BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations.	Rulemaking 19-11-009 (Filed November 7, 2019)

COMMENTS OF POWEREX CORP. ON ORDER INSTITUTING RULEMAKING

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Pursuant to Rule 6.2 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure and the *Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations*, issued on November 13, 2019 ("OIR"), Powerex Corp. ("Powerex") respectfully submits these comments.

I. INTRODUCTION

Powerex is a corporation organized under the Business Corporations Act of British Columbia, with its principal place of business in Vancouver, British Columbia, Canada. Powerex is the wholly-owned energy marketing subsidiary of the British Columbia Hydro and Power Authority ("BC Hydro"), a provincial Crown Corporation owned by the Government of British Columbia. Powerex sells wholesale power in the United States pursuant to market-based rate authority granted by the Federal Energy Regulatory Commission ("FERC"). Powerex sells power from a portfolio of resources in the United States and Canada, including Canadian Entitlement resources made available under the Columbia River Treaty, BC Hydro system capability, and various other power resources acquired from other sellers within the United States and Canada.

Powerex has been an active participant in the California energy market for more than 20 years. It supplies multiple types of clean electricity products to the California market, including

all categories of renewables portfolio standard and non-GHG emitting energy. Powerex is also registered with the California Air Resources Board as an Asset Controlling Supplier ("ACS") pursuant to the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions. In general, the Powerex ACS system has a very low GHG intensity as it is composed primarily of large hydroelectric resources with a small portion of other generation sources (*e.g.*, wind, solar, biomass, thermal units).

II. ISSUES TO BE CONSIDERED

A. Structural Changes to the RA Program

Powerex supports the Commission's objective of safeguarding that genuine capacity backs import Resource Adequacy ("RA") contracts. Gaps in the RA program allow a handful of sellers to sell "paper capacity" – *i.e.*, enter into import RA contracts without committing genuine physical generating capacity on a forward basis and acquiring firm transmission rights necessary to ensure reliable delivery of firm energy to the California Independent System Operator Corporation ("CAISO") controlled grid. These gaps expose California to heightened reliability risks, particularly when California most needs the energy. The Commission's October 17 Decision in Rulemaking 17-09-020 ("October 17 Decision") not only failed to eliminate the gaps – it actually exacerbates the problems it is supposed to rectify.[1]

First, it will likely abrogate some existing contracts supported by genuine physical capacity committed to California on a forward basis – the very type of contracts that support California's reliability needs. At the same time, it will continue to permit RA contracts that are not supported by a forward commitment of physical capacity, with the sellers of these paper capacity RA contracts continuing to rely on their ability to procure short-term energy to meet their delivery obligation. Like paper capacity where the seller does not have the intent to deliver

[1] On November 18, Powerex submitted an Application for Rehearing of Decision 19-10-021. *See* Powerex Application for Rehearing of Decision 19-10-021 (November 18, 2019).

energy during the delivery term, such contracts contradict the purposes of the RA program and undermine reliability.

Second, it will reduce the supply of RA by external entities and increase the cost of meeting reliability requirements within California. This will be the direct consequence of external suppliers of capacity being required to participate in the CAISO market on less advantageous terms than those imposed on internal generation resources. More specifically, external suppliers will be exposed to the significant additional costs associated with uneconomic energy deliveries, reducing their willingness to make their capacity available to California LSEs and increasing the cost of import RA supply that is provided.

Third, it will often increase congestion at major interties into the CAISO grid by displacing external supply rather than increasing aggregate energy flows into the CAISO grid. *Fourth,* it will increase CAISO's reliability and flexibility challenges, including making it more difficult for the CAISO to meet resource sufficiency requirements. *Fifth*, it will interfere with the efficient, centralized, economic dispatch that serves as the basis of CAISO's wholesale electricity markets. *Lastly*, it will act as a barrier to further regional integration.

Thus, while the Commission states that its duty is to "ensure a reliable, adequate energy supply for the state," the October 17 Decision does not achieve this purpose. To combat paper capacity and the gaps in the RA program, the Commission and the CAISO should require that <u>all</u> import RA contracts be resource-specific (*i.e.,* backed by identifiable, surplus, physical generation capacity) consistent with all other RA programs in the nation, appropriately, and necessarily, strengthening California's RA program. Furthermore, in considering changes to the RA program beginning with the 2021 and 2022 compliance years, the Commission should ensure that no "self-scheduling" requirement applies to any import RA contracts (which would all be resource-specific).

1. The Commission Should Eliminate the Self-Scheduling Requirement for Import RA Contracts

The October 17 Decision redefined the performance obligations imposed on import RA contracts and established a "self-scheduling" requirement on import RA resources. The imposition of a self-scheduling requirement on import RA resources was a substantive and material change that the Commission did not sufficiently vet in Rulemaking 17-09-020. Accordingly, the Commission should take the opportunity in this rulemaking to reconsider the self-scheduling requirement and determine a better solution for the gaps in the RA program.

A self-scheduling requirement will result in adverse consequences such as disrupting existing contracts, impairing the functioning of the CAISO markets and reducing the supply of resources willing to supply capacity to California.[2] Specifically, a self-scheduling requirement (1) is contrary to the efficient, centralized, economic dispatch that serves as the basis of the CAISO's wholesale electricity markets, and (2) impermissibly interferes with the orderly process for scheduling transmission on external transmission paths under the Open Access Transmission Tariff framework developed by FERC.

Given that the Commission has an opportunity to thoughtfully reexamine the requirements imposed in the October 17 Decision with public review and comment in this proceeding, the Commission should use this rulemaking to eliminate the detrimental self-scheduling requirement imposed by the October 17 Decision and arrive at the best possible solution for the next cycle of the RA Program. This can best be achieved through the elimination of non-resource-specific import RA as an eligible product, as further described below.

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2 *See, e.g.,* Rulemaking 17-09-020 Comments on Proposed Decision: CAISO Comments at 2; Powerex Comments at 8-10; ARem Comments at 4; Calpine Comments at 2; CalCCA Comments at 8-9; Middle River Power Comments at 1 (September 26, 2019).

2. The Commission Should Eliminate Non-Resource-Specific RA Contracts from Meeting RA Requirements

RA contracts that are backed by the physical capability of a system of coordinated generation resources can be counted upon to deliver when called upon by the CAISO with a high degree of confidence regardless of whether they are dynamically scheduled, pseudo-tied, or bid at a CAISO intertie.[3] All RA contracts should be backed by real, surplus, physical generating capability—whether in the form of a specific generating unit or a system of coordinated generation resources—and the ability to reliably deliver firm energy when called upon. It appears that California is the only region with organized markets that allows unspecified resources to meet RA requirements. The Commission should require contracts with specific resources in order for load-serving entities to meet RA requirements.

Moving to a resource-specific framework can and should be completed promptly in advance of Summer 2020, when the adverse consequences of paper capacity import RA contracts are likely to become significant. However, the Commission should first give stakeholders an opportunity to provide input before modifying program requirements and then give stakeholders enough time to comply with the modified requirements. Doing so will maintain certainty in the market, encourage much-needed participation in the RA program, and eliminate years of unnecessary and costly litigation before the Commission and the courts.

B. Processes That Would Aid the Commission to Consider Eliminating the Self-Scheduling Requirement and Requiring Resource Specific Import RA Contracts

The Commission should direct Energy Division to hold a workshop focused on the self-scheduling requirement the Commission imposed in its October 17 Decision and another

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[3] The CAISO relies on non-dynamically scheduled resources to meet reliability needs and compensate for RA deficiencies. For instance, last year, CAISO procured backstop capacity from Powerex through its Capacity Procurement Mechanism framework. Powerex's commitment was supported with schedules from the BC Hydro system and was not provided on a dynamic or pseudo-tie basis.

workshop focused on requiring all import RA contracts to be supported by a workable resource-specific construct. Parties should then be provided with the opportunity to submit opening and reply comments following the workshops.

III. CATEGORY, SCHEDULE AND THE NEED FOR HEARINGS

Powerex agrees with the preliminary categorization of this proceeding as ratesetting, and proposes the following schedule for this proceeding:

Event	Date
Comments on OIR filed	20 days from the issuance (mailing) of OIR
Reply comments on OIR filed	27 days from the issuance of OIR
Prehearing Conference	December 16, 2019 at 1:00 p.m. San Francisco
Scoping Memo issued	January 2020
Party proposals filed	February 2020
Workshops conducted by Energy Division including workshop focused on the self-scheduling requirement imposed by the October 17 Decision and workshop focused on the possibility of requiring resource specific import RA contracts to meet RA requirements	February 2020
Comments on workshops and proposals filed	March 2020
Reply comments on workshops and proposals filed	March 2020
CAISO publishes draft 2021 LCR and FCR Report	April 1, 2020
CAISO publishes final 2021 LCR and FCR Report	May 1, 2020
Comments on 2021 LCR and FCR Reports filed	May 2020
Proposed Decision	May 2020
Final Commission Decision	June 2020

While evidentiary hearings may be needed to resolve at least some of the issues to be considered in this proceeding, as the OIR has preliminarily determined, the Commission has successfully utilized workshops to resolve issues related to the RA program in the past.

Respectfully submitted,

By: /s/

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