

**Comments of the Staff of the California Public Utilities Commission on the Regional Resource  
Adequacy (RA) Straw Proposal**

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Summary of Proposal:

There are three main aspects of the proposal that we summarize here and discuss in greater detail below:

- First, load forecasting: the CAISO proposes that it would determine the coincident system load forecast for an expanded Balancing Authority Area (BAA) based on load forecast data created and submitted by LSEs. It is unclear what the role of the CEC's IEPR forecast would be in the CAISO-developed regional forecast.
- Second, Planning Reserve Margin (PRM): the CAISO proposes to establish a minimum regional PRM, but does not specify a percentage or outline its methodology other than stating some general principles. As a result, the PRM could be in conflict with the PRM adopted by the CPUC and other local regulatory authorities (LRAs), which could impact procurement and lead to backstop procurement if CAISO's PRM is higher than the PRM adopted by the CPUC or other LRAs for their jurisdictional LSEs. Backstop procurement leads to real ratepayer costs, and is, on average, twice as expensive per kw/month as the average RA contract authorized by the CPUC.
- Third, RA counting methodology: the CAISO proposes to implement uniform resource counting criteria by resource type, but has not provided any details (e.g, what methodology would CAISO use for wind, solar and demand response resources and what impact would these methodologies have on overall costs of the regional initiative).

CAISO has indicated that it intends to publish at least two more iterations of the proposal, with a revised straw proposal expected by April 4. The proposal is scheduled for Board of Governor approval in June 2016.

## Timing of the Initiative

Based on comments made at the workshop, it is CPUC Staff's understanding that CAISO intends to develop and file tariff amendments with FERC as early as summer 2016. This could mean that the current California RA structure is modified by such tariff amendments before it is certain whether PacifiCorp is joining to form an expanded ISO. It is premature to file tariff amendments before it is clear that PacifiCorp will join the CAISO, or that the California legislature will amend the PU Code and approve the merger. If the CAISO remains primarily a California specific entity, then the Resource Adequacy provisions that relate primarily to the CPUC, and to smaller "Local Regulatory Agencies," need not be amended to be generic, nor do existing RA requirements need to change.

## Governance of a Regional ISO:

A decision on governance must be made before developing Regional RA requirements, as illustrated by the fact that the following questions cannot be answered without understanding the potential governance structure of a regional entity:

- Who approves the tariff amendments before they are filed at FERC?
- When is the appropriate time to file tariff amendments?

At a minimum, the governance of the new regional entity will need to recognize the concerns of other states that would be a part of a regional ISO. An efficient way to establish a regional RA framework is to link it with a governance proposal package as there will likely be significant implications from any regional RA proposal upon existing states' jurisdiction over resource planning. Therefore, decisions about Regional RA cannot be finalized in isolation from decisions about governance structure.

The existing CAISO board could potentially approve a Regional RA structure or "framework" before there is a clear proposal for regional governance, but it would be inappropriate for the CAISO Board to authorize tariff amendments related to regional RA. Final decisions regarding potential tariff amendments will need input from all states that would be impacted. Typically, the CAISO board votes to adopt a proposal from CAISO management before tariff language is developed. For Regional RA, CPUC Staff believe that all stakeholders and a new governing body should review actual tariff language.

## Scope of the Initiative and Straw Proposal

CPUC Staff have identified the following issues that should be included in the scope of this initiative going forward:

- Which NERC standards of reliability will be used for system planning (category B or C contingencies) for areas currently outside CAISO?
- Where are the "local areas" expected to be in PacifiCorp territory? Has this been studied? When will CAISO study and identify which areas that are likely to be designated

transmission constrained local areas outside of California? Will this be available to stakeholders before the June Board meeting?

- How will local RA requirements for new local areas be developed? Would CAISO run a parallel LCR study process, or include these new areas in the scope of the existing LCR study?
- Will CAISO study a system-wide (regional) flexible RA need? Will this replace the California based calculation of need based on the largest 3 hour ramp in each month? Will this study be done in FRAC-MOO 2? Will this be available to stakeholders before the June Board meeting?
  - Given the potentially decreased coincidence of system peaks the overall flex RA requirement might be much lower across a combined balancing area.

### Connection to Regionalization Benefits Study under SB 350

In a separate stakeholder process, CAISO has hired a consulting team to assess the potential benefits (and costs) associated with Regionalization, as required by California law (SB 350). CPUC Staff believe that it will be difficult to accurately assess the benefits of regionalization without first having completed much of the analysis this initiative plans to address. For example, without knowing the peak coincidence factor, the potential benefits from reduced capacity needs in California cannot be understood. Moreover, without understanding the locations and quantities of transmission constraints that would become “internal” to the expanded ISO, it is impossible to know how regionalization will allow for greater contracting across existing state borders. Therefore, the benefits study, if it is to be useful and/or relied upon, should use information and analysis resulting from this initiative. However, the timing of these two initiatives does not appear to consider this inter-dependency.

### **Comments relevant to CAISO Comments Template**

(# 2) Maximum Import Capability Methodology: Using historical data may not be appropriate, because import and export ratios should be expected to change under a regional BAA.

(#3) Internal Constraints: It is very important that these be mapped out and pinpointed soon, preferably before the June Board meeting, because these are critical to understanding the potential for additional energy importing/ exporting out of the existing CAISO system.

(#4) Allocation of RA Requirements to LRAs/LSEs: Slide 14 & 19 of the CAISO presentation state that CAISO will allocate RA requirements to CPUC-jurisdictional LSEs, which raises concerns for CPUC Staff, given that CPUC and CEC currently provide such allocations to CPUC jurisdictional LSEs. What would occur if our calculations did not match and CAISO’s allocations differed from the IEPR (which is adopted by the CEC after a transparent public process)?

(#6) Reliability Assessment and Backstop Procurement: The sections of the tariff dealing with System Capacity Procurement Mechanism (backstop) would need to be revisited to ensure that costs of backstop based on an LSE’s deficiency in what will become “sub-areas” are fairly allocated. Costs would have to be allocated to each LSE under this new proposed system.

(#6) Resource counting methodology: CPUC Staff continue to oppose proposals for CAISO to develop a counting methodology for RA resources procured by CPUC-jurisdictional LSEs. In the absence of a centralized capacity market (which the issue paper stated is not under consideration) it should not matter if different states' RA programs count their capacity slightly differently. If each state has sufficient resources based on its own assessment and based on benchmarks created by a regional ISO, there should be no reliability concerns. Slide 35 cites stakeholder comments regarding a "difficulty transacting for capacity across states." CPUC Staff believe that, without a regional capacity market, this is would not be a relevant concern, because imported capacity would be subject to the resource counting rules of the purchasing-state (as is currently done).

Furthermore, CAISO's proposal could conflict with State law, which requires the CPUC to use an Effective Load Carrying Capability (ELCC) method for renewable resource capacity counting.