

CPUC Staff Comments on Regional Resource Adequacy Revised Straw Proposal

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Background

The CAISO hosted a stakeholder meeting on June 2nd to discuss the second revised straw proposal for Regional Resource Adequacy (RA). The CAISO's stated intent is "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 CAISO presents additional details on the elements of the Regional RA framework, and modifies other aspects of the first revised 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) Allocating RA Requirements to LRAs/LSEs, (4) Updating ISO tariff language to be more generic, and (5) reliability assessment. The proposal also includes discussion on import rules and substitution rules. It notably removes the proposal for "Zonal" RA requirements, which many stakeholders found to be problematic, and replaces it with suggested method for monitoring locational RA.

CPUC Staff appreciates the opportunity to review the second revised straw proposal ("revised proposal"). CPUC Staff supports 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 believes 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 continues 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. 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 believes 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.

CPUC Staff also submits the following comments on specific areas of the proposal.

Comments on Load Forecasting

CAISO's proposal for load forecasting implies that CAISO will continue to defer to California in setting load forecasts for its LSEs, through the CEC's IEPR process. However, it also states that it wants LSEs to submit hourly load forecasts directly to CAISO and says that "LSEs [would] submit their load forecasting modifiers and adjustments to the ISO to promote transparency and facilitate the ISO's review." CPUC Staff continues to find this confusing and inconsistent with current practice in California. Currently, the CPUC-jurisdictional LSEs do not submit their load forecasts or "modifiers and adjustments" directly to CAISO. The forecasts are initially developed by LSEs, then reviewed by the CEC, and all "modifiers and adjustments" that may be applied are considered and evaluated by the CEC and become part of the total RA obligations that the CPUC imposes on the CPUC jurisdictional LSEs. CPUC jurisdictional LSEs then fulfill their RA obligations by submitting RA filings both to the CPUC and the CAISO.

CAISO also has issued a market notice for a load forecasting working group. While CPUC Staff thinks that the working group that CAISO intends to convene will help to clarify issues and next steps around regional load forecasting, LSEs should not be required to submit their load forecasts directly to the CAISO. Rather, LSEs in California should continue to develop and verify RA obligations cooperatively with the CEC and CPUC, and procurement to meet RA obligations should continue to be verified by the CPUC and CAISO. Therefore, CPUC Staff recommends that CAISO continue to defer to the CEC and allow the CEC to develop publicly vetted hourly load forecasts under an expanded BAA RA environment.

Comments on Maximum Import Capability (MIC) and RA Imports:

CAISO has stated its intent to clarify its proposal to "ensure that the requirements for RA imports are clear [and] has determined that it would be beneficial to clarify the requirements for RA imports, including how "firm" the commitment should be." This discussion raises many questions for CPUC Staff, given that the CPUC has, to date, decided under what conditions imported resources are allowed to qualify for Resource Adequacy value. The discussion at the recent stakeholder meeting also implied that the rules developed for other areas of the expanded ISO may have lower standards than California currently has. Thus, this is another area where it appears that CAISO's decisions will bind the CPUC's ability to create Resource Adequacy Rules, or, create a scenario where there are very different standards for

different areas of the expanded ISO. Specifically, CPUC Staff finds that this CAISO proposal raises the following, significant policy questions about imports that would need to be addressed in the CPUC's RA proceeding:

- How firm should commitments be for an imported resource to count as RA?
- What length should the contract be to count for RA, and how far ahead must a resource be contracted?
- Should energy-only contracts count as RA? Even if an energy-only contract does not have an associated must-offer obligation? Could this lead to double-counting of resources?

The revised proposal discusses the interconnections between the MIC allocation methodology and the current TAC proposal, and discusses how the current MIC allocation methodology proposal would better align with the TAC proposal. The MIC proposal, however, would call into question many of the assumptions used for the Stochastic Reliability Study, particularly how to quantify the dispatch of resources from each service area when the service areas are not coincidentally peaking. CPUC Staff needs further time to consider these areas of policy overlap before we can comment on this aspect of the MIC proposal.

Comments on Monitoring Locational Resource Adequacy

CPUC Staff is supportive of CAISO's change in direction away from Zonal RA requirements, and towards a monitoring framework to guarantee reliability in different areas of the expanded ISO. It is important to assess whether and to what degree coincident peak is a valid system RA need measure in the context of several BAAs joining the ISO that may not be directly interconnected or experience reliability stress at the same time.

Comments on Reliability Assessment Elements

The proposal for the reliability assessment includes multiple elements: the PRM study methodology, "uniform counting methodologies", and a proposal for incorporating the reliability assessment into the ISO's Backstop Procurement Authority provisions. Unfortunately, the presentation and discussion on the PRM study methodology during the last stakeholder meeting was extremely abbreviated. CPUC Staff thinks that further discussion of this important topic is a necessity and that CAISO and CPUC staff need to further discuss with stakeholders and collaborate on the PRM study methodology proposal.

PRM

CAISO's proposal is to develop a stochastic study to determine a system-wide PRM, which it states is "best practice in other regions and can provide a robust and accurate assessment of the necessary reserve margins required." CPUC Staff believes that while stochastic reliability assessments are indeed best practice, there are LRAs that prefer to perform those studies on their own behalf. Integration of stochastic studies from multiple BAAs would require a clear and transparent process, but would also preserve the role of individual states in planning for their own systems. In addition, collecting and integrating

studies from the variety of BAAs that ultimately join the regional ISO will enable the ISO to gain from the experience and review of the several state agencies that already perform studies. State utilities and regulatory agencies already share insight at national and international conferences, and this model of states each performing studies can benefit the ISO in the long run as the ISO is allowed to vet and verify results against a group of experts, not having to start from scratch. It would be a good model if states and utility planners would submit their studies in lieu of load forecasts for the ISO to integrate. This also provides a forum to evaluate counting conventions developed by LRAs and state agencies, since quantification of resource contributions is integral to overall system reliability studies.

Comments on Uniform Counting Methodologies

The CAISO's explanation its proposal to establish NQC values does not refer to the CPUC's role in determining QC counting methods and rules, which is done through the RA proceeding and CPUC decisions.

CAISO proposes that an exceedance method be used to value the capacity of renewable energy resources, rather than Effective Load Carrying Capacity (ELCC), which is mandated by California law. As other stakeholders helpfully pointed out during the last meeting, it is unlikely that a Regional RA regime will be in place before 2019, and yet, it is very likely that the CPUC will have adopted an ELCC methodology for RA year 2018. Therefore, as noted by other stakeholders, it seems illogical to propose developing a different methodology for the interim years that will soon become inconsistent with the method used for California (where the vast majority of renewable capacity is located).

The revised proposal also includes a section on non-generator resources (NGRs) and Demand Response, and proposes a 4-hour Pmax test and a registered capacity value method for these respective resource types. Since CAISO's Energy Storage and Distributed Energy Resources (ESDER) initiative is currently developing a method to value NGRs, and since this is also scoped into the CPUC's RA proceeding, CPUC Staff does not understand why it would be timely for CAISO to develop a different proposal in this initiative. Furthermore, whatever is adopted, it does not seem that it would need to be put into CAISO's tariff, but rather could go into the Business Practices Manual (BPM). The same applies to the proposed method for valuing DR resources.

The capacity value methodology of DR that is integrated into the wholesale market, so called "supply side DR", was determined through a collaborative CPUC-CAISO process, and established in CPUC D.14-06-050. Also, a pending proposed decision in the CPUC's RA proceeding proposes to further refine this methodology. It is not clear upon reading the CAISO's Regional RA proposal whether the proposed "registered capacity value" methodology for Proxy Demand Resource (PDR) or Reliability Demand Response Resource (RDRR) resources is consistent with, or inconsistent with, the capacity value methodology already adopted by the CPUC for supply side DR resources. Similarly, it is not clear whether the unannounced capacity test referenced in the CAISO's proposal is consistent with, or inconsistent with, the capacity testing that the CAISO may already do under the adopted capacity value methodology. In

short, the lack of clarity on these issues raises concern that the methodology the CAISO proposes here for inclusion in the tariff is not consistent with current policy. If this is the case, it could prove very problematic.

Modifications to CAISO Tariff related to Backstop Procurement Authority

As noted in the revised proposal, “the current ISO tariff does not expressly acknowledge the ISO performing a reliability assessment.” Therefore, the revised proposal discusses CAISO’s need to expand its tariff authority related to reliability, whereas under the present regime, assessing reliability is primarily the responsibility of LRAs, including the CPUC. As stated in our prior comments, CPUC Staff does not understand the need for, or support CAISO’s further expansion of its backstop authority for year-ahead showings in a regional ISO. Rather, we suggest that with a regional ISO, the need to backstop should be greatly diminished.

CPUC Staff continues to recommend that CAISO should evaluate the potential to make year-ahead RA showings advisory and not subject to potential backstop authority while retaining its current backstop authority on shorter-term time frames (i.e., monthly), when needed to cure collective or cumulative deficiencies in system, local area, or flexible resource adequacy submissions. The CPUC is developing rules for development and submission of integrated resource plans (IRP), which would necessarily impact the planning of a regional ISO. Restricting backstop procurement only to near term month ahead situations could alleviate potential adverse near-term conflicts and financial impacts for ratepayers associated with other issues implicated by the transition to regional ISO (such as determining MIC allocations, load forecasting). Therefore, by limiting the ability of the ISO to engage in backstop procurement only in situations when it truly is necessary to prevent near-term shortfalls in resource adequacy, the LRAs whose present rules may be in conflict with future regional ISO rules may be less concerned with this regional RA framework overall.