



## Stakeholder Comments Template

### Resource Adequacy Enhancements – Straw Proposal Part 1

This template has been created for submission of stakeholder comments on Resource Adequacy Enhancements Straw Proposal Part 1 that was published on December 20, 2018. The Straw Proposal Part 1, Stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: <http://www.caiso.com/informed/Pages/StakeholderProcesses/ResourceAdequacyEnhancements.aspx>

Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com).

Submitted by	Organization	Date Submitted
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Submissions are requested by close of business on February 6, 2019.

**Please provide your organization’s comments on the following issues and questions.**

The Northern California Power Agency (“NCPA”) appreciates the opportunity to provide comments in response to the Resource Adequacy Enhancements Straw Proposal Part 1.

#### 1. Rules for Import RA

Please provide your organization’s feedback on the Rules for Import RA topic. Please explain your rationale and include examples if applicable.

In response to the discussion regarding specification of a RA import’s resource (Section 4.1.2 of Straw Proposal), NCPA generally supports the concept of specifying the source Balancing Authority from which the RA import is supplied as a new data attribute included in a RA Supply Plan. NCPA assumes that “source Balancing Area” means the BA where the resource is located, rather than the BA from which it is imported into CAISO, but requests clarification on that point. Identifying an RA import’s source BA should be more than sufficient for CAISO’s use in determining EIM sufficiency requirements, because the EIM resource sufficiency test is essentially an accounting balance calculated at the ties between EIM BAs.

NCPA does not support requiring “resource-specific” designations as a qualification for RA imports. NCPA believes requiring resource-specific information could negatively

impact and disrupt current bilateral contracting, and would reduce market liquidity for RA imports. NCPA believes this could negatively impact the RA program that has worked well in California for many years. Since resource-specific information is not necessary to determine EIM sufficiency requirements, NCPA believes that adding a resource-specific requirement would result in more harm than good.

In response to the discussion regarding applying a 15-minute bidding and scheduling requirement for RA imports, NCPA does not support this element of the Straw Proposal. NCPA is concerned that many BA's outside of the CAISO do not allow, or are not fully configured to enable 15-minute scheduling at the interties. Enforcing a 15-minute scheduling requirement for RA imports would likely reduce RA market liquidity, add unnecessary cost for RA procurement, and would not provide a material benefit. As CAISO explains in its Straw Proposal, imports are an important component of the RA program, and imposing a 15-minute scheduling requirement could create significant barriers that may prevent imports from participating in the RA market.

## 2. RAIM Enhancements & Outage Rules

- a. Please provide your organization's feedback on the Addressing Planned and Forced Outage Issue topic. Please explain your rationale and include examples if applicable.

Planned Outages: While NCPA appreciates the CAISO's effort to consider solutions that are focused on simplifying the outage coordination process, NCPA generally supports the outage coordination process that is in place today, and cautions that changes are likely to be more harmful than helpful. NCPA does not deny that the current outage coordination process is complicated, but establishing a level of consistency and durability regarding outage coordination rules/requirements is critical for the overall achievement of the CAISO's RA goals. While the current process is not perfect, market participants have learned it, adapted to it and embodied its terms and the obligations associated with the risk of RAIM penalties into their contracts.

Disruption of these expectations and contractual terms will create more confusion rather than less, and will dilute any benefit that might be achieved by less complexity (even assuming that the new proposals turn out to reduce complexity, which is far from clear). Uncertainty about RA substitution rules in general and RAIM in particular results from rules that have been tweaked so many times that the parties cannot embed settled expectations and allocation of risk into contracts. Constant rule churn is a major contributor to the decisions by LSEs to contract for RA only on a year-by-year basis. Longer intervals are simply too risky.

Notwithstanding NCPA's general support for the current process, one of CAISO's proposals that NCPA believes is worth considering further is the option (but not the obligation) for the CAISO to secure substitute capacity for planned outages (using standing CSP bids) upon request by a resource. If such an option were made

available, a resource would still be able to use the replacement options that are available today (including providing its own substitute capacity), but could also have the new option of requesting CAISO to secure substitute capacity using any standing CSP bids. If a short term (daily) product could be made available, that would be even more beneficial, as it is often difficult to find counterparties willing to transact capacity on such a short term basis.

Consistent with the points made above, NCPA does not support the option of prohibiting resources taking planned outages during a month from providing RA capacity during any part of that month. In many cases, when a resource requests a planned outage, the duration of the outage may be for a very short term (a few calendar days). Under this proposed option, CAISO would lose access to the resource for the balance of the period, which could consist of a majority of the month. This would artificially reduce the amount of capacity available in the market and could negatively impact market liquidity/availability. This option may also create an incentive for resources to schedule forced outages for short term needs (rather than planned outages), which would be counterproductive to the objectives of the outage coordination process. As stated above, NCPA generally supports the current market structure.

Forced Outages: NCPA generally supports the current market structure,<sup>1</sup> including use of AAHs and an availability incentive mechanism. As noted above, one challenge that impacts bilateral contracting for RA, and the willingness of buyers and sellers to enter into longer term RA contracts, is the lack of consistency and durability of the applicable rules and requirements. Maintaining a defined set of rules and requirements will build confidence in the market regarding the benefits and burdens each counterparty may be exposed to going forward.

General Comment: NCPA does not support adopting new market rules that would reduce the NQC rating of a resource as an alternative to RAAIM. NCPA believes the current RAAIM penalties are a sufficient incentive to maintain resource availability.

Regarding CAISO's proposal to eliminate a number of the current RAAIM penalty exemptions found in Section 40.9.2 of the CAISO Tariff, please see NCPA's additional comments found below.

- b.** Please provide your organization's feedback on the RAAIM Enhancements topic. Please explain your rationale and include examples if applicable.

Multi-year RA showings have been proposed in different forums, but as NCPA has explained above and in previous stakeholder comments, the biggest barrier to long-term RA transactions is the constantly changing RA and RAAIM rules. If the CAISO could settle on a durable program that would allow participants to build its

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<sup>1</sup> As further discussed below, NCPA does not believe that the language CAISO proposed to "clarify" its BPM on outages is an accurate reflection of existing tariff requirements.

rules into longer term contracts that would not have to be renegotiated at considerable effort and expense with each rule change it might be possible for market participants to enter into RA contracts beyond the one year time frame. That is the primary reason that NCPA does not support changing the current RAAIM. Market participants have now mastered the latest RAAIM rules and CAISO seems to have worked out most of the bugs and loopholes in its configurations and settlement systems. Changing the rules again at this time could create significant setbacks for RA and CAISO markets.

NCPA supports the current self-funding mechanism incorporated in RAAIM. NCPA does not support developing a new performance incentive mechanism that would enable resources that bid and or perform above their RA commitments to receive incentive payments. Market participants should recall that the current mechanism was not designed to incent good behavior, but because CAISO cannot keep the money it receives in RAAIM penalties. Distributing that money to resources that had performed well was a convenient way to disburse it, but it was not intended as an incentive on its own, because some months there would be few to no penalties.

NCPA is concerned that any attempt to redesign RAAIM to serve a new function would inevitably be fraught with complexity, and would not result in market participants demonstrating/committing RA capacity above their requirements to the CAISO. NCPA also does not believe that inducing LSEs to show more RA capacity than they are required to show is an achievable goal. No matter how RAAIM is designed or what the penalty triggers are, so long as there is a non-zero chance of penalties, there is no reason for an LSE to show more capacity than required.

If this is indeed a result that the CAISO seeks, such incentives should be reflected in the energy markets through development of other products that are not directly linked to RA requirements. If the CAISO is ultimately concerned with resource performance, and reducing the likelihood of a resource not accurately following its dispatch instructions, a better tool to consider for such purposes may be a deviation penalty structure. NCPA is not advocating for implementation of deviation penalties, but any concerns with uninstructed deviations should be addressed directly, and not through enhancements to the RA program. CAISO should develop solutions that account for its unique structure and market rules, rather than trying to replicate controversial capacity incentives from eastern RTOs that were designed to address different problems (e.g., ISO-NE's "Pay for Performance" was developed in response to the problem of fuel shortages during extreme cold periods that prevented resources with awards for capacity auctions from running during scarcity periods).

- i. Please provide your organization's feedback on the Availability & Performance Assessment Triggers options presented in the proposal.

While on the surface the concept of developing availability & performance assessment triggers may seem appealing, NCPA is concerned that this concept could introduce even more complexity and uncertainty into the RA program, and be counterproductive to the stated goal to simplification. The main concern with this approach is the unlikelihood of developing triggers that are clearly identified and understood (as compared to defined AAHs). If any triggers developed result in uncertainty as to when or how and by whom they are determined to be in effect, that will only create confusion in the market. NCPA is concerned that a significant amount of CAISO and stakeholder resources may be required to clearly identify and define such triggers and associated rules, and believes it would be difficult to develop rules that are simpler and easier to implement than the AAHs.

While the current hourly requirements may not be optimal, market participants and CAISO have adopted AAHs in exhaustive bid-to-bill procedures, processes and configurations. Changing the rules again will expose market participants to more penalties as they re-learn the rules and reestablish processes and procedures, as well as expose CAISO to more disputes as gaps are inevitably exposed in configurations.

### **3. Local Capacity Assessments with Availability-Limited Resources**

Please provide your organization's feedback on the Local Capacity Assessments with Availability-Limited Resources topic. Please explain your rationale and include examples if applicable.

NCPA has no comments at this time.

### **4. Meeting Local Capacity Needs with Slow Demand Response**

Please provide your organization's feedback on the Meeting Local Capacity Needs with Slow Demand Response topic. Please explain your rationale and include examples if applicable.

NCPA has no comments at this time.

### **Additional comments**

Please offer any other feedback your organization would like to provide on the RA Enhancements Straw Proposal Part 1.

#### **Exemptions**

In Section 4.2.2 of the Straw Proposal (Forced Outages and Availability & Performance Assessments), CAISO indicates that it is considering removing a number of the RAIM exemptions described in Section 40.9.2 of the CAISO Tariff. The CAISO also indicated that it will also consider extending current exemptions so long as the resource can demonstrate that it is subject to a similar performance obligation tied to CAISO operational needs. NCPA strongly believes that the exemptions

currently stated in Sections 40.9.2(b)(2) and 40.9.2(c)(2) meet these criteria, and therefore should be extended/retained.

NCPA, unlike any other entity in the CAISO, operates as a Load-Following MSS (LF-MSS). As a LF-MSS, NCPA is contractually obligated to balance its integrated portfolio of supply and demand in real-time (every 5-minutes) through the use of Load Following Capacity, to ensure its net portfolio deviations (whether such deviations are attributed to supply or demand) are contained within a tight deviation band. If NCPA is unable to balance its supply and demand portfolio in real-time, NCPA is assessed significant Load Following Deviation Penalties in accordance with the CAISO Tariff and the MSSA Agreement. In order for NCPA to successfully follow its load, it must plan for and reserve or otherwise obtain capacity from its generation resources, or from other sources, that can be dispatched by NCPA in real-time to manage its portfolio balance during every five (5) minute interval. NCPA reserves both Load Following Up Capacity and Load Following Down Capacity to effectively regulate its portfolio in real-time to respond to its net load requirements. NCPA's obligations to regulate its portfolio in real-time apply whether the cause of the movement is attributable to forecast error, general ramping or uncertainty. Because NCPA self-manages the load-following needs, uncertainty and variability associated with its portfolio, by using its reserved capacity/resources, NCPA's LF-MSS portfolio reduces CAISO need to redispatch resources in real-time to maintain reliability.

The exemptions contained in in Sections 40.9.2(b)(2) and 40.9.2(c)(2) of the CAISO Tariff are based on these facts, and these facts have not changed. Based on the unique operational criteria of the LF-MSS, these exemptions have been found by FERC to be just and reasonable, and the current treatment remains just and reasonable. As such, the exemptions contained in in Sections 40.9.2(b)(2) and 40.9.2(c)(2) of the CAISO Tariff are consistent with the fact that a LF-MSS is subject to significant performance criteria (and possible penalties for lack of performance), and that such obligations are consistent with the CAISO's operational needs.

NCPA agrees with other market participants that the current RAIM requirements are complicated and imperfect; however, NCPA is concerned that changing the rules, even in the spirit of reducing such complexity, potentially carries too much cost, risk, and uncertainty. For example, reducing the number of hours subject to RAIM by introducing event based triggers sounds beneficial in concept, but the devil is in the detail, and such changes can introduce new material risks and expose market participants to significant penalties. To avoid exposing market participants to the risk of mastering new rules and requirements again (including the cost of extensive stakeholder review and development), unless there is a very clearly defined and measurable benefit associated with changing the existing structure, NCPA generally supports retention of the existing market rules and requirements.

Changes to BPM on Outages

During the stakeholder meeting, CAISO representatives made statements regarding proposed changes to the CAISO BPMs that relate to planned-to-forced outages. NCPA strongly disagrees with the statement that the language in question is merely a “clarification” of existing CAISO Tariff requirements. In fact, that language is a substantive change to existing requirements and is inconsistent with the way CAISO has applied requirements on planned-to-forced outages in the past.

NCPA understands that CAISO has now withdrawn the contested language and proposed new language, upon which NCPA will comment at the appropriate time.

In conclusion, NCPA appreciates CAISO’s efforts to improve and simplify the RA program (and RAAIM in particular); however, at this time NCPA believes the risk of such changes will likely be greater than the benefits of such changes, and therefore NCPA support retention of the existing availability and performance rules.