

## CPUC Staff Comments on Regional Resource Adequacy Revised Straw Proposal

Submitted by	Company	Date Submitted
Meredith Younghein <a href="mailto:mly@cpuc.ca.gov">mly@cpuc.ca.gov</a> , (415) 703-5953	Energy Division, CPUC	5/3/16
Michele Kito		
Candace Morey	Legal Division	

### **Background**

The revised straw proposal states the following as the purpose of this initiative: “[t]he ISO intends to only change those tariff provisions that require modification to make RA work in the context of an expanded BAA that spans multiple states.” In the revised Straw Proposal the ISO presents additional details on the elements of the Regional RA framework that was initially proposed in the February 24, 2016 Straw Proposal.

The proposal includes additional details on the CAISOs proposed changes to the following elements: (1) Load forecasting, (2) Maximum Import Capability (“MIC”), (3) Internal RA transfer capability constraints, (4) Allocating RA Requirements to LRAs/LSEs, (5) Updating ISO tariff language to be more generic, (6) Reliability assessment; including the Planning Reserve Margin (“PRM”) methodology, and “uniform counting methodologies”, and incorporating the reliability assessment into the ISO’s Backstop Procurement Authority provisions. It also makes a new proposal for “Zonal” RA requirements.

CPUC Staff submits the following comments on the revised CAISO revised straw proposal:

### **Fundamental changes to the relationship and roles of the CPUC vis-à-vis CAISO in Setting RA program rules and requirements**

California Public Utilities Code §380 states that “[t]he commission, in consultation with the Independent System Operator, shall establish resource adequacy requirements for all load-serving entities.” The code further provides that the Commission must determine reasonable costs associated with maintaining reliability. We do this in part by considering the results of CAISO’s local and flexible capacity needs studies and adopting requirements each year. We adopt system RA requirements based on load forecasts developed by the LSEs and the Energy Commission (CEC), and reviewed by the CAISO. CAISO’s tariff is consistent on these points and requires that the CAISO collaborate with the CPUC and assist us with setting requirements. It does not provide that the CPUC should defer to the CAISO in planning for the resource adequacy of its jurisdictional Load Serving Entities (LSEs).

## Timing of Regional RA Tariff Filing and relationship to Governance proposal

CPUC Staff support the CAISO's decision to delay the finalization of this initiative and to wait until the end of August to take a proposal to the Board of Governors, and in fact believe even more time may be warranted. Further, despite CAISO's assurances that any tariff amendments would not become effective until after another balancing area has joined the CAISO, we still find this procedurally confusing regarding what the board would adopt and what would be filed at FERC and when tariff amendments would be filed.

CPUC Staff also continue to oppose CAISO Board adoption of the Regional RA proposal in advance of a governance proposal. This is consistent with the positions of most other stakeholders who commented on this issue and therefore we are surprised that CAISO hasn't taken these concerns into account. Decisions about Regional RA cannot be fully considered, much less finalized, in isolation from discussions and decisions about fundamental aspects of a regional ISO governance structure. The existing CAISO board should not approve a Regional RA structure or "framework," including actual tariff amendments to implement regional RA, before a clear proposal for regional governance has been fleshed out. Such a proposal may include provisions for delegating certain authority relating to regional RA provisions to the states or a committee of states .

Final decisions regarding potential tariff amendments will need input from all states that would be impacted and should reflect state concerns about the potential scope and direction of resource adequacy tariffs covered in the CAISO's current proposal, including for example the reliability assessment, counting methods, and scope of backstop authority. Further, the CAISO board typically 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. The straw proposal does not state whether we would be given this opportunity.

## Connection to Regionalization Benefits Study under SB 350

CPUC Staff continue to believe that it will be difficult to accurately assess the benefits of regionalization (through the SB 350 benefits study) 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.

## Load Forecasting

The CAISO's proposal for load forecasting methods is confusing. On the one hand, CAISO says that the CEC would continue to determine the load forecast for LSEs in the current CAISO BAA, on the other hand, it states that going forward each LSE would submit its load forecast directly to the CAISO. This is inconsistent with current California practice in which load forecasts are submitted by the CEC to the CAISO. While it may be consistent with how LSEs overseen by other LRAs or states currently operate, it conflicts with

California's current RA program and therefore we do not support this proposal. CPUC Staff request that CAISO provide the same deference to California that it provides to other LRAs and LSEs that may potentially join the CAISO and defer to our existing practices and rules for submitting and validating load forecasts

### Zonal RA and Transfer Capability Constraints

Although the details of zonal requirements have not been fleshed out, CPUC Staff have significant concerns over how zones would be implemented and whether such requirements are necessary for reliability. In particular, we oppose CAISO's proposal, which implies that the CPUC would no longer set the RA restrictions around North-South of Path 26. In Decision D.07-06-029, the CPUC adopted the Path 26 counting constraint as part of the resource adequacy (RA) program requirements applicable to our jurisdictional LSEs. The Path 26 counting constraint accounts for the limited transmission transfer capability across Path 26 and relies on information regarding existing contracts for its implementation. This is a purely intra-California issue, and so there is no reason why the CPUC's jurisdiction over this allocation should be removed due to an expanded balancing authority.

In general, zonal RA requirements will add unnecessary complexity to an already complex RA program structure. A simpler alternative should be sought. For example, the same reliability benefits could be achieved for less cost if the CAISO were to evaluate portfolios when they are submitted in the year ahead, and work with the LRA or LSEs if it forecasts that the deliverability of resources within an LSEs portfolio is limited due to zonal constraints. Rather than institute an additional new Resource Adequacy product – the CAISO should conduct an assessment and work with the parties, LRAs, and LSEs to determine if further procurement is necessary and prudent to address zonal constraints. For California, this would mean that once annual filings are made for the RA year, CAISO can review the procurement of CPUC jurisdictional LSEs and inform the CPUC if they find that procurement would lead to potential problems due to the north-south path of 26 constraint. Then CPUC and CAISO can work together to determine if and how LSEs would need to alter their procurement. This is consistent with current practice.

### Making tariff language more generic

CAISO has attempted to assure stakeholders that tariff amendments to generalize language around the RA program, and remove references to the CPUC and California entities, will not become "effective" until another balancing area joins the CAISO. But, it maintains that tariff amendments would be filed with FERC *before* any other BAAs join. CPUC Staff thinks this is unnecessary. There can be sufficient certainty and agreement about rules without a FERC section 205 filing. It is more important that new rules be approved by the new governing body before they are filed at FERC.

Along the same lines, the CPUC Staff requests the CAISO's commitment that amended tariff language that is "generic" (*i.e.*, without references to the CPUC) will not become effective *unless* and *until* another BAA joins. The aspects of the CAISO tariff that specify how the CPUC and CAISO collaborate, and what roles belong to which agency, are

very important and help clarify the wide range of critical issues on which our two agencies work together as mandated under Cal. Pub. Utils. Code Section 380 .

### Consistent Counting Methods within Reliability Assessment

The current proposals for the “reliability assessment” and establishing RA capacity counting methodologies shifts the division of roles between the CAISO and LRA, specifically, the CPUC, in setting RA values through the qualifying capacity methodology. These roles are specified in §380 of the CA Public Utilities Code, and are currently given deference in CAISO’s tariff, which imposes capacity counting methodologies through “default provisions” only when the LRA fails to adopt its own. Furthermore, the proposal is unnecessary: there is no practical reason why the CAISO cannot conduct a “reliability assessment” that defers to the existing counting methods established and adopted by CPUC decisions, and in some cases mandated by California law. Because the current proposal is inconsistent with the statutory requirements, the CPUC Staff cannot support it.

Also, the CAISO’s proposal continues to ignore the fact that California law mandates the use of ELCC for determining wind and solar RA values. The proposal states that CAISO will *consider* the exceedance method vs. ELCC. This could put CAISO’s counting methods in direct conflict with the ELCC method, which will certainly be adopted by the time CAISO would expand to a regional BAA (2018 or later).

### Proposed Modifications to CAISO Backstop Procurement Authority

The CAISO proposes to maintain its current scope of backstop authority and to revise the relevant Capacity Procurement Mechanism (CPM) tariff provisions to expressly acknowledge that it may utilize the proposed reliability assessment to identify shortages that may be cured through its exercise of backstop authority.

The CPUC Staff requests that the CAISO consider and engage in stakeholder discussions on what is an appropriate scope of backstop authority in Resource Adequacy tariff provisions for an expanded regional ISO. Specifically, the CPUC Staff requests that CAISO consider utilizing the reliability assessments based on year-ahead (annual) resource adequacy showings for advisory purposes only to inform LRAs and LSEs of how they are faring relative to the CAISO’s load and needs forecasting and resource counting methodologies. Backstop procurement authority should be limited to curing cumulative or collective deficiencies in month-ahead resource adequacy compliance filings submitted by LSEs in an expanded CAISO, with appropriate cost-allocation to the LSEs that contributed to the deficiency/need for backstop procurement. The CPUC Staff also suggests that the CAISO proposal should eliminate the “risk of retirement” CPM provision for a regional, multi-state ISO.

The CAISO’s backstop procurement authority is uniquely complex and expansive compared to other FERC-regulated RTOs and ISOs, in part because it has been expanded over time as the CAISO and CPUC have instituted new Resource Adequacy requirements (*e.g.*, local and flexible RA) that are not required in other regions, and because the CAISO has successfully petitioned FERC for expanded authority to cover other situations (*e.g.*, to compensate resources “at risk of retirement” that the CAISO determines are needed for

reliability by the end of the calendar year following the current RA compliance year, which the CPUC opposed). The resulting matrix of potential backstop situations covers shortages in RA plans for all types of RA and the three Flexible Capacity Categories, for individual LSE deficiencies or to cure collective, aggregate, or cumulative deficiencies for local and flexible RA, on an annual and/or month-ahead time frame. This is in addition to the risk-of-retirement and backstop authority for addressing significant events or operational needs to exceptionally dispatch non-RA resources. Retaining all of the ISO's existing backstop procurement authority may not be appropriate in a multi-state, regional ISO, nor would it appear necessary to maintain reliability.

The CAISO's regional resource adequacy construct must provide CAISO with the out-of-market backstop procurement authority that is truly needed to maintain reliable day-to-day grid operations. As FERC recently acknowledged, the CPM "is not utilized to clear load and supply through a market process; rather it is a backstop to respond to unexpected reliability needs." Shortfalls in annual resource adequacy plans do not yield unexpected reliability needs in the day-ahead or day-of markets. And, as the draft proposal recognizes, the CAISO has never needed to use the backstop authority to cure deficiencies in any annual showings or based on a risk of retirement of a specific resource.

On the other hand, Resource Adequacy tariff provisions should defer to state and LRA resource planning decisions. As the ISO expands to a broader regional footprint, it will be critical to ensure the ISO does not exercise backstop procurement to displace resource planning selection, procurement, and counting decisions, for example by utilizing a reliability assessment that ignores resources the LRA does count for resource adequacy compliance or by adjusting the LSE's demand forecast to reduce the impacts of load-modifying resources relative to the values accorded by the LRA or LSE.

The CAISO's resource adequacy tariff provisions should also enable LSEs to optimize and efficiently manage their own procurement activities in a manner that satisfies all procurement rules and regulations imposed by their LRA while satisfying the CAISOs Resource Adequacy requirements (to the extent the CAISO validly imposes requirements that differ from an LRA's adopted Resource Adequacy requirements). The CPUC staff agrees with CAISO that the regional RA framework should provide flexibility for LRAs and LSEs to maintain their current capacity procurement programs, and that the CAISO can "help facilitate these programs by clearly communicating to state regulatory commissions, LRA, and LSEs the ISO's forecasted reliability needs to inform capacity procurement decisions." Revised Straw Proposal at 3. But having procurement authority to backstop on a one or two year-ahead basis (for risk-of-retirement designations) may not be necessary for reliability and in fact could undermine this objective.

The current CPM tariff has been workable while the CAISO has operated essentially as a single-state ISO, because the CPUC and CAISO collaboratively set RA requirements and monitor LSE's compliance filings, and the CPUC-regulated IOUs have informed the CPUC when the CAISO has notified IOUs or potential need for backstop procurement resulting from conflicts between the CAISO and CPUC's resource counting methodologies for storage and demand response resource adequacy resources. The CAISO and CPUC have generally been able to work together, with CPUC-regulated IOUs, to avoid the need for backstop

procurement in such situations. It is not clear if such informal collaboration and communication will remain viable or would be appropriate in a multi-state CAISO. Thus, the CAISO should utilize the regionalization opportunity to make the CPM tariff simpler and more transparent and make clear that the CAISO will not utilize its backstop procurement authority to supplant the states or LRA's resource planning and procurement activities. The CPUC Staff accordingly requests that the CAISO expressly address and vet these issues in the development of its final Regional RA proposal.

### Conclusion

In conclusion, CPUC Staff have concerns about many elements of the CAISO's revised straw proposal, and hope to have opportunities to work with CAISO Staff to craft a Regional RA framework that retains the current statutorily defined roles for the LRAs and does not result in a more complex RA program and requirements.