

**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)

**REPLY COMMENTS OF POWEREX CORP.
ON PROPOSED DECISION ADOPTING LOCAL CAPACITY AND
FLEXIBLE CAPACITY OBLIGATIONS**

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June 15, 2021

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Pursuant to Rule 14.3 of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure, Powerex Corp. (“Powerex”) hereby offers these reply comments responding to the opening comments submitted by the California Independent System Operator Corporation (“CAISO”) on the *Proposed Decision Adopting Local Capacity Obligations for 2022-2024, Flexible Capacity Obligations for 2022, and Refinements to the Resource Adequacy Program* (“Proposed Decision”).

I. THE COMMISSION SHOULD ADOPT THE CAISO’S PROPOSED MODIFICATIONS TO THE IMPORT RA FRAMEWORK

The Commission should approve and implement the CAISO’s proposed enhancements to the rules governing Resource Adequacy imports (“import RA”). Deferring consideration and implementation of these enhancements will only serve to endanger reliability in the CAISO balancing authority area (“BAA”) by perpetuating the continued reliance by load-serving entities on paper capacity contracts to meet California’s Resource Adequacy procurement requirements.

The reliability risks associated with California’s continued reliance on paper capacity import RA contracts have been well established by the CAISO, Powerex, and other commenters over the past several years. The CAISO’s proposed enhancements to the import RA rules represent three critical but common-sense measures that will mitigate these reliability risks—ensuring that import RA contracts represent the commitment of real physical external capacity

that is deliverable to the CAISO boundary and can be counted upon to meet reliability needs. In particular, import RA suppliers should be required to satisfy three key requirements:

- Identify the resource (or system of resources) and BAA supporting the import RA contract;
- Attest that the capacity has not been committed to meet the reliability needs of other BAAs or purchasers; and,
- Ensure that import RA supply can be delivered to the CAISO system using firm transmission.

The current framework neither ensures import RA contracts are backed by firm transmission nor that real, physical supply is committed to California, is surplus to the needs of the source BAA and has not been committed to another purchaser. As a result, the current import RA framework has allowed the proliferation of arrangements involving paper capacity contracts. A review of publicly available data from last summer's heatwave leads to the following key observations. First, load-serving entities in California and the Southwest appeared to rely on forward commitments from marketers with a limited amount of physical supply that had been "double sold" to load-serving entities in both regions. Second, a significant quantity of import RA contracts appeared to be procured from marketers that delivered energy they purchased in the bilateral spot market rather than delivering from identified physical resources they had secured and committed in advance.¹

The Commission's decision to require that non-dynamically scheduled import RA resources be self-scheduled or offered into the market at or less than \$0/MWh during availability assessment hours has neither put an end to paper capacity strategies nor eliminated the reliability risk they pose to the CAISO BAA. For example, in addition to the "paper capacity" contracts

¹ For a more detailed discussion, *see* Powerex's comments on the CAISO RA Enhancements Sixth Revised Straw Proposal, https://powerex.com/sites/default/files/2021-01/CAISO%20RA%20Enhancements%206th%20Revised%20Straw%20Proposal_0.pdf.

that have been relied upon in the past (including paper capacity contracts where the seller is speculating on supply availability in the external bilateral spot markets), scheduling activities are emerging that may be related to import RA arrangements being supported, from a capacity perspective, by concurrent exports from the CAISO BAA. Specifically, in the availability assessment hours of relatively tight days in early June 2021, public data shows schedules that may be associated with RA import arrangements being delivered to the CAISO BAA in the very same availability assessment hours that the respective supplier is also scheduling a significant quantity of exports out of the CAISO BAA, at a different intertie, for delivery back to the very same external BAA that served as the “source” of the import deliveries.²

To be clear, there is nothing inherently problematic with simultaneously importing and exporting energy from different locations on the CAISO grid during the same hour where there is a legitimate business purpose for doing so and the transactions comply with applicable market rules; such outcomes can be expected in an organized market with location-specific prices. In addition, contractual arrangements may require physical delivery during certain hours regardless of the prevailing spot market price at the respective location. However, it would be contrary to the reliability objectives of the Resource Adequacy program for the Commission to accept import RA contracts that are not supported by capacity external to the CAISO BAA, but rather are *relying on* capacity being ultimately sourced, directly or indirectly, from the CAISO BAA *itself*. Such contracts leave CAISO load exposed to significant reliability risks (if and when the CAISO is in a situation where it must curtail exports to maintain reliability), while allowing external marketers to reap profits without providing any real capacity.

² Source: Schedule details from Bonneville Power Administration’s OASIS.

Absent robust rules to the contrary, external marketers may develop strategies to export energy from the CAISO markets to provide the capacity they need to support deliveries associated with their import RA contracts. This concern is not new. In 2005, Southern California Edison explicitly asked the Commission and the CAISO to monitor for such behavior:

Ricochet transactions, scheduling power for export so that the same power can subsequently be scheduled for import into California (typically through parking arrangements with other control areas), have been found to be a tariff violation by FERC. To the extent that resources interior to the CAISO could not fully meet requirements to sell as RAR capacity, the entities in control of these resources could have an incentive to engage in Ricochet transactions in order to sell capacity as imports to the CAISO.³

The reliability impact of such transactions at the present time cannot be ignored: “[a]s the western interconnection faces increased risk of supply shortfalls and stressed summer grid conditions, resource adequacy import reliability and dependability are critical to maintaining grid reliability.”⁴

The measures proposed by the CAISO will ensure that all import RA contracts are supported by real identifiable physical supply *external to the CAISO BAA* that has not been double sold and that can be delivered on firm transmission to the CAISO and are reasonable measures to address these concerns. For the foregoing reasons, the Commission should adopt the CAISO’s proposed modifications to the import RA framework.

³ Order Instituting Rulemaking to Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning, R.04-04-003, Comments of Southern California Edison Company on Resource Adequacy Phase 2 Workshop Report at 49 (July 13, 2005).

⁴ Opening Comments on Proposed Decision Adopting Local Capacity and Flexible Capacity Obligations of the CAISO at 1-2.

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/s/

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