

**CPUC Staff Reply to CAISO Response on Business Practice Manual (BPM) Change PRR-854**

Submitted by	Company	Date Submitted
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The CAISO’s response to the appeals of its proposed Business Practice Manual (BPM) change PRR 854 does not justify making a substantive change in the requirements for Demand Response (DR) resources to qualify as local resource adequacy(RA) resources through the BPM. Notwithstanding the CAISO’s attempt to characterize this substantive requirement as a mere “study parameter” or “assumption,” the modification is nothing short of a new, *de facto* Resource Adequacy (RA) requirement that should be determined in collaboration with the CPUC. Although the CAISO asserts in its reply that the BPM change only “clarifies an existing CAISO planning practice,” this is a mischaracterization of the documented process for the relevant CAISO study (the Local Capacity Technical Study), which has not transparently included nor documented this “study parameter.” In short, the proposed BPM change does not represent a clarification. This is clear because the proposed BPM change would both have a material effect on rates and would contradict CAISO’s own tariff definition of Local RA resources (Tariff Appendix A). The appropriate process for making a change of this nature is through a tariff amendment filed with, and approved by, FERC, not a change to the BPM. CAISO should also focus in the near term on the potential to pre-dispatch Demand Response resources in local areas when needed.

The CPUC Staff is ready and wishes to work with the CAISO to set local RA requirements for DR through an open and transparent process as provided for in the CA Public Utilities Code and CAISO’s tariff. Changing local RA requirements for DR requires a demonstrated need for a 20 minute response time in CAISO’s local capacity studies, which should be considered on the record in the CPUC’s RA proceeding. Pursuant to Public Utilities Code section 380, the CPUC should determine if the demonstrated need justifies adding such a requirement onto DR resources and if the potential reliability benefits outweigh the potential material increase in costs to ratepayers from such a rule change. Accordingly, the CPUC requests that the CAISO Board grant the appeals, deny the proposed BPM change, and order the CAISO to pursue such changes through a transparent stakeholder process and in collaboration with the CPUC’s RA proceeding.

**A. Instituting this change through the BPM process circumvents FERC approved roles for LRA's and the CAISO to set RA requirements, and does not follow CAISO's tariff requirements to collaborate with the CPUC.**

The FERC Order approving the MRTU, as quoted in CAISO's reply brief, states that "the CAISO will perform an annual technical study to determine the minimum amount of capacity . . . within each local capacity area. *The CAISO will then work with the LRAs to set local capacity requirements.*" This requisite collaboration simply did not occur on the issue of whether a 20 minute response time should be added as a threshold criteria for DR to qualify as local capacity. The CPUC did not contest the quantitative results of the 2016 local RA requirements because, at the time, it was unaware that the CAISO would attempt to discount thousands of MWs of Demand Response from what it calculated as "eligible." The assumptions CAISO uses for counting local RA is a fundamental part of "setting local capacity requirements." The quantity is clearly within the CAISO's realm, but the setting of requirements is within the CPUC's jurisdiction, as provided for in the California Public Utilities Code Section 380.

The CAISO is responsible, under its tariff, for performing this annual study openly and transparently and for collaborating with the CPUC. The Tariff specifies that the CAISO "*shall collaborate with the CPUC . . . to ensure that the Local Capacity Technical study is performed [in accordance with the tariff].*" As part of this collaboration, the CAISO submits the annual local study results in the CPUC's RA proceeding, so that the CPUC can set local RA requirements. The CAISO did not collaborate with the CPUC on the 20 minute-response requirement "assumption" for a local capacity technical study. It was never raised in that study process or in documentation of that study submitted by CAISO in the RA proceeding. CPUC Staff acknowledge that CAISO supported another party's proposal to change local RA requirements in 2015 to include a 20-minute response time, but the CPUC rejected it as untimely and due to lack of support on the record. The CPUC decided that it was inappropriate to make a change that would affect existing contracts for RA year 2016. By going ahead and making this change in its BPM after the CPUC rejected immediate adoption of such a requirement as inappropriate, CAISO is *creating* an RA requirement. At a minimum, CAISO is not collaborating with the CPUC. From a more serious perspective, CAISO is usurping the CPUC's role in setting RA requirements.

**B. This change represents a *de facto* RA requirement that can have a material effect on rates.**

The proposed BPM change does not represent a simple study assumption and is thus inappropriate to institute through the BPM process. Rather, it should be subject to a tariff filing at FERC following a CAISO stakeholder process. FERC conditioned approval of CAISO's BPM process on the finding that BPM changes do not "have a material impact on rates." Therefore, CAISO may not unilaterally impose, through "implementation" of the Local Capacity Technical study, changes that could have a material impact on rates.

The proposed change would have material impacts on rates because it will affect the ability of already contracted-for DR resources to count as local capacity in RA compliance showings by load serving entities for the current and immediate RA compliance years. Contrary to the CAISO's assertion that the BPM change "does not impose new resource requirements, nor does it require the CPUC to change its resource adequacy rules," the change does amount to a new *de facto* requirement imposed on Demand Response resources to qualify as local capacity resources. For many existing DR resources, meeting a 20-minute response time is impracticable because the contracts between DR providers and customers are already in place. Following the proposed change, however, DR would have to *immediately* meet the CAISO's 20-minute dispatch requirement or it will not be counted for compliance purposes as satisfying local RA requirements for the current and next RA compliance year.

Indeed, CAISO's refusal to count over 1000 MW of demand response as a local resource for 2016, due to this "study assumption" could have led the CAISO to procure expensive capacity through the CPM, because it identified a "shortfall" that the CPUC did not. If such a situation repeated itself with a different outcome, there could be a material impact on rates. Even if backstop is not used by CAISO, CAISO could induce LSEs to enter into expensive capacity contracts to fill the "shortfall" identified due to changes to the Local Capacity study "assumptions." In fact, in December 2015, CAISO actually pursued both of these avenues, issuing a deficiency notice, and but for the efforts of Southern California Edison (SCE) and CPUC Staff, which identified that this alleged deficiency was caused by the new 20 minute DR "assumption," there would have been material ratepayer costs. The CPUC did not (and could not) identify any deficiency in this instance because the DR resources at issue are counted as local resources under the CPUC's resource adequacy rules.

Section 380 of the California Public Utilities Code provides that procurement requirements must be adopted by the CPUC, in consultation with the CAISO. Therefore, both agencies need to work collaboratively to adopt rules through a transparent process. The vigor with which parties have protested this proposed BPM change should be a clear enough signal that this issue should not be imposed through a change to a footnote in CAISO's BPM, but rather should be the subject of the CPUC's RA proceeding and a CAISO stakeholder process, which could result in changed resource adequacy rules and amendments to CAISO's tariff.

**C. This change contradicts CAISO's own tariff definition of Local RA and therefore a tariff amendment would clearly be needed to accomplish the new requirement CAISO proposes to set via the BPM.**

Appendix A of CAISO's tariff defines "Local Capacity Area Resources" as the following: "[RA] Capacity from a Generating Unit listed in the technical study or Participating Load or Proxy Demand Resource or Reliability Demand Response Resource that is located within a Local

Capacity Area capable of contributing toward the amount of capacity required in a particular Local Capacity Area.” Therefore, the tariff focuses on the location of PDR and RDRR resources as determinative as to whether they count for Local RA. If CAISO finds that further definition of “capable of contributing” is needed, then this definition clearly needs to be amended or expanded upon in the tariff, not in the BPM. It is inappropriate to attempt to change tariff definitions through the BPM.

**D. Discussing future operational needs in planning studies is irrelevant to setting RA requirements for the present compliance year.**

Raising the potential future need for a 20 minute response time for local resources in long-term planning processes, such as the TPP and the LTPP, is very different than creating a requirement that affects existing RA procurement and compliance. Therefore, it is irrelevant that the *future* need was discussed in these CAISO or CPUC processes. What *is* relevant is that a critical assumption affecting current RA procurement was not discussed or considered by CAISO and stakeholders in the appropriate near-term evaluation process, the local capacity technical study.

**E. To avoid discrimination against DR resources relative to fossil generation, the CAISO would have to study and develop parameters for potential pre-dispatch of DR.**

The current CPUC RA proceeding has brought to light an opaque operational process in which the CAISO, under certain conditions, may decide to “pre-dispatch” conventional generators whose response times are greater than 20 minutes, to prepare for *potential* contingency events. CPUC Staff asserts that DR could also be pre-dispatched if the CAISO would determine appropriate requirements. Failing to pre-dispatch DR providers discriminates against DR resources and may lead to unnecessary dispatch of conventional gas-fired generators –which has negative GHG and pollution consequences and should be avoided. Absent CAISO guidance on pre-dispatch needs or how many pre-dispatch occurrences are likely per year, however, DR providers are unable to modify their contractual obligations. Rather than approve the proposed BPM Change, the CAISO should “conduc[t] an assessment to develop the required characteristics for slow response local capacity resources” as it has committed to, so that DR can be pre-dispatched to meet local needs.

**Conclusion**

CPUC Staff respectfully requests that the CAISO Board reject BPM PRR 854.