

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Develop an
Electricity Integrated Resource Planning
Framework and to Coordinate and Refine
Long-Term Procurement Planning
Requirements.

Rulemaking 16-02-007
(Filed February 11, 2016)

**REPLY COMMENTS OF POWEREX CORP.
ON ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE'S RULING
ON POTENTIAL RELIABILITY ISSUES**

POWEREX CORP.
Mike Benn, J.D., B.A.Sc.
Energy Trade Policy Analyst
Suite 1300 – 666 Burrard Street
Vancouver, BC V6C 2X8
Telephone: (604) 891-6074
Email: mike.benn@powerex.com

Vidhya Prabhakaran
Tahiya Sultan
Davis Wright Tremaine LLP
505 Montgomery Street, Suite 800
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: vidhyaprabhakaran@dwt.com
Email: tahiyaasultan@dwt.com

Attorneys for Powerex Corp.

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Pursuant to the June 20, 2019, Assigned Commissioner and Administrative Law Judge’s Ruling Initiating Procurement Track and Seeking Comment on Potential Reliability Issues¹ (“Ruling”), Powerex Corp. (“Powerex”) offers these reply comments.

I. PROJECTIONS OF RELIABILITY CHALLENGES MAY BE UNDERSTATED

Intervenors largely agree with California Public Utilities Commission (“Commission”) staff’s conclusions that the CAISO grid faces potential reliability challenges by 2021.² While intervenors generally support the Commission’s proposal to require California load-serving entities (“LSE”) to collectively procure 2,000 MW of additional System Resource Adequacy (“RA”) capacity by 2021,³ the anticipated “gap” is likely considerably greater than 2,000 MW, as the potential supply stack may be overstated.

¹ On July 25, 2019, Administrative Law Judge Fitch issued a ruling granting a request for extension of time for reply comments on potential reliability issues until August 12, 2019. Therefore, these comments are timely.

² See, e.g., Comments of California Energy Storage Alliance at 12; Comments of California Community Choice Association at Appendix A; Comments of PG&E at 9; Comments of Independent Energy Producers Association at 4; Comments of Cogeneration Association of California at 8; Comments of The Solar Energy Industries Association at 3; Comments of Natural Resources Defense Council at 5.

³ See, e.g., Comments of California Independent System Operator at 19; Comments of Public Advocates Office at 3, 9.

To illustrate, in June 2019, solar qualified to sell approximately 7,100 MW of System RA capacity, significantly exceeding the actual peak supply of about 6,000 MW.⁴ Likewise in August 2018, 1,700 MW of demand response was counted towards meeting System Resource Adequacy needs, but only about 950 MW of this demand response was actually available for dispatch.⁵ Additionally, multiple intervenors identified other factors indicating that future supply may fall short of what the Commission staff's analysis projects.⁶ Accordingly, the Commission should adopt its proposed near-term procurement requirement, and stand prepared to supplement this requirement in light of evolving information regarding future supply.

II. THE COMMISSION SHOULD NOT VOLUMETRICALLY DISCOUNT ALL IMPORT SUPPLY CONTRACTS, BUT SHOULD INSTEAD STRENGTHEN RULES TO ENSURE IMPORT CONTRACTS ACTUALLY CONTRIBUTE TO MEETING CALIFORNIA'S RELIABILITY CHALLENGES

Intervenor comments reflect broad recognition of the beneficial role that import supply can continue to play in meeting California's reliability challenges.⁷ Additional contracting with surplus supply located in external regions—particularly supply from non-emitting hydro resources in the Northwest—is likely to be among the best options to meet California's reliability

⁴ Department of Market Monitoring, *System market power trends and issues at 8* available at <http://www.aiso.com/Documents/DMMPresentation-System-LevelMarketPowerWorkingGroup-Jul15-2019.pdf>.

⁵ *Ibid.* at 9-10.

⁶ *See, e.g.*, Comments of Calpine at 3 (identifying additional unit retirements not reflected in Commission staff's analysis) and Comments of Southern California Edison at 27-28 (identifying additional factors that could reduce supply).

⁷ *See, e.g.*, Comments of California Independent System Operator at 9 (“Imports are backed by existing resources throughout the west and securing much-needed energy under resource adequacy contracts ensures there is a commensurate must-offer obligation in the CAISO market”); Comments of PG&E at 9 (“The use of out-of-state resources and existing transmission infrastructure may be a cost-effective way for California to meet its policy goals without adversely impacting reliability across the region”); Comments of Alliance for Retail Energy Markets at 7-8 (“[T]he Ruling’s focus with respect to imported RA seems to be predicated on a notion that use of out-of-state resources should be avoided, which is counterproductive to the well-established need for the western electricity markets to become better integrated in order to more efficiently and effectively deal with managing increasing amounts of intermittent resources”).

challenges in the near term, at reasonable cost, and in a manner consistent with California's strong environmental policy objectives.⁸

This will only be possible, however, if there are appropriate assurances that import contracts represent genuine physical supply that can be relied upon when needed. In this regard, several intervenors urged the Commission to take immediate and decisive action to strengthen the requirements for import supply contracts and increase the supply committed to serving California loads.⁹ The Commission should *not* apply an across-the-board "volumetric discount" to all import supply contracts because such an approach would ignore the important distinction between import supply contracts backed by genuine physical generation capacity and transmission service and those import supply contracts that represent "paper capacity." Instead, the Commission should clarify and strengthen the requirements imposed on import supply contracts to ensure *all* such contracts represent real physical capacity deliverable to California load.¹⁰

Certain intervenors raise concerns that import capacity contracts are currently permitted to satisfy their must-offer obligation by submitting bids at or near the CAISO offer price cap of \$1,000/MWh.¹¹ However, the incentives to submit offers at such high prices are largely limited

⁸ See, e.g., Comments of Bonneville Power Administration at 3 ("[E]lectricity generation outside of California, particularly from hydro, remains a major source of low carbon, flexible capacity that California needs to reliably and affordably integrate increasing amounts of preferred variable zero-carbon resources within the state").

⁹ See, e.g., Comments of California Independent System Operator at 17; Comments of Department of Market Monitoring for the California Independent System Operator at 12; Comments of Bonneville Power Administration at 9.

¹⁰ See, e.g., Comments of California Independent System Operator at 9; Comments of Department of Market Monitoring for the California Independent System Operator at 5-6; Comments of Bonneville Power Administration at 3.

¹¹ See, e.g., Comments of Department of Market Monitoring of the California Independent System Operator at 6-7; Comments of the California Independent System Operator at 9; Comments of SDG&E at 8; Comments of Public Advocates Office at 5.

to entities that sell “paper capacity,” and hence this activity should be largely eliminated by the Commission’s action to strengthen rules related to import supply contracts.

More specifically, entities pursuing “paper capacity” opportunities have an incentive to submit very high offer prices to *ensure* they are not dispatched for energy in the CAISO markets, since they do not actually have the capability to deliver. While a strategy of deliberately seeking to avoid a CAISO energy dispatch may be profitable for a seller of “paper capacity,” it would be a losing proposition for entities that have incurred the incremental and/or opportunity costs of securing genuine physical generation and the transmission service needed to deliver energy to the CAISO grid. For suppliers of bona fide forward capacity committed to California, offers at very high prices would cause them to miss economic opportunities to sell energy to the CAISO, effectively stranding their physical resources and transmission investments. For this reason, the Commission’s proposed actions, in conjunction with steps taken by the CAISO, to eliminate the sale of “paper capacity” in the Resource Adequacy program can be expected to largely eliminate the incentive for certain entities to persistently submit offers at or near the CAISO price cap in the CAISO’s day-ahead market.

III. COMMISSION ACTION TO ENSURE RELIABILITY ALSO ADDRESSES INTERVENOR CONCERNS RELATED TO COMPETITIVE SUPPLY CONDITIONS

Some intervenors also express concern that tighter supply conditions on the CAISO grid may lead to more frequent conditions with elevated supply offer prices being dispatched, resulting in hours with relatively high system-wide market prices, potentially causing financial harm to California LSEs that have not hedged the energy costs of meeting their customers’ needs.¹² While the prices in, and performance of, the CAISO-operated markets fall under the

¹² See, e.g., Comments of Department of Market Monitoring of the California Independent System Operator at 3-5; Comments of Public Advocates Office at 5.

jurisdiction of the Federal Energy Regulatory Commission, actions taken by the Commission to strengthen the state's Resource Adequacy program can also help alleviate these concerns.

More specifically, steps by the Commission to increase the forward commitment of genuine physical generation—whether within the CAISO grid or external to it—should increase the amount of competitive physical supply participating in the CAISO day-ahead and real-time markets. Increased supply should work to reduce both the frequency and the extent of scarcity conditions which in turn should reduce the frequency of conditions that have led to concerns by some intervenors of potential system-level market power.¹³ That is, by undertaking the measures already proposed in the Ruling, the Commission enables an increase not only in the capacity available to ensure reliability, but also in the competitive forces in the CAISO market in a greater number of hours.

Respectfully submitted,

/s/

Vidhya Prabhakaran
Tahiya Sultan
Davis Wright Tremaine LLP
505 Montgomery Street, Suite 800
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: vidhyaprabhakaran@dwt.com
Email: tahiyasultan@dwt.com

Attorneys for Powerex Corp.

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¹³ See, e.g., Comments of Department of Market Monitoring of the California Independent System Operator at 2-3.