

**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)

REVISED TRACK 3B.1 PROPOSALS OF POWEREX CORP.

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Pursuant to the December 11, 2020 *Assigned Commissioner’s Amended Track 3B and Track 4 Scoping Memo and Ruling* and the January 14, 2021 *Administrative Law Judge Chiv’s E-Mail Ruling Regarding Additional Track 3B.2 Proposals*,¹ Powerex Corp. (“Powerex”) submits these revised proposals respecting Track 3B.1 of this proceeding.

As explained in Powerex’s Comments on Track 3.B Scope² and Powerex’s Track 3B.2 Proposals,³ Powerex strongly supports the CAISO’s proposal to modify import RA requirements to prevent external marketers from selling to California LSEs import RA not backed by a forward commitment of physical capacity and transmission. The August 2020 heat wave highlighted the importance of addressing reliability risks in the RA program and ensuring that the RA program commits sufficient supply on a forward basis to allow the CAISO to operate the grid reliability. Given the CAISO’s experience during the August 2020 heat wave, it is essential that the Commission prioritize aligning its import RA requirements with the CAISO’s import RA proposal ahead of this summer.

¹ Administrative Law Judge Chiv’s E-Mail Ruling clarified that proposals and topics within the scope of Track 3B.1 include (1) modifications to qualifying capacity or resource valuation methodologies (e.g., import RA requirements, hybrid resources, variable energy resources); (2) refinements to the MCC buckets; (3) changes to the Planning Reserve Margin; and (4) seasonal RA requirements. Accordingly, Powerex is resubmitting in Track 3B.1 proposals relating to resource valuation methodologies, import RA requirements, and seasonal RA requirements submitted as proposals in Track 3B.2.

² See Comments of Powerex Corp. on Track 3.B Scope (Aug. 7, 2020).

³ See Comments of Powerex Corp. on Assigned Commissioner’s Amended Track 3B.2 and Track 4 Scoping Memo and Ruling (Dec. 18, 2020).

Powerex has identified two ways the Commission can modify elements of the existing RA framework to achieve these objectives.

First, the Commission should shift to the use of a seasonal System RA requirement to ensure that California LSEs are able to more effectively compete with external LSEs to obtain forward commitments of the physical supply necessary to meet reliability needs.

Second, the Commission should implement a framework to protect against the reliability risks associated with the “double counting” of capacity.

I. The Commission Should Modify the RA Program to Require Seasonal Procurement

At the same time that California is experiencing supply challenges, numerous LSEs outside of California are also facing growing capacity challenges due to the continued retirement of existing fossil fuel resources. As a result, LSEs inside and outside California are increasingly competing with each other to obtain forward commitments of the limited surplus supply that remains available. To address these challenges, the Commission should expect LSEs *outside* of California to turn to seasonal, yearly, and multi-year commitments with suppliers in regions, such as the Pacific Northwest, that continue to have excess supply available.

Thus, the Commission should modify the RA program to ensure that California LSEs are able to compete more effectively to obtain forward supply commitments. At minimum, the Commission should modify the System RA framework to require California LSEs to meet RA requirements on a seasonal basis—*i.e.*, with contracts that cover a minimum of the entire summer season—and to demonstrate that they have complied with this requirement on a year-ahead basis. Adopting a seasonal System RA requirement would have several advantages over the existing framework:

- *Alignment with External LSE Longer-Term Purchases* – The use of a seasonal framework for the duration of the System RA requirements will enable California LSEs the flexibility to match the longer-term purchases external LSEs are executing. This will help reduce the likelihood that California LSEs will be “last in line” and unable to obtain forward commitments of the external capacity needed to meet California’s reliability needs.

- *Reduction in Forecasting Errors* – Establishing a seasonal procurement requirement would also reduce the risks associated with forecasting errors in the precise month in which the summer peak load in California occurs. In recent years, actual system peak demand has fallen outside of the same month as the forecast peak. This misalignment between a monthly forecast of demand and actual system needs is increasing reliability risks and exacerbating the supply challenges facing CAISO. Moving to a framework that requires LSEs to procure sufficient capacity to meet seasonal peak load would help mitigate these risks by ensuring that CAISO has the capacity necessary to meet system needs across the summer period.
- *Regional Diversity in Peak Load Between Seasons and Reduction of Costs* – Enabling a seasonal rather than a full year-long contract will allow California LSEs and California ratepayers to benefit from regional diversity in peak load between California’s summer-peaking system and those external entities that experience a peak load in the winter. Such a framework would ensure that California LSEs can take advantage of this regional diversity and reduce the total costs of meeting California’s reliability needs.

II. Additional Safeguards Are Necessary to Verify That Capacity Supporting RA Commitments Have Not Been Committed to Meet Other Needs

Numerous parties have explained the reliability risks associated with import RA contracts that are not backed by physical supply in this proceeding. It is important to recognize, however, that the reliability risks associated with paper capacity are not limited to instances where a supplier does not have the physical supply necessary to meet its commitment. To the contrary, even where an import RA contract is backed by physical supply, there is a risk that import RA resources may fail to perform to the extent that the supply supporting the contract is also being relied upon to meet the sellers’ forward commitments to other regions. Unfortunately, the RA program lacks any framework to ensure that the resources backing import RA commitments are not being relied upon by the seller to also meet the reliability needs of other regions — creating the risk that deliveries to California may be curtailed if and when such capacity is needed by the seller for another purpose.

Experience with import supply last summer suggests that there continue to be import RA suppliers that may be entering into commitments that far exceed the quantity of supply they have secured in advance to meet their obligations. For instance, from its review of publically

available information, Powerex believes that it is likely that a material portion of the exports to the Southwest that were curtailed by CAISO during the August heat wave were associated with marketers that made advanced sales to both regions (i.e., prior to the CAISO day-ahead market), for a total quantity that exceeded the quantity of supply those entities had actually secured in advance. In some cases, these marketers may have been scheduling imports into the CAISO BAA—including to meet their forward firm energy and/or standalone RA must-offer commitments—while simultaneously attempting to export energy in the same hours from the CAISO BAA to meet their advanced sales commitments to external Southwest LSEs.

The failure to verify that forward purchases are supported by real, physical supply that has not been “double counted” increases the risk that the capacity committed to meet RA requirements may not be available and capable of performing when needed by CAISO. Importantly, this is not a matter of other regions leaning on the capacity that has been committed to meet the needs of California; to the contrary, where both California LSEs and external LSEs have not taken sufficient steps to verify that the capacity supporting a commitment has not been committed elsewhere, it is unclear whether the California LSE or the external LSE should have priority to the associated supply. What is clear, however, is that there is no current framework to ensure that the supply supporting an import RA contract is exclusively to meet the CAISO’s needs. This gap is increasing reliability risks and further exacerbating the supply challenges facing CAISO.

The Commission should use this proceeding to modify import RA requirements to prevent the double counting of capacity. At minimum, the Commission should require that any import RA requirement must include a representation that the physical generation capacity (or system resources) supporting the import RA contract is both surplus to the needs of the source balancing authority area and has not been committed to any other balancing authority area or LSE.

Respectfully submitted,

/s/

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