

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Reforms and Refinements, and
Establish Forward Resource Adequacy
Procurement Obligations.

Rulemaking 21-10-002
(October 7, 2021)

**PHASE 1 PROPOSALS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

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EXECUTIVE SUMMARY

The CAISO presents a proposal to modify local obligation assignments between the central procurement entity (CPE) and load serving entities (LSEs) under the hybrid procurement framework for consideration in resource adequacy Implementation Track Phase 1.

The Commission should modify Decision (D).20-06-002 to allow the Commission to assign local capacity obligations to LSEs that have agreed to self-show resources to the CPE under the hybrid procurement framework commensurate with the amount of capacity they have agreed to self-show. This would allow the CAISO to first assign any local capacity procurement mechanism (CPM) costs directly to an individual deficient LSE that fails to show the CAISO the local resource(s) in a resource adequacy plan, when the CAISO identifies a local capacity deficiency.

The CAISO appreciates the opportunity to submit its proposal in resource adequacy Implementation Track Phase 1 and looks forward to working collaboratively with the Commission to develop this proposal and improve the resource adequacy program.

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I. Introduction

The California Independent System Operator Corporation (CAISO) hereby provides its Phase I proposals per Administrative Law Judge Chiv’s December 10, 2021 *Email Ruling Granting Motion for Extension of Time, in Part, and Modifying the Phase 1 Schedule* (Modified Schedule).

II. Discussion

In Rulemaking (R.) 21-10-002, the initial scoping memo indicated the Commission could “consider potential modifications to the CPE structure and process, including implementation details of the ‘shown’ resource component of the hybrid framework and changes to the CPE timeline.”¹ The CAISO believes there are additional implementation details that require further development to facilitate the hybrid procurement framework. The CAISO submits one proposal to modify D.20-06-002 to allow the Commission to allocate a portion of the CPE’s local obligation to individual LSEs that agree to self-show a resource(s) to the CPE. This modification will ensure that any backstop risk and cost is borne by the entity responsible for showing the resource to the CAISO. The CAISO will work with the Commission and parties to develop this proposal to work toward a more effective central procurement entity framework. The CAISO

¹ See *California Public Utilities Commission (CPUC)*, R. 21-10-002, p. 5. Available at: <https://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=414681705>.

will continue to develop this proposal in collaboration with the Commission, both in this proceeding and in the CAISO's ongoing CPE Implementation stakeholder initiative.

A. Proposal 1: Modifications to Local Obligation assignment between the CPE and LSEs under the hybrid procurement framework

The Commission should adopt language that would allow it to assign local area capacity obligations to LSEs in proportion to the resource(s) they have agreed to self-show to the CPE starting in resource adequacy year 2023.

1. Background

In D.20-06-002, the Commission ordered Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) to serve as the CPE for their respective distribution service areas for the multi-year local resource adequacy program beginning in resource adequacy year 2023.² Under this framework, LSEs within the PG&E and SCE's service areas will not be allocated a local capacity obligation beginning in resource adequacy year 2023.³

The Commission also adopted a hybrid central procurement structure whereby, if a Commission-jurisdictional LSE procures a resource that "also meets a local resource adequacy need, the LSE may choose to: (1) show the resource to reduce the CPE's overall local procurement obligation and retain the resource to meet its own system and flexible resource adequacy needs, (2) bid the resource into the CPE's solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible resource adequacy needs."⁴ Additionally, the Commission order provides that "the CPE shall have discretion to defer procurement of a local resource to the CAISO's backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high."⁵

The CAISO conducts a local capacity technical study annually to identify the minimum amount of local capacity area resources in each local capacity area needed to maintain reliability, and it identifies the available generating units within a local capacity area.⁶ The CAISO divides the results of the study among Commission and non-Commission-jurisdictional LSEs per CAISO

² See D. 20-06-002 p. 91.

³ See D. 20-06-002 p. 91.

⁴ See D. 20-06-002 p. 91.

⁵ See D. 20-06-002 p. 100.

⁶ See CAISO Tariff Section 40.3.1.

Tariff Section 40.3.2.⁷ Specifically, the CAISO determines the total need in each transmission access charge (TAC) area that corresponds to all Commission-jurisdictional LSEs and provides that value to the Commission. The Commission then allocates the requirements to Commission-jurisdictional entities based on its chosen allocation methodology. If the Commission does not allocate the entire obligation, the CAISO allocates any remaining capacity requirements to individual LSEs using the default provisions in the tariff. Based on the language in D.20-06-002, the CAISO believes the Commission intends to assign the entire local obligation to the CPEs in each TAC.

LSEs show procured local resources that satisfy the generation capacity requirements for local capacity areas on annual and monthly resource adequacy plans. The CAISO then validates that the resulting portfolio of all shown resource adequacy resources covers the needs identified in the local capacity technical study. If the CAISO identifies a deficiency, the CAISO notifies LSEs of that deficiency and provides them a cure period to show additional capacity. If deficiencies remain after the cure period, the CAISO can procure additional capacity under the CPM needed to remedy any remaining deficiencies and ensure reliability in the local areas and sub-areas. The CAISO allocates the costs of local CPM designations necessary to cure deficiencies relative to assigned local resource obligations *pro rata* to deficient entities based on the ratio of their local capacity area resource deficiency to the sum of the deficiency.⁸ The CAISO follows this approach in allocating the costs for all CPM designations arising from a resource adequacy showing deficiency.

This approach recognizes the CAISO's CPM authority exists to backstop resource adequacy obligations and follows cost causation principles by assigning costs in proportion to LSEs' failures to meet their pre-assigned obligations. Because D.20-06-002 calls for the Commission to assign the local capacity obligations of CPUC-jurisdictional LSEs directly to the CPEs, the CAISO would assign the cost of any CPM issued to address an individual local deficiency directly to the CPE. It would then be the CPE's responsibility to recover those CPM costs from the LSEs it represents consistent with applicable Commission rules.

⁷ See CAISO Tariff Section 40.3.2.

⁸ Per CAISO Tariff Section 43A.8.3, the CAISO allocates costs of CPM designations needed to address collective local deficiencies to all LSEs in the TAC area *pro rata* based on their gross load in the TAC area.

Under the hybrid procurement framework, an LSE that agrees to self-show a resource to the CPE could fail to show that resource to the CAISO in an annual or monthly RA Plan. If the LSE's failure leads to an overall uncured deficiency in a TAC area, and the CAISO designates local CPM capacity to remedy the deficiency, the CAISO would be obligated to assign the local CPM costs to the CPE because the CPE is the entity to which the Commission assigned the local obligation. If the Commission believes assigning the local CPM costs to the CPE in this limited instance is an undesirable outcome, then the Commission should (1) assign local obligations to CPUC-jurisdictional LSEs to reflect their self-showing commitment and (2) notify the CAISO of this assignment prior to the final showings deadline to the CAISO.

2. Proposal

The Commission should modify D.20-06-002 to allow the Commission to assign the local capacity obligation to LSEs that have agreed to self-show resources under the hybrid procurement framework commensurate with the amount of local capacity they have agreed to show. This proposal would not require significant changes to the existing CPE framework. The Commission could continue in the first instance to assign CPEs the entire local obligation in their respective TAC area, and the CPEs would conduct their solicitation processes to meet the entire obligation. LSEs could continue to enter into agreements with the CPE to self-show local resources. The CPEs could use the local attributes of the self-shown resources to lower their Commission procurement obligation, while LSEs would retain the full system and flex attributes of the self-shown resources. The Commission would set an appropriate deadline before the October annual resource adequacy showings deadline at the CAISO for the CPE to notify the Commission of its procurement and which LSEs have agreed to self-show resource(s). The Commission would then determine the local obligation to assign each LSE that has self-shown a local resource, and shift the assigned local obligation from the CPE to the LSE.

The CAISO would continue to allow the Commission to allocate the local capacity requirements among its jurisdictional CPEs and LSEs in advance of the annual and monthly showings deadline per the processes being developed in the ongoing CAISO stakeholder CPE initiative.⁹ The CAISO would then feed these allocations into its systems. This would allow the

⁹ *CAISO CPE Stakeholder Initiative*. Available at: <https://stakeholdercenter.caiso.com/StakeholderInitiatives/Central-procurement-entity-implementation>

CAISO to assign backstop costs to the LSE directly if it issues a local CPM because the LSE failed to show local resource(s) up to the quantity it had agreed to self-show with the CPE. This proposal would follow cost causation principles by allocating costs to the entity assigned the up-front responsibility to meet the local obligation. This proposal could also address concerns expressed by the CPEs about recovering costs they would bear from CPM designations arising from an LSE's failure to self-show its local resource.

III. Conclusion

The CAISO appreciates the opportunity to submit this proposal in resource adequacy Implementation Track Phase 1.

Respectfully submitted,

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