO STAKEHOLDER PROCESS TO ADDRESS MODIFICATIONS TO IMPORT RA SUPPLIER PERFORMANCE OBLIGATIONS

Many of the Import RA requirements that the CAISO and Powerex have proposed require revisions to the CAISO Tariff, including modification of the must-offer requirements imposed on import RA resources. The CAISO's comments explain that it has been working with stakeholders for over a year to modify the provisions of its tariff to, among other things, eliminate speculative supply.⁹ The Commission should allow the CAISO to complete these efforts.

The Commission has recognized that “[t]he Commission’s policy that [Resource Adequacy] should ensure that capacity is available when and where it is needed means that the [Resource Adequacy] program design *must be consistent* with the CAISO’s operational needs.”¹⁰ The Commission also found that certain elements of the RA framework in California, such as “specific generator performance obligations[] and appropriate penalties for ... non compliance with those obligations” should be left to “the province of the CAISO.”¹¹ Thus, giving the CAISO the flexibility to adopt must-offer requirements that align with the objective of ensuring that all RA contracts are backed by real physical supply is consistent with the Commission’s objectives for this proceeding and the RA program.

⁹ See CAISO Comments at 3-4.

¹⁰ Decision 05-10-042 at 10 (emphasis added).

¹¹ *Id.* at 17.

The Commission should allow the CAISO to move forward with revising its tariff without prejudging the outcome of the CAISO stakeholder process or attempting to exercise control over the terms and conditions of the CAISO tariff and participation in the CAISO markets. In this manner, the Commission ensures that the issue of speculative supply is addressed in a manner that does not undermine the efficient functioning of the CAISO markets and avoids any legal challenges that may follow.

Respectfully submitted,

/s/

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