

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

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Reforms and Refinements, and
Establish Forward Resource Adequacy
Procurement Obligations.

Rulemaking 21-10-002
(October 7, 2021)

**COMMENTS ON ORDER INSTITUTING RULEMAKING OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

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I. Introduction

The California Independent System Operator Corporation (CAISO) submits comments on the California Public Utilities Commission's (Commission) October 7, 2021 *Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations* (OIR) continuing the Commission's oversight of the Resource Adequacy program.

II. Discussion

The OIR includes a preliminary Scoping Memo dividing the proceeding into an Implementation Track and a Reform Track. The CAISO supports the issues identified in the Reform Track and provides specific comments on the Implementation Track and schedule below. The Commission should prioritize Central Procurement Entity (CPE) structure-related implementation issues, including considering availability-limited resources in local area procurement. The Commission should provide affirmative guidance on CPE implementation details by February 2022 to ensure the CAISO has sufficient time to implement the CPE structure.

A. The CAISO Supports the Issues Presented in the Preliminary Scoping Memo for the Implementation Track.

1. Local Capacity Requirement Adoption

The Commission should include adoption of local capacity requirements for the 2023-2025 and the 2024-2026 resource adequacy compliance years in the Implementation Track. The preliminary Scoping Memo also includes “consideration of how the [CAISO’s local capacity] study’s process, parameters, methods, assumptions, and timeline might be improved.”¹ This Commission should limit this review to considering how to best coordinate Commission and CAISO processes. Any specific concerns regarding the CAISO’s local capacity requirement studies should be raised in the CAISO’s local capacity technical study stakeholder process. Failure to raise issues in the CAISO’s stakeholder process will cause difficulties in addressing concerns in a timely manner.

2. Flexible Capacity Requirement Adoption

The Commission should include the adoption of flexible capacity requirements for the 2023 and 2024 resource adequacy compliance years in the Implementation Track. Similar to the local capacity study process, the parties should raise any concerns regarding the flexible study process issues during the CAISO’s stakeholder process.

3. Central Procurement Entity (CPE) Structure

The Implementation Track should consider “potential modifications to the CPE structure and process, including implementation details of the ‘shown’ resource component of the hybrid framework and changes to the CPE timeline.”² The Commission must address critical implementation details as 2023 CPE resource adequacy compliance implementation is already tenuous. The CAISO needs clear direction regarding how the CPE will show resources and whether load serving entities (LSEs) will “self show” resources to the CAISO as local resource adequacy so it can file any necessary tariff changes at the Federal Energy Regulatory Commission (FERC) and deploy the accompanying business and software enhancements. Depending on the extent of the changes (*i.e.*, settlements changes), the CAISO will need to evaluate whether implementation for the 2023 resource adequacy compliance year is feasible.

¹ Order Instituting Rulemaking, p. 4.

² Order Instituting Rulemaking, p. 5.

The Commission must provide affirmative guidance on implementation details by February 2022 so the CAISO has sufficient time to make the necessary FERC filings, software enhancements, and determination for a 2023 go-live. The CAISO is committed to working with the Commission, Energy Division staff, CPEs, and stakeholders to successfully implement the CPE structure.

4. Planning Reserve Margin (PRM)

The Commission should include discussion of the planning reserve margin (PRM) in the Implementation track and ensure this topic is coordinated with the Reform Track. The CAISO supports using a loss of load expectation (LOLE) analysis and a one-in-ten-year standard to determine the appropriate PRM. The Commission has not updated the PRM since the resource adequacy program began in 2006.³ The *Final Root Cause Analysis* concluded that

[i]n transitioning to a reliable, clean, and affordable resource mix, resource planning targets have not kept pace to ensure sufficient resources... can be relied upon to meet demand in the early evening hours. This made balancing demand and supply more challenging during the extreme heat wave.⁴

The CAISO has submitted testimony and comments demonstrating the current 15 percent PRM at gross peak is both insufficient to cover gross peak load and the needs of the grid after sunset.⁵ The Commission should ensure the LOLE analysis inputs, assumptions, and methodology coordinate and align with the integrated resource planning (IRP) process LOLE analyses.

5. Qualifying Capacity (QC) Counting Conventions

The Commission should include discussion of QC counting conventions in the Implementation Track. However, the Commission should modify the scope to include investor-owned utility demand response programs, in addition to third-party demand response programs, to reflect a contribution to reliability-based QC methodology. The Commission should also include in scope the California Energy Commission's (CEC's) demand response working group

³ Staff of the California Public Utilities Commission, *2006 Resource Adequacy Report*, March 16, 2007, p. 5.

⁴ California Independent System Operator, California Public Utilities Commission, California Energy Commission, *Final Root Cause Analysis: Mid-August 2020 Extreme Heat Wave* (FRCA), January 13, 2021, p. 5.

⁵ See for example: CAISO, *Opening Testimony of the California Independent System Operator Corporation*, Rulemaking (R.)20-11-003, September 1, 2021; CAISO, *Opening Testimony of the California Independent System Operator Corporation*, R.20-11-003, January 11, 2021; CAISO, *Comments of the California Independent System Operator Corporation on Order Instituting Rulemaking Emergency Reliability*, R.20-11-003, November 30, 2020.

process, which is focused on establishing QC methodology principles for demand response. Otherwise, the CAISO agrees with the issues in the preliminary Scoping Memo. The Commission should coordinate this topic with the Reform Track.

6. Effective Load Carrying Capability (ELCC)

The Commission should include discussion of modifications to the current ELCC values and, at minimum, adopting a process to update to these values biennially to reflect appropriately any saturation effects. The Commission should also consider adopting ELCC values for storage and demand response resources, which are use- and availability-limited resources subject to similar and interactive saturation effects. The Commission should coordinate this topic with the Reform Track and the IRP proceeding.

7. Refinements to the Resource Adequacy Program

The Commission should consider two additional topics: (1) ensuring appropriate procurement of availability-limited resources in local capacity area and sub-areas; and (2) conducting a post-implementation assessment of the system resource adequacy penalty structure.

Since 2018, the CAISO has provided testimony, proposals, studies, and detailed explanations showing how availability-limited resource characteristics can lead to unintended procurement consequences and how the CPEs and/or LSEs can avoid them.⁶ Although the Commission adopted the availability-limited resource definition in D.19-06-026 and agreed “it is important to consider availability limited resources, particularly when constructing new resources,” it is critical the Commission now develop specific rules to ensure the CPEs and/or LSEs procure sufficient resource adequacy resources in each local capacity area and sub-area accounting for availability-limited resource characteristics.⁷ Addressing this issue now is critical

⁶ See for example: CAISO, *California Independent System Operator Corporation Track 2 Testimony, Corrected Chapter 6: Availability Limited Resources*; Rulemaking (R).17-09-020, July 10, 2018; CAISO, “*Local capacity assessments with availability-limited resources*,” CPUC RA Track 3 Working Group presentation, March 13, 2019; CAISO, *Initial Track 3.B Proposal and Comments on Additional Process of the California Independent System Operator Corporation*, R.19-11-009, August 7, 2020, Proposal 4: Availability Limited Resource Procurement; CAISO, *Track 3B.1 Proposals of the California Independent System Operator Corporation*, R.19-11-009, January 28, 2021, Proposal 3: Availability Limited Resource Procurement; and specific battery storage analyses the 2021 and 2022 Local Capacity Technical Studies filed into the resource adequacy proceeding. The CAISO is currently conducting the same analysis for the forthcoming 2023 Local Capacity Technical Study.

⁷ Decision (D.) 19-06-026, *Decision Adopting Local Capacity Obligations for 2020-2022, Adopting Flexible Capacity Obligations for 2020, and Refining the Resource Adequacy Program*, July 5, 2019, p. 53.

because procurement of availability-limited resources (e.g., short-duration batteries) is increasing significantly.

The Commission should include a post-implementation assessment of the system resource adequacy penalty structure adopted in Decision (D.)21-06-029. The CAISO appreciates the Commission's actions to provide a stronger incentive for LSEs to procure needed capacity. In the post-implementation assessment, the Commission should evaluate whether LSEs have sufficient incentive to procure capacity during the tightest system conditions, e.g., during the system peak month of September when capacity is expensive. The Commission should also reconsider Energy Division's original proposal to increase the penalty prices because the current prices do not incent LSEs to contract with more expensive gas units the CAISO has had to procure under its reliability must run backstop procurement. The Commission should also develop a plan to ensure deficiencies are cured and capacity is shown to the CAISO as resource adequacy capacity. The CAISO appreciates the Commission's efforts under the Emergency Reliability rulemaking to increase supply-side procurement.⁸ To the degree such steps are needed to cure LSE deficiencies, the Commission and CAISO should work collaboratively to ensure such procurement is incorporated into the market and shown as resource adequacy capacity. Otherwise, such capacity is not subject to a must offer obligation or the Resource Adequacy Availability Incentive Mechanism.

B. Implementation Track Schedule.

The preliminary Scoping Memo provides for April 2022 and May 2022 draft and final report publication dates, respectively, for the local and flexible capacity studies. The CAISO's schedule for completing both studies depends upon the timing of other inputs such as the CEC's adoption of the Integrated Energy Policy Report (IEPR) demand forecast. Barring any delays, the CAISO aims to develop draft studies by April 2022 and final studies by May 2022.

The Commission should also provide affirmative guidance on CPE implementation details by February 2022 to ensure the CAISO has sufficient time to implement the CPE structure.

⁸ California Public Utilities Commission, *Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Reliable Electric Service in California in the Event of an Extreme Weather Event in 2021* (Emergency Reliability), R. 20-11-003.

III. Conclusion

The CAISO appreciates the opportunity to provide comments on the OIR.

Respectfully submitted

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