

Resource Adequacy Advisory Group Comments on the Proposed Resource Adequacy Program for the Western Extended Day-Ahead Market

The Resource Adequacy Advisory Group (RAAG) is an informal and temporary group of state representatives from the Body of State Regulators (BOSR) and Committee of State Representatives (COSR) formed to dive deeper into the resource adequacy (RA) proposal being developed by a subset of Extended-Day Ahead Market (EDAM) participants. RAAG members are Chair Letha Tawney (Oregon Public Utility Commission), Commissioner Darcie Houck (California Public Utilities Commission), Commissioner Dayn Hardie (Idaho Public Utilities Commission), Commissioner Pat O'Connell (New Mexico Public Regulation Commission), and Commissioner Milt Doumit (Washington Utilities and Transportation Commission), with RAAG meetings open to all state representatives and attended regularly by participants from a wide range of Western states.

RAAG thanks the EDAM RA Sponsor and Work Groups (collectively, EDAM RA Group) for their efforts through the summer and fall workshop series. We appreciate that the program development process is taking early input from the broader Work Group, states, and other stakeholders to demonstrate openness to a variety of ideas before a proposal has solidified. Consideration of a broad range of viewpoints during the development of a program that may have substantial implications for retail rates is essential, even as it is challenging to comment on a proposal that has not solidified. RAAG looks forward to the Initial Draft Proposal, which will advance states' understanding of the program's overall direction and may allow RAAG as well as other state organizations to provide more global comments.

At this stage, RAAG's comments focus on three issues that remained open through the workshop series: the compliance structure, the state role in governance, and reporting and data transparency. These issues interact with each other and with other elements of program design. For that reason, RAAG recommends that the Initial Draft Proposal include at least a conceptual proposal on each of these issues to which states and stakeholders may react.

RAAG recognizes that there are many valid ways to design a regional RA program. RAAG offers these comments in the context of the Sponsor Group's intent to design a program that integrates with the unique features of EDAM, in particular its resource sufficiency evaluation (RSE) and the developing Regional Organization for Western Energy (ROWE) governance process, and that recognizes the existing California RA program with which entities under the jurisdiction of the California Public Utilities Commission (CA PUC) in the CAISO balancing area authority must comply.

Our comments also recognize that the EDAM RA program is at an early, conceptual stage, with future opportunities to phase in additional elements and adapt to lessons from initial phases. RAAG also recognizes similarities between this program's backbone structure and WRAP's design, as well as material differences under development. Experimenting with different approaches to methodology, visibility, governance, and incentive structures has potential to benefit the region, especially as reliability risk continues to evolve. We would like to see all parties remain open to continued learning and evolution to explore if a new EDAM RA program

would help address regional resource adequacy concerns in the West for non-CAISO balancing area EDAM participants.

1. Compliance structure

To date, the Work Group has proposed a data integrity charge but has not developed its proposal for other financial consequences beyond listing considerations for and against. Open questions include the level of any consequences, how they would escalate for repeat failures, and whether they would differ between resource and transmission shortfalls. RAAG understands that there are sound reasons for and against including significant financial consequences at all, as well as how to design them.

There are differences within the RAAG, as in the EDAM RA Group, around when to implement financial consequences and how strict they should be. RAAG offers these comments with the recognition that the EDAM RA program can start by building an understanding of how design choices impact differently situated entities and trust in the governance model, and can evolve toward financial penalties if needed to incentivize consistent maintenance of RA positions. In other words, financial penalties do not need to be included at the outset, but can be considered as the program settles and evolves. We note that California's RA program currently includes penalties and there should be continued coordination with CA to ensure program alignment.

In general, RAAG questions whether significant financial consequences for forward showing deficiencies are the only way to derive value from a RA program, particularly in the early stages. Significant financial penalties may add to already increased affordability pressure for utilities that are experiencing load growth or closing short positions in difficult procurement environments, and the resulting payments that generally go back to long entities do not necessarily drive the region toward better reliability or greater balance in reliability positions. Most of the members of the RAAG regulate primarily vertically integrated utilities, whose existing regulatory incentives are generally sufficient to drive procurement. The RAAG encourages the Work Group to consider how any incentives will encourage procurement by, rather than further set back, participants with short positions. It is also important to ensure utilities and customers are not at risk of double payments through both the RA program and the RSE. Particularly during a transition, there may be other ways in the EDAM context to incentivize appropriate signals, while allowing entities to complete planned procurement.

A transition also allows regulators to gain confidence that the regional program is designed appropriately to benefit from diversity and drive reliability at lower cost than planning individually. One alternative to financial penalties, at least in the early stages, is to rely on visibility and communication with regulators (and the governing bodies for public power entities) that hold responsibility for RA. The program should proactively provide regulators with information on the forward showing performance of the entities they regulate. Regulators can then determine consequences for deficiencies, or strategies for faster procurement, in the early years, much as the CA PUC has historically done for the CAISO balancing area's deregulated entities.

Another transitional strategy is to test whether the "carrot" of access to pooling in the day-ahead RSE is a sufficient incentive on its own, without added charges for deficiency in the monthly showing. Access to pooling lowers the risk of RSE failure penalties, which can be significant if failure is persistent. If this incentive is insufficient, financial consequences can be added later, possibly with a date certain for considering their addition.

RAAG understands the value of calibrating with other regional programs' consequence structures to encourage an even flow of RA supply. However, the Western Resource Adequacy Program (WRAP) penalties are currently not aligned with CA PUC penalties, and WRAP penalties are discounted during a transition period through 2029 and, assuming FERC approval, will be subject to deferral upon a showing of commercially reasonable efforts and ultimately meeting the showing. CA PUC's RA program also has exceptions for market power, insufficient supply, and commercial reasonability. In short, a transitional period can be used to build toward or to modify away from strict penalties in a resource adequacy program if other incentives work as intended.

2. State role in governance

RAAG discussions about the EDAM RA program have surfaced a strong need for state regulators to retain control over resource adequacy standards and procurement. A regional program could be (or could begin as) purely informational, using a common methodology and planning standard to evaluate forward positions, but offering only positive incentives for passing the compliance submittal (i.e., pooled RSE) and leaving consequences for deficiency in the hands of regulators and governing bodies. With appropriate data transparency and reporting, this approach would achieve the value proposition of visibility into consistently measured reliability positions without eroding state authority. It could give states time to understand how the regional methodology affects individual participant positions, to evaluate whether additional programmatic procurement incentives are needed, and to ascertain whether a financially binding forward showing would drive greater diversity value.

A regional RA program that imposes significant financial consequences for failure to meet a single regional PRM raises the stakes. Regulators therefore need significant influence over a program whose costs could be driven by, for example, a planning reserve margin (PRM) methodology that leads to volatile results for existing and contracted resources or financial charges that duplicate the penalties already imposed for failing the RSE. The states' need for a firm, definitive role in program governance stems from both the program's costs and their direct impact on reliability and retail rates, particularly at a time of intense affordability pressure, and the potential for the program to incentivize procurement of more resources than the state's evaluation of reliability would require and of some resource types more than others, which may be counter to state policies and preferences. These costs include program overhead, the cost of the incremental procurement the program requires on the timeframe the program requires, and any charges for failing to complete that procurement. State regulators' concern about resource adequacy, both here in the West and nationwide, comes from this direct impact on retail rates.

The appropriate mechanism for states to retain an appropriate level of control over RA continues to be a subject of discussion within the RAAG and participating states. One

perspective is that states should retain authority to set the PRM for their jurisdictional entities; the program would parallel AB 825 and explicitly defer, for participants regulated by state commissions, to each state's existing RA program, PRM, or procurement directives in integrated resource reports (IRPs). There are examples of flexibility in PRMs (e.g., in MISO and for certain load responsible authorities in California), but RAAG recognizes that there are unanswered questions about how a regional program would be designed to assure the overall reliability of the footprint with independent PRMs.

Another perspective is to find programmatic mechanisms to retain state control, such as the approach described above of deferring significant financial penalties (at least until the program is well established). Other programmatic options that provide flexibility, such as loose exit provisions, may provide more comfort to states with their regulated utilities participating in the program but erode the equitable accountability the program seeks.

Beyond programmatic options, governance options for backstop protection in other markets have included sharing Federal Power Act (FPA) Section 205 rights with states for resource adequacy in programs that do not include state authority to individually adopt a different PRM for their regulated entity. Other options that fall short of sharing of FPA Section 205 filing rights could include granting states robust backstop rights within program governance. For example, a majority decision from the states' committee could object to the Board's Section 205 filings on a defined set of material subjects, and the Board could override that objection only by a supermajority vote with written findings that address state concerns.

Backstop mechanisms (and the effectiveness of the liaison role discussed below) depend on the states' capacity to utilize those mechanisms. The Western Interstate Energy Board (WIEB) already provides independent staff support to the states, and an important decision for the program to make from the outset is to fund that support consistently at a level sufficient to review proposed filings, business practice manual (BPM) changes, and program data on the program's timeline, as well as to make any appropriate FPA filings to FERC (whether under Section 205 or 206).

In addition to backstop rights, state perspectives need to integrate with the proposed technical review committee (TRC), made up of EDAM RA participants. RAAG appreciates the Work Group's proposal that the TRC include a BOSR liaison. Several details need refinement as proposal development continues, such as: whether independent staff, a BOSR commissioner, PUC staff, or some combination fill the liaison role; whether the role is a single named member or multiple potential attendees; and what contributions to discussion are expected. States also need to discuss whether and how the Body of State Regulators (BOSR) itself will interface with the RA program, or whether BOSR will form a subcommittee for that purpose to manage resources and attention.

A related near-term issue is how and when stakeholders outside the TRC have the opportunity to comment on developing BPMs with significant policy consequences. BPMs have carried significant policy weight under the WRAP governance structure. Even if the balance here is toward more program details in the tariff, stakeholders will need confidence that work groups including other sectors will be formed for significant BPMs in this program. The TRC or program

operator should provide BOSR quarterly reports on proposed BPM changes that involve material policy judgments, significant implementation discretion, or potential effects on state policy, resource adequacy obligations, retail regulation, or cost and risk allocation. BOSR should be able to use the public policy committee to recommend that a BPM be referred to a work group.

3. Reporting and data transparency

Understanding program performance, and which aspects of it matter most, is critical both to governance and to the discussion of financial consequences.

The program proposes to make available to states with participating entities the information it provides to the CA PUC under AB 825. This is an important and welcome baseline. RAAG recommends spending more time up front on how the program and other entities, such as the CAISO's Department of Market Monitoring (DMM), will synthesize data and make it publicly available. Some categories of information useful to states may also require the program to adjust its analysis from the outset. This is additional work. It should be designed and priced in from the start, because public information, together with information provided to states under appropriate confidentiality protections, will deliver the visibility into regional reliability that is central to the program's value proposition. It will also inform program refinement over time.

RAAG offers an opening proposal in Appendix A. It lists the types of information that would be useful, with audience and format, at five reporting points: an annual or seasonal public report; quarterly after-the-fact public reports for each month; a public report following each LOLE study; a confidential report to regulators and consumer advocates following each LOLE study; and ongoing and ad hoc reporting. Other forms of confidential reporting to regulators may also be needed, depending on the program design and the state role.

Thank you for the opportunity to share our initial perspectives. RAAG looks forward to reviewing the Initial Draft Proposal and providing more comprehensive feedback at that time.

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Appendix A: Proposed Reporting Structure

Annual (or seasonal, twice yearly) public report on program performance

- Contains: aggregated footprint-wide data from the previous year, derived from monthly showings for each season, compared with historical trends; aggregated season-ahead information, derived from participant year-ahead advisory showings
- Informs: how well the program is working and where incremental refinement is needed over time, in part by showing the divergence between annual and monthly showings; broad understanding of regional needs

Quarterly after-the-fact public report

- Contains: aggregate load-resource balance, with capacity and transmission showings reported separately; aggregate capacity showings by asset class; BA-level RA deficiency and sufficiency for capacity and transmission, with constrained and secondary/non-constrained transmission broken out, compared with RSE performance (already public after the fact)
- Informs: incremental refinement of the program over time, including whether the program motivates procurement of the right resources

Public report following each LOLE study

- Contains: regional characterization of stressed periods, including timing (month and time of day), frequency, size (MW and MWh), a month/hour heat map, and the conditions that cause them, such as hydro and weather; inputs to the regional PRM calculation, such as resource class ELCCs, capacity needed to meet the LOLE requirement in MW of perfect capacity, and regional 1-in-2 peak load
- Informs: public understanding of how regional reliability risks are evolving; trends in perfect capacity needs; incremental value of new resources to regional reliability

Confidential report to regulators and consumer advocates following each LOLE study

- Contains: participant-level data on participant loads and resources during regionally stressed periods; participant-level analysis of periods of overlapping risk between the region and individual participants
- Informs: how to balance regional and local needs in resource procurement decisions; whether the PRM and QC methodology works well for individual participants

Ongoing and ad hoc

- Public database of physical resources claimed in whole or in part for the program, and their QC, similar to CA PUC reports
- Regulator review of unexpected results or showings, in closed session with regulators if necessary