

**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 TRACK 3.B SCOPE

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Pursuant to the July 7, 2020 *Assigned Commissioner's Amended Track 3.A and Track 3.B Scoping Memo and Ruling*, Powerex Corp. ("Powerex") offers these limited comments on the scope of Track 3.B of this proceeding. As discussed herein, the California Public Utilities Commission ("Commission") should focus Track 3.B on commencing efforts to ensure the prompt implementation of a permanent import resource adequacy ("RA") framework consistent with the rules currently being developed through the California Independent System Operator Corp.'s ("CAISO") RA Enhancements stakeholder proceeding. The Commission recently adopted interim changes to the import RA framework to help mitigate the potential risks associated with the use of "paper capacity" to meet RA requirements to give the CAISO time to further develop a long-term framework for import RA. With the CAISO's efforts well underway and expected to conclude in the coming months, Track 3.B should be used to collaborate with the CAISO on aligning the Commission's import RA requirements with the CAISO's import RA proposal for the 2022 compliance year to achieve a durable, long-term import RA framework.

I. The Commission Should Prioritize Aligning RA Requirements With the CAISO's Import RA Proposal in Track 3.B

Powerex appreciates the significant efforts made by the Commission to address the risks associated with the use of "paper capacity" contracts that are not backed by a forward commitment of physical capacity and transmission necessary to support delivery to California.

The use of paper capacity to meet RA requirements is increasing reliability risks and undermining the ability of the RA program to achieve its objective of committing sufficient capacity on a forward basis to allow the CAISO to operate its system reliably. As the Commission recently observed, “[a]s capacity continues to tighten in the West, . . . the use of speculative supply contracts could lead to supply shortfalls and price spikes in the short-term markets that will undermine reliability and render the RA program ineffective.”¹ At the same time, the use of paper capacity allows marketers selling this product to continue to “collect significant revenue from California ratepayers for supply that does not deliver.”²

The Commission’s recent revisions to the rules governing import RA represented an important first step toward addressing issues associated with paper capacity. In adopting these changes, however, the Commission recognized that further efforts would be needed to develop a long-term, durable framework to comprehensively address the issue of paper capacity. More specifically, the Commission acknowledged that the proposal that had been offered by Powerex and the CAISO had the “potential to effectively address speculative supply concerns,” but that “several aspects of the proposal require further development and regulatory approval before implementation.”³ Accordingly, the Commission explained that it was adopting interim changes “[p]ending further development of the CAISO/Powerex proposal” through the CAISO’s ongoing RA Enhancements stakeholder process.⁴

Powerex agrees that the interim measures adopted by the Commission should be replaced by a long-term import RA framework as soon as possible. Notably, there are a number of

¹ Decision 20-06-028, Decision Adopting Resource Adequacy Import Requirements, mimeo at 35, R.17-09-020 (issued July 6, 2020).

² *Id.*

³ *Id.* at 45.

⁴ *Id.* at 45-46.

aspects of the interim measures adopted by the Commission that make them unworkable as a long-term solution to the problem of paper capacity:

- The requirement that energy associated with non-resource-specific import RA contracts be self-scheduled (or offered into the market at \$0/MWh or below) during the Availability Assessment Hours (“AAH”) hours will not eliminate opportunities for external marketers to sell paper capacity. Even with these changes, an external marketer will still be able to enter into a RA contract without committing *any* physical capacity or transmission on a forward basis to support its obligations. As a result, the interim rule changes that have been adopted will not ensure that all import RA contracts are backed by a forward commitment of genuine physical supply and transmission rights sufficient to ensure deliverability.
- Requiring that the energy associated with an import RA contract be self-scheduled or bid into the market at a level of \$0/MWh or below during the AAH hours has the potential to result in host of operational challenges and market distortions, including reducing the operational flexibility of the CAISO, undermining efficient dispatch, and interfering with the equitable use of transmission rights on external systems.

It is therefore critical that the Commission work with the CAISO to promptly implement a durable, long-term import RA framework that ensures that all import RA contracts are backed by the physical capacity and firm transmission necessary to support delivery to California.

As the Commission has acknowledged, the framework that the CAISO is currently developing through the RA Enhancements stakeholder proceeding has the potential to eliminate the opportunity for external marketers to sell paper capacity to California LSEs. In particular, the CAISO’s proposal would require that all import RA be resource-specific by imposing robust showing and verification requirements that would ensure that all import RA contracts are supported by a forward commitment of genuine physical capacity that can be counted upon to deliver when needed by the CAISO, and that has not been committed to meet the needs of another balancing authority areas. Importantly, the CAISO’s proposal would achieve this objective while allowing the supply associated with import RA contracts to be bid into the market economically, thereby avoiding the potential operational issues and distortions associated with the bidding requirements that have been adopted by the Commission on an interim basis.

Although elements of the CAISO's proposal remain under development, Powerex is optimistic that the CAISO's efforts will result in a framework that ensures that all import RA contracts are backed by a forward commitment of genuine physical capacity and firm transmission necessary, and that the CAISO's proposal can be implemented in advance of the 2022 compliance year. However, this will require the Commission to take action to ensure alignment of the Commission's rules with the framework established by the CAISO. With the CAISO's efforts to develop a long-term framework expected to conclude in the coming months, the Commission should commence its efforts to work collaboratively with the CAISO. Using Track 3.B to further consider what steps are necessary to align the Commission's requirements with the CAISO's framework will help ensure that any changes can be developed and implemented on a timeline that facilitates prompt implementation of the CAISO's proposal. Failing to move forward with these efforts may unduly delay implementation of a long-term framework by preventing the CAISO from implementing its proposed changes in time for the 2022 compliance year.

Respectfully submitted,

/s/

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