

Subject: Regional Resource Adequacy Initiative

Submitted by	Company	Date Submitted
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The CPUC Staff appreciate the opportunity to comment on the Regional Resource Adequacy Third Revised Straw Proposal and the October 6, 2016 workshop.

Load Forecast Submittal Review Process

The CPUC Staff appreciate CAISO’s willingness to provide a flexible forecast framework where LRAs or forecasting agencies can submit individual LSE’s coincident peak forecasts to the CAISO. The proposal states, “This flexible load forecasting proposal allows LRAs that oversee individual LSE load forecasting to retain their established processes and input into the load forecast development and coincidence factor methodologies their jurisdictional LSEs will utilize.”¹ The proposal then details the specific elements that the LRA or forecasting agency would be required to submit to the CAISO, which the CAISO would then to conduct a load forecast review. The proposal states that “because the ISO is according significant flexibility to individual LSEs and LRAs and/or forecasting agencies, the ISO must be able to review any submittals for accuracy and ensure that reasonable forecasting methodologies have been used.”²

The CPUC Staff has two main concerns with the CAISO’s proposed load forecast process. First, the process is duplicative of the CPUC’s current role, in that the CPUC already has a process to check the accuracy of the load forecast submitted by CPUC-jurisdictional LSEs. In the CAISO construct, it would then be overseeing the CPUC’s (and other LRAs) accuracy check. This is duplicative and undermines our current load forecasting process.

In addition, as noted by Mike Jaske of the CEC during the stakeholder meeting, the data submission the CAISO is proposing could be more costly for LSEs. The CAISO has not attempted to quantify these potential cost increases, nor has it sufficiently justified why the additional detailed load forecast submissions are necessary. The CAISO should consider whether alternative, less costly processes would allow the CAISO to verify load forecasts.

¹ Regional Resource Adequacy Third Revised Straw Proposal, pp. 12-13.

² Regional Resource Adequacy Third Revised Straw Proposal, p. 15.

The proposed forecast review process³ does not include any coordination/interaction with the Western States Committee. The CPUC is concerned that the ISO's proposal does not assign an oversight role to the Western States Committee. In general, the Western States Committee's role, as proposed, is a passive role,⁴ whereas the ISO's role would be the governing role in determining whether an LRA's load forecast methodology needs adjustments.

In summary, the CPUC is concerned that the CAISO is proposing significant changes to the load forecast process, which will be more costly for LSEs, without any suggestion that the CPUC and CEC, PacifiCorp, or any other entity that could join the CAISO have been conducting inaccurate or deficient load forecasts. It is therefore unclear why an extensive review process would be the first step, rather than the CAISO conducting a review process ad hoc and determining if additional data submissions or processes are necessary in an expanded CAISO and allowing a Western States Committee to oversee the changes. The CPUC Staff recommend that the CAISO adopt a more measured approach to changing the load forecast requirements rather than imposing more costly requirements *ex ante*.

Cost Allocation Mechanism (CAM) RA Resources Interaction with the Load Forecast

CPUC Decision D.06-07-029 adopted a process known as the Cost Allocation Mechanism (CAM), which allows the Commission to direct the IOUs to procure new generation within the IOU service territory, with the costs and benefits associated with development of these new resources to be allocated to all benefiting customers. Benefiting customers include: bundled-utility customers, Direct Access customers and Community Choice Aggregator customers. The LSEs serving these customers are allocated the rights to a portion of the capacity in each service territory, which is then applied towards meeting the LSE's RA requirement. The LSEs receiving CAM capacity pay only for the net cost of the capacity (the total cost of the power purchase contract price minus the energy revenues associated with dispatch of the contract).

In order to equitably allocate the capacity benefits of these resources, CPUC Staff administer a CAM allocation methodology⁵. This methodology uses load ratios from the most current CEC load forecast to calculate each LSE's capacity benefits. System capacity benefits are allocated to LSEs annually based on the LSEs monthly load ratios. In order to ensure that costs do not get stranded with LSEs due to load migration, the system benefits get trued-up quarterly based on revised load ratios. Local and flexible capacity benefits are allocated to LSEs through an adjustment to the LSE's Local and Flexible RA requirement. Both the Local and Flexible RA requirements are trued-up biannually to account for load migration.

³ Regional Resource Adequacy Third Revised Straw Proposal, pp. 15-16

⁴ The proposal states that the Western States Committee's role would be to provide a forum where LRAs could come together to discuss different forecasting approaches. The Western States Committee would not oversee the process but would provide guidance and transparency regarding load forecasting. Regional Resource Adequacy Third revised Straw Proposal, p. 12.

⁵ This methodology has evolved over the years. The most recent changes to the methodology were made in D.14-06-050 (OP 15 and 16) <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M097/K619/97619935.PDF>. The methodology is also detailed in the CPUC's [2017 RA guide](#) (section 8, 9, and 11 at pg.20)

For the 2017 RA compliance year, between 5,870 - 6,246 MW of CAM and CAM-like resources will be used to meet annual and monthly CPUC jurisdictional RA requirements. The tables below present a breakdown of CAM resources that will be used to meet RA system and local requirements in 2017.

Table 1 illustrates that between 13% - 20% of monthly system RA requirements are met with resources through CAM mechanism. Table 2 shows that 34% of LA Basin local RA requirements, 40% of Big Creek Ventura local RA requirements, 11% of San Diego local RA requirements, 23% of Bay area local RA requirements, and 7% of Other PG&E area local RA requirements are met with resources through the CAM mechanism.

Table 1			
Monthly Min and Max	Resources Allocated through CAM	System RAR	Percentage of RA Requirement
Min (MW)	5,870.02	30,172.02	13%
Max (MW)	6,246.30	47,085.78	20%

Table 2		
Local Area Name	CPUC Jurisdictional Local RA Requirement	Percentage of Local RA being met with CAM resources
LA Basin	6,589.33	34%
Big-Creek Ventura	1,839.61	40%
San Diego	3,570.00	11%
Bay Area	4,876.13	23%
Other PG&E Area	4,765.66	7%

Load Forecast Updates for Retail Choice Load Migration

In the section entitled “Load forecast updates for retail choice migration,” there is no mention of how the CAISO would complete a review of the intra-year load migration load forecast adjustments. There is also no mention of the LRA’s role in the intra-year adjustment process.

The CPUC has three main concerns. First, the LRA’s involvement is necessary given the relationship between monthly load updates and CAM resource credits used for RA requirement obligations. Second, the proposal lacks detail regarding the CAISO’s oversight in reviewing the intra-year load forecast adjustments. The CAISO does not specify how it will check for plausibility. Finally, the proposal lacks specific details regarding a true up process for flexible and local RA requirements that would account for shifting load and the associated local and flexible capacity costs of that load.

Planning Reserve Margin

CAISO has proposed a system wide planning reserve margin (PRM). However, this is not the only viable option. For example, MISO has implemented a system where states are given deference in setting the PRM. While MISO conducts a system wide study, states are free to set an individual PRM. If a state chooses to set an individual PRM, LSEs are required to procure to the state PRM, whether it is higher or lower than the MISO-generated value.⁶ The CPUC Staff encourage CAISO to consider a system such as this that defers to the states by allowing them to evaluate their own needs in establishing the PRM, and to allow the Western States Committee to determine whether to set a uniform system-wide PRM.

RA Showings and Validations

The CAISO’s proposal states that “Resource Adequacy showings and the validation process allow the ISO to identify any potential deficiencies for individual LSEs on a system-wide basis.”⁷ The CAISO proposes to use a PRM set by the CAISO, although with the input from the Western States Committee, and uniform counting rules that the CAISO will set for capacity values for resources to validate LSE’s RA requirement submissions.

The CPUC has two main concerns with the RA showing and validation section of the proposal. First, the proposed process would vastly diverge from the existing CPUC validation process and may result in conflicting determinations between the CPUC’s and CAISO’s assessment of whether an LSE has met its CPUC-allocated RA requirements, particularly if the process does not account for CAM credits. The divergence may warrant phasing out the CPUC’s resource adequacy program. However, this is inconsistent with Public Utilities Code Section 380. It is unclear to CPUC Staff, however, why the CPUC should administer parallel but separate processes, particularly if the CAISO will make determinations of whether deficiencies arise that require invoking the CAISO’s backstop procurement authority and issuing a CPM designation for reliability.

Second, the process makes no mention of the role the LRA would have in determining the RA requirements associated with the validation process. The concern here is that the CPUC needs to be included in the allocation and validation of CAM capacity benefit allocations. These allocations are a large part of the overall system, local and flexible requirements (as reflected in the tables above). Further specification regarding to the incorporation of these resources into the regional RA validation process is needed.

Counting Rules for Resource Capacity Value

When CPUC authorizes procurement, there is an expectation that the resources procured will have a predictable capacity value. Historically, the CPUC has set the counting conventions for non-dispatchable and partially dispatchable resources procured by CPUC jurisdictional LSEs

⁶ See https://www.misoenergy.org/_layouts/MISO/ECM/Redirect.aspx?ID=126456

⁷ Page 25

according to methodologies adopted in RA proceedings and these values have not been adjusted by CAISO except in cases where energy was not fully deliverable. These include varying counting conventions for solar, wind, biomass, hydro and CHP generators. Given that these conventions have not led to any reliability problems, CAISO should continue to defer to States in this manner by allowing LRAs to develop counting rules that will apply to LSE's RA submissions within their jurisdictions if they so wish.

Additionally, the CPUC has spent significant time and resources developing Effective Load Carrying Capacity (ELCC) modeling which would determine capacity values for solar and wind resources. The CPUC is likely to adopt ELCC for 2018, at which time it will replace the historic exceedance methodology for evaluating solar and wind resources' net qualifying capacity value for meeting system or local RA. The CAISO, however, intends to develop its own separate ELCC for use in the Regional RA tariff, without accounting for, or deferring to, the CPUC's determination of ELCC values for resources. Switching from the CPUC's ELCC value, back to an exceedance methodology under a regional CAISO, and then switching again to a completely different ELCC system once developed by the CAISO would be confusing, inconsistent, and may increase procurement costs for no clear benefit. Wind and solar contracts generally last 10-20 years. It is important that the value of these contracts does not change significantly from year to year as counting rules change. CPUC Staff therefore encourage CAISO to revise this proposal to remove the potential for counting systems to change three times over the course of only a few years and to instead to defer to the LRA's method for counting renewable capacity, unless and until the CAISO has demonstrated that deference will actually be likely to yield reliability problems.

California currently utilizes about 1,500 MW of demand response to satisfy Local Capacity Requirements. The CAISO currently defers to CPUC counting conventions for such resources, by using August capacity values year round when counting local resources. The seasonal testing proposed in the Straw Proposal would constitute a major departure from current practice, without a clear justification for why the current convention would not be adequate under a regional framework. Rather than change these rules at this point, the CAISO should continue to defer to the CPUC and other LRAs' counting rules and to allow a Western States Committee to oversee stakeholder initiatives to address changes, if needed, to transition to using seasonal testing values for demand response.

Scope of Primary Authority for a Western States Committee

The CPUC Staff is not taking a position on the CAISO's Second Revised Proposal on Principles for Governance of a Regional ISO, including whether establishment of a Western States Committee will be sufficient and effective to ensure the preservation of state authority over matters regulated by the states, including procurement policy and resource planning. But assuming *arguendo* that the governance proposal continues to include a Western States Committee as it evolves, the CPUC Staff observe that the CAISO's initial proposal to grant "primary authority" to a Western States Committee over "certain aspects of the resource adequacy and TAC cost allocation issues," would only grant the Western States Committee primary authority over "determining the [Planning Reserve Margin] PRM." The CPUC Staff suggest that rather than allocating only one small aspect of Resource Adequacy (setting the

PRM) to the Western States Committee, as an initial starting point, the Western States Committee should have “primary authority” over all issues currently included in the ISO’s tariff Section 40, Resource Adequacy Demonstration for all SCs in the CAISO balancing authority areas. The Western States Committee should also have primary authority over any policy decisions to enlarge the scope of the ISO’s capacity procurement mechanism (backstop procurement authority) beyond the existing situations specified in Tariff Section 43.2, which establishes the situations in which the CAISO may exercise backstop procurement authority.