

**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)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON TRACK 3B.2 PROPOSALS**

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I. Introduction

Pursuant to the December 11, 2020 *Assigned Commissioner’s Amended Track 3.B and Track 4 Scoping Memo and Ruling* (Amended Scoping Memo), the California Independent System Operator Corporation (CAISO) hereby provides its comments on the final Track 3B.2 proposals submitted on February 26, 2021. Track 3B.2 of this proceeding considers potential broader structural changes to the Commission’s resource adequacy program.

The CAISO submitted proposals to adopt an unforced capacity (UCAP) methodology and institute multi-year system resource adequacy requirements.¹ The California Community Choice Association (CalCCA) and Southern California Edison Company (SCE) submitted a joint proposal to reform the resource adequacy program to ensure procurement accounts for both the net peak load need and the energy need.² Pacific Gas & Electric Company (PG&E) and San Diego Gas & Electric Company (SDG&E) submitted similar proposals to adopt a “Slice-of-Day” construct to establish resource adequacy requirements for specific periods of day. Energy Division staff proposed a Standard Fixed-Price Forward Contract Approach. For the reasons discussed below, the CAISO recommends the Commission focus future efforts on developing the SCE/CalCCA Joint Proposal as it provides greater reliability benefits with fewer implementation challenges compared to the “Slice-of-Day” proposals or the Energy Division staff approach. The

¹ CAISO Final Track 3B.2 Proposals, <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M369/K252/369252010.PDF>.

² SCE and CalCCA’s Second Revised Track 3B.2 Proposal (SCE/CalCCA Joint Proposal), Attachment A, p. 5.

CAISO also notes the SCE/CalCCA Joint Proposal can be integrated with the CAISO's UCAP proposal, which could be implemented together in 2023.

II. The Commission Should Focus Future Resource Adequacy Program Reform Efforts on Developing the SCE/CalCCA Second Revised Track 3B.2 Proposal.

Energy Division (ED) proposed a Standard Fixed-Price Forward Contract Approach, and PG&E proposed a "Slice-of-Day" resource adequacy program. In its final track 3B.2 proposal, SDG&E offered a variation of PG&E's proposal.

Both the Energy Division and PG&E proposals would lead to complex must offer obligations that may diminish the CAISO markets' ability to optimally schedule and dispatch resources. For example, the "Slice-of-Day" must offer obligations would only require resources to bid into the CAISO markets during the slice for which they were contracted. This is far less than the general 24 hours per day, seven days per week (24x7) must offer obligation for the vast majority of the resource adequacy fleet to enable the market to optimize the portfolio. This would decrease the efficiency of the market to dispatch the least cost resources, rather than the resources load serving entities happen to procure for a particular time slice.

Additionally, if load serving entities contract for fast-start or storage resources to specifically meet the evening peak slice of day and these resources are only obligated to bid during those hours, then the CAISO will not be able to access these resources in other time slices because there would be no bid insertion requirement. Consequently, the CAISO optimization would not be able to use these fast, flexible resources even if they were more economical, effective, or otherwise optimal. For a long-start unit in the same situation, there would not be enough time to start-up and ramp-up such resources to meet demand in real-time. In both of these examples the lack of a must offer obligation outside of each resource's procured time slice means that CAISO will not be able to utilize the resource if the resource does not bid. This could ironically lead to a deficiency in energy when there is sufficient capacity.

The CAISO is also concerned the "Slice-of-Day" proposals would create untenable contracting burdens for resources owners and load serving entities. In the CAISO's Resource Adequacy Enhancements initiative, the CAISO has received feedback challenging proposals that would change net qualifying capacity values on an annual basis. The "Slice-of-Day" proposals would require resources to establish capacity value for up to six time periods each day, month, or

season. This could significantly increase contracting burdens and increase the difficulty in securing long-term resource adequacy contracts. Additionally, in Phase 1 of the CAISO's Resource Adequacy Enhancement initiative, the CAISO is moving to a paradigm where substitute capacity is required at the time of the planned outage submission during non-summer months otherwise the outage is automatically denied, and is exploring subsequent enhancements to create a pool of resources to be available to provide substitute capacity in Phase 2. The "Slice-of-Day" proposal could make securing substitute capacity for planned outages even more difficult because generators would have to find substitute capacity for each "Slice-of-Day" they were shown for.

The CAISO considered the impacts of these proposals and determined that 1) implementing any of these options would require the CAISO to significantly revise its tariff and systems, (2) these options would increase the complexity of must offer obligations, reducing the efficiency of the CAISO's market optimization, and would increase contracting complexity. The CAISO cannot implement these proposals in the foreseeable future.

The CAISO's tariff rules and internal systems are designed and enforced using a single capacity value for each resource. The CAISO is capable of handling some differences in local regulatory authority (LRA) resource adequacy programs. However, the Energy Division staff and PG&E proposals would create a resource adequacy program that differs significantly from the resource adequacy programs of other LRAs. The CAISO cannot maintain two vastly different resource adequacy systems for Commission and non-Commission LRAs. Switching to an energy based or multiple capacity value construct would require (1) the CAISO to overhaul its tariff and (2) other LRAs in the CAISO footprint to change their resource adequacy programs to adopt a program similar to the Energy Division staff or PG&E proposal. This would be a significant undertaking. The best case timeline for a CAISO stakeholder process of this magnitude is typically 12-18 months, plus an additional 6-12 months to implement associated changes. The CAISO would need to develop, among other rules, new rules regarding resource adequacy showings, validation, offer obligations, and backstop rules. However, the CAISO reasonably expects the tariff and system changes needed to accommodate these proposals would be more challenging, and would require more time and effort, than the best case scenario.

The SCE/CalCCA Joint Proposal is more adaptable to the existing CAISO tariff and current systems, and thus the CAISO can more readily implement it. The SCE/CalCCA Joint

Proposal is primarily based on a capacity need. Although the CAISO may need to modify its tariff to implement a net-load or post-solar peak resource adequacy requirement with other LRAs, such modifications are more manageable than the modifications required to implement the other alternatives proposed in this proceeding. For example, moving to a net load peak resource adequacy requirement might require minor modifications to CPM cost allocations. However, the CAISO systems should be able to validate capacity showings and apply must offer obligations. Additionally, the CalCCA/SCE proposal can readily accommodate many of the core elements of the CAISO's UCAP proposal in the Resource Adequacy Enhancements initiative, including UCAP counting for resource adequacy capacity.

The SCE/CalCCA Joint Proposal retains the fundamental resource adequacy capacity construct while also beginning to account for the energy limitations and needs of the system. It would ensure load serving entities procure sufficient resources to provide enough excess energy to charge storage resources to meet peak needs. In addition, the SCE/CalCCA Joint Proposal would not erode the CAISO's current must offer obligations for procured resources, thereby allowing CAISO markets to continue to dispatch resources economically. The SCE/CalCCA Joint Proposal's net qualifying energy concept also more explicitly accounts for resource energy contributions and limitations compared to the current MCC category construct.

Accordingly, the CAISO recommends the Commission direct future efforts toward developing a program that more closely resembles the SCE/CalCCA Joint Proposal and incorporates key elements of the CAISO's UCAP proposal.

III. Conclusion

The CAISO appreciates the opportunity to submit comments on the Track 3B.2 proposals.

Respectfully submitted,

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