

**Comments of Powerex Corp. on
Resource Adequacy Enhancements Phase 2
Straw Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s October 5, 2021 Resource Adequacy Enhancements Phase 2 Straw Proposal (“Straw Proposal”).

As has been repeatedly noted throughout the industry, the western grid is undergoing a profound transformation as a result of the addition of large amounts of renewable resources and the retirement of substantial amounts of fossil-fueled capacity resources. The pace of transformation has accelerated in recent years, as jurisdictions throughout the west have sought to adopt increasingly ambitious GHG-reduction goals. At the same time, it has become increasingly clear that maintaining reliability in this context will require revisiting existing approaches to resource adequacy to ensure that they are capable of meeting the challenges of a rapidly changing grid.

Outside of California, the result of these challenges has been an unprecedented effort by utilities throughout the western grid to establish a Western Resource Adequacy Program (“WRAP”). The focus of this initiative is establishing a common resource adequacy planning standard and resource accreditation framework to increase coordination, unlock diversity, and enhance reliability across the region. As detailed further in the NWPP Resource Adequacy Program – Detailed Design document issued earlier this year, the WRAP will include a robust set of rules and requirements that will ensure that all entities participating in the WRAP have committed sufficient, identifiable, physical supply on a forward basis to meet expected operational needs. Specifically, under the WRAP’s Forward Showing (“FS”) Program:

- Participants in the program will be required to demonstrate that they have procured sufficient capacity to meet their share of a regional reliability metric set at the level of capacity needed to meet a 1 day in 10 year’s loss of load expectation in each of the summer and winter seasons.
- Each entity participating in the program will be required to demonstrate that it has committed sufficient capacity to meet 100% of its portion of the regional reliability metric seven months in advance of the summer and winter seasons.
- Entities participating in the program will be required to meet the regional reliability metric using identified real, physical supply that is deliverable using firm, conditional firm, or network secondary service (with 75% of this transmission requirement needing to be demonstrated by the FS deadline).
- Entities that fail to meet their share of the FS requirement will be subject to a deficiency payment based on the annual cost of new entry (“CONE”) for a new peaking gas plant and a multiplier (ranging from 125% to 200%) to ensure that the amount of the deficiency payment increases as system conditions tighten and to avoid giving participants an

economic option to “go short” on the capacity necessary to meet their share of the regional needs.

Collectively, the carefully crafted requirements of the WRAP - set out in a 254-page Detailed Design document issued in July 2021 - will ensure that sufficient physical and deliverable capacity is committed on a forward basis to meet regional needs with a high degree of confidence, with robust financial remedies that ensure that participants will act in good faith to meet their capacity requirements. At the same time, those participating in the WRAP will be able to leverage extensive load and resource diversity benefits across a broad geographic footprint by meeting their collective needs with adequate assurances that no participant will have the ability to systematically lean on the capacity investments of other participants to address resource adequacy deficiencies.

The tremendous progress of the WRAP initiative over the past few years stands in stark contrast to efforts to reform California’s Resource Adequacy program. Despite years of dialogue at both the CPUC and the CAISO, key gaps in California’s Resource Adequacy program continue to go unaddressed. For instance, in spite of broad recognition that California LSEs are meeting a significant portion of their resource adequacy requirements using import “paper capacity” (*i.e.* contracts – contracts that are not linked to any identifiable resources and are not associated with any reliable transmission commitment to a CAISO import location) the CPUC has repeatedly declined to adopt the common sense measures advocated by the CAISO and other market participants: ***to ensure that all resource adequacy contracts are backed by real physical supply and firm transmission that can be counted upon by the CAISO during critical hours to meet system needs.*** The result of this inaction is a resource adequacy framework that is increasingly incapable of fulfilling its objective of ensuring that sufficient physical supply is committed on a forward basis to meet actual system needs.

Absent immediate steps to reform California’s Resource Adequacy program, particularly the requirements for resource adequacy imports, the likely result will be a continued risk for California consumers that the quantity of real supply available to the CAISO increasingly falls short of actual system needs.

Continued failure to address the clear gaps in California’s Resource Adequacy framework is also likely to become a barrier to any further efforts towards establishing a regional day-ahead market that involves California. The experience with the Western Energy Imbalance Market (“EIM”) demonstrates that a resource sufficiency framework cannot achieve the purpose of preventing leaning where one entity is systematically short on the capacity necessary to meet its own system needs. More specifically, the failure of California to address the shortcomings of the existing resource adequacy framework have increasingly left CAISO in the position of compensating for its supply deficiencies with imports through the Western EIM, contrary to the foundational principle that no leaning is permitted. The result has been highly inequitable, with the CAISO BAA regularly importing 3,000 MW or more from the rest of the Western EIM to address its supply deficiencies without compensating external resources for this capacity. The net effect has been to allow California LSEs to save hundreds of millions of dollars by leaning on imports through the EIM to maintain reliability during the most critical hours, while also contributing to reliability challenges and price spikes throughout the EIM area footprint to the detriment of other EIM Entities and their customers. Powerex believes such outcomes are untenable, but it is also apparent that the underlying problem—a lack of forward resource adequacy—cannot be fixed by EIM or EDAM rules alone. Rather, for any day-ahead and real-time organized market that includes California

to move ahead, it will be necessary to address the deficiencies of California's Resource Adequacy program, prospectively ensuring that the expansion of organized markets in the west does not merely expand the scope of capacity leaning by the CAISO BAA.