Stakeholder Comments Template

Subject: Regional Resource Adequacy Initiative

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This template has been created for submission of stakeholder comments on the Revised Straw Proposal for the Regional Resource Adequacy initiative that was posted on April 13, 2016. Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on May 4, 2016**.**

Please provide feedback on the Regional RA Revised Straw Proposal topics:

1. Load Forecasting
2. Maximum Import Capability
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
   a. Planning Reserve Margin
   b. Uniform Counting Methodologies
   c. Backstop Procurement Authority
7. Other

<u>Comments on the Regional RA Revised Straw Proposal</u>

The Industrial Customers of Northwest Utilities ("ICNU") appreciates this opportunity to comment on the California Independent System Operator's (the "ISO") April 13, 2016 Revised Straw Proposal regarding Regional Resource Adequacy ("RA"). ICNU is an incorporated, non-profit association of large electric consumers in the Pacific Northwest, with membership that includes many of PacifiCorp's largest customers in Oregon and Washington. Accordingly, ICNU is interested in multiple aspects of the ISO's considerations in the RA and other initiatives, which could materially affect industrial customers of PacifiCorp and other Northwest utilities contemplating integration into the ISO as new Participating Transmission Owners ("PTOs").

As noted in prior comments, ICNU has not necessarily concluded that integration into the ISO of PacifiCorp or any other particular entity will be beneficial to large power consumers. In order to form such a conclusion, it would be necessary to find, among other things, that: 1) joining the market will result in no harm to customers of PacifiCorp or other potential new PTOs; and 2) any incremental benefits associated with the market are shared equitably between market participants. ICNU looks forward to further analysis of the changes proposed by the ISO to determine if such a showing can be reached.

In general, ICNU appreciates the ISO's openness to a zonal RA framework. While ICNU understands that a zonal framework represents a change relative to the existing ISO framework, it is generally of the opinion that a zonal RA framework is a better way to perform RA in a regional ISO. Zonal RA seems to be more consistent with a cost allocation framework based on sub-regional transmission segregation, such as that currently being evaluated in the Transmission Access Charge Options initiative process.

Notwithstanding, ICNU generally recommends that the ISO and other regional stakeholders look to the zonal "stand-alone" RA framework that the Midcontinent Independent System Operator ("MISO") has developed over the past ten years or so. ICNU is concerned that the proposed zonal framework, including the use of netting credits, might diminish any protection that a zonal RA framework would otherwise provide to a new PTO.

Finally, in moving to a zonal RA framework, ICNU recommends that the ISO consider maintaining the pre-existing Maximum Import Capability ("MIC") allocations within the California zone for existing load serving entities ("LSEs"). The existing allocation framework has been tailored largely in response to the specific needs and characteristics of the respective LSEs, and those considerations ought to be retained in a zonal RA framework. For example, a party that had pre-existing rights for imports counted towards MIC allocations in the ISO should continue to be credited with such a benefit within the zonal framework.

1. Load Forecasting

In the most recent RA stakeholder meeting, there was some discussion to the effect that, under the Federal Power Act, local regulatory authorities ("LRAs") will maintain authority over LSE resource adequacy determinations. Regardless, ICNU maintains a concern that the *practical effect* of certain elements of the ISO's load forecasting proposal could diminish traditional LRA authority over LSE load forecasting.

For instance, the ISO "proposes to establish criteria that will trigger a review of individual LSE forecasts."[1/] If the ISO then determines that "an LSE forecast diverges unreasonably from … peak loads," then "[t]he ISO would have the ability to consider adjusting load forecasts or requesting LSEs submit revised load forecasts."[2/] This appears to indicate that the ISO would have authority to determine that an LSE forecast approved by an LRA was unreasonable. In that case, an ISO requirement that an LSE adjust or revise load forecasts could potentially impact LRA determinations and ultimately implicate ISO backstop procurement authority. Likewise, the design of the ISO's revised load forecasting proposal—to "safeguard against the potential for *unreasonable* forecasts … and *deter manipulation* of load forecasts"[3/]—implies that present LRA oversight of potential new PTOs is insufficient. Taken at face value, this approach would seem in direct tension with a "key principle" identified by the ISO in its original RA straw proposal, which had been "to develop an approach that will allow state regulatory commissions and load service entities [] to continue their existing procurement programs."[4/]

More specifically, ICNU has several concerns with the proposed load forecasting process. Foremost, ICNU believes it would be appropriate for the ISO to allow for maximum flexibility for LSEs to perform load forecasting in a manner consistent with the individual needs of LSEs and in conjunction with customary LRA review and approval processes. The proposed alternative, having the ISO specify the criteria type and processes that should be used in load forecasting, seems less efficient and implicates concerns over diminished state regulatory authority.

Regarding the coincidence factor, ICNU is generally unsupportive of the ISO's proposed use of a coincidence factor to adjust the load forecasts of the respective LSEs. As noted above, ICNU supports the use a "stand-alone" analysis, which would focus on the amount of import and export capability assigned to the respective zones. From ICNU's perspective, a better way to view the system coincident peak load savings is as a resource, rather than as an offset to load. Under a stand-alone analysis, the coincident peak load savings would effectively be allocated between the sub-regions as an import capability, based on existing intertie capabilities. This is in contrast to the ISO's proposed methodology, which would reduce the loads of the respective zones by each zone's share.

The use of the proposed coincidence factors to adjust the RA loads of an LSE would be problematic for several reasons. Foremost, none of the options proposed by the ISO recognize that transmission limitations restrict the amount of coincident peak savings that can be achieved in a regional ISO. According to the E3 Benefits Study, for example, approximately 900 MW in

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1/ Revised RA Straw Proposal at 13.
2/ Id.
3/ Id. (emphasis added).
4/ RA Straw Proposal at 3.

peak load savings was attributable to a regional ISO including PacifiCorp, yet only 776 MW of that savings was assumed to be usable due to transmission constraints.[5]

In addition, it is not clear precisely how the system coincident peak load savings will be used in the overall zonal RA framework. There does not appear to be any term in the proposed zonal RA construct that would apply the coincident peak load savings towards the amounts that must be procured by utilities.

Lastly, ICNU notes a potential concern with the ISO's proposal to use a 4% divergence threshold to trigger a performance review. The ISO presented survey results indicating that, for peak forecast error, more entities experienced error at 4% or above than within any other error range—which may actually point to 4% being a normative result.[6] Rather than adopting a bright-line threshold for determining whether an LSE's load forecast requires some sort of plausibility adjustment, ICNU believes it is more appropriate to weigh all facts and circumstances surrounding the forecast error before taking remedial action. For example, a dramatic, unanticipated change in weather could skew the forecast error and may be appropriately considered when evaluating the reasonableness of a forecast.

2. Maximum Import Capability ("MIC")

ICNU is generally unsupportive of the proposed MIC framework. While the 13-step process may provide some protection from value shifts from low-cost to high-cost regions, ICNU does not necessarily agree that it is the ideal methodology. From a new PTO's perspective, the impact of adopting the detailed 13-step process is difficult to understand, let alone quantify. Many of the steps appear to be tailored to the specific needs and characteristics of each of the existing LSEs within the ISO, which may not necessarily be appropriately applied outside of the existing footprint.

From ICNU's perspective, the RA design ought to ensure that there is no value shift with respect to the RA resources used to serve loads today, as compared to the RA resources that will be used to serve load in a regional ISO. If a utility in the Pacific Northwest is relying on the low-cost hydro resources and low-cost power markets in the region, for example, the value of that low-cost capacity should not be shifted away from the Northwest utility as a result of joining the market. Thus, the use of a "stand-alone" analysis seems to be the strongest option to prevent these sorts value-shifts over time, and accordingly, ICNU recommends that the ISO explore such an option.

Nevertheless, ICNU recognizes that the RA rights of LSEs within the existing footprint also need to be preserved, if a regional market is to be implemented successfully. ICNU believes that it may be appropriate to retain the existing allocation and path counting methodologies for MIC RA between existing California LSEs in a zonal "stand-alone" framework.

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[5] E3, Regional Coordination in the West: Benefits of PacifiCorp and California ISO Integration ("Benefits Study") Technical Appendix § 2.3.2.1 (Oct. 2015)

[6] Revised RA Straw Proposal at 17.

3. Internal RA Transfer Capability Constraints

In order to address internal RA transfer capability constraints, ICNU supports the ISO's proposal to develop a zonal RA concept, rather than extending the current Path 26 method. ICNU appreciates the contemplation of zonal planning reserve margin ("PRM") targets within a zonal RA construct, as an alternative to merely establishing a single, system-wide PRM for a regional ISO. ICNU is also generally supportive of the establishment of two distinct PacifiCorp zones within a regional ISO, as a reflection of significantly distinct factors between PAC West and PAC East sub-regions. Notwithstanding, ICNU is generally concerned about several aspects of the proposed framework, and believes that a "stand-alone" model, similar to what the MISO uses, may be a more appropriate template to design a zonal framework, rather than the seven-step process in the revised RA straw proposal.

One of the problems with the seven-step zonal RA process is that internal RA transfers appear to be double-counting both step 3 and step 6. In step 3, for example, MIC is increased by the internal transfer limits into a specified zone. As a result of the netting credit in step 6, however, an LSE could potentially acquire additional RA from outside its specified zone, above and beyond the transmission limitations. This effectively double-counts the transmission constraint by allowing the LSE to acquire more RA from outside of its zone than the transmission system would otherwise allow.

In addition, ICNU believes that the concept of a "netting" credit is problematic within a zonal framework. Basically, it allows a utility to acquire RA outside of its zone, without having to account for transmission needed to transfer the RA resource from one zone into another. Under a system of sub-regional transmission rates, an LSE should only be allowed to acquire a resource in another zone if it has acquired transmission capability in and from that zone. Thus, the use of netting credits would allow an LSE to access RA in other sub-regions without bearing the costs associated with those other sub-regions.

4. Allocating RA Requirements to LRAs/LSEs

ICNU is generally concerned about the ISO's proposal, to the extent that it would supersede the authority of the states to perform inter-jurisdictional cost allocation for ratemaking purposes. While the ISO appears to indicate that it would oversee allocation of RA requirements to the states only if the respective LRAs make such an election, it is unclear whether the ISO's new authority would be used to allocate RA requirements among states of a multi-jurisdictional utility. Accordingly, allocation of RA requirements to LRAs and LSEs may implicate significant jurisdictional concerns.

5. Updating ISO Tariff Language to be More Generic

Revising certain California-specific terminology in the ISO tariff seems appropriate for purposes of establishing a regional ISO.

6. Reliability Assessment

a. Planning Reserve Margin

As noted, ICNU supports the proposal to develop zonal PRMs within a larger zonal RA construct. In prior comments, ICNU had expressed concern with the potential rate impacts on customers of PacifiCorp and other potential new PTOs resulting from a single, melded PRM for a regional ISO. For example, ICNU noted that PacifiCorp has recently operated under a PRM level that is considerably less than what the ISO uses—possibly resulting in around $400 million of additional costs to PacifiCorp customers, if PacifiCorp were required to operate under the much higher PRM of the ISO.[7/]

In establishing zonal PRM targets, ICNU would support the continued use of mechanisms currently used by LSEs and LRAs. Doing so would be in accordance with the original "key principle" advanced by the ISO, i.e., designing a modified RA structure "that will allow state regulatory commissions and load service entities [] to continue their existing procurement programs."[8/] For instance, PacifiCorp's 2015 Integrated Resource Plan uses a 13% PRM which, as ICNU has commented in public processes, is itself likely too high. Moreover, ICNU pointed out in prior comments that the use of a lower PRM within new PacifiCorp sub-regions should not result in the receipt of any incremental capacity from the existing ISO sub-region, due to transmission constraints—thereby mooting "leaning" concerns from stakeholders within the existing ISO.[9/]

To the extent that a regional ISO must develop PRM targets independently, ICNU generally recommends the use of a probabilistic option presented in the revised RA straw proposal. ICNU generally takes the position that Loss of Load Expectation ("LOLE") days/year is an appropriate measurement. ICNU has not determined the appropriate target for such a study (e.g., 1-day-in-10 years or 1-in-5). However, ICNU agrees that such a methodology could be controversial, as it would be based on any number of different inputs and modelling assumptions. Accordingly, an important aspect of such an approach would be to develop a transparent model, where the model is accessible to stakeholders and the inputs are well understood.

b. Uniform Counting Methodologies

The revised RA straw proposal does not particularly address concerns previously expressed in regard to the potential loss of LRA authority in establishing the capacity contribution of renewable resources.[10/] Nonetheless, if uniform counting methodologies are to be adopted for use in a regional ISO, ICNU is not opposed to the continued use of the Exceedance Methodology for wind and solar resources. While the Effective Load Carrying Capability ("ELCC") is generally a more rigorous methodology, ICNU does not believe that the use of the Exceedance Methodology is necessarily less accurate than a properly performed ELCC calculation.

7/ ICNU Comments on RA Straw Proposal at 5.
8/ RA Straw Proposal at 3.
9/ ICNU Comments on RA Straw Proposal at 6.
10/ Id.

If an ELCC method is to be used, it is important to recognize that the ELCC methodology can be implemented in many different ways. Accordingly, there are four considerations that ICNU recommends be reflected in the ELCC calculations. First, similar to how thermal resource outages are modeled stochastically in a Monte Carlo reliability study, the generation profile of the wind and solar resources should be modeled as a stochastic variable in the reliability studies underlying the ELCC calculations. Second, the reliability metric used in the ELCC calculation should be based on a LOLE days/year, which is a measurement of the expected number of days per year with a loss of load event. Third, because the RA framework typically assigns a 100% capacity contribution to thermal resources—despite having an ELCC of less than 100%—the ELCC of a renewable resource should be compared to the ELCC of a thermal resource to determine the capacity contribution of the renewable resource. Fourth, diversity benefits associated with a portfolio of renewables should be reflected in the ELCC calculations.[11/]

c. Backstop Procurement Authority

ICNU discussed its concerns over ISO backstop procurement authority at length in prior comments.[12/] In sum, the choice of LRAs and LSEs to adopt different PRM and counting methodologies could be of little practical import if and when the ISO chooses to exercise its proposed backstop procurement authority based on its own, differing interpretations of RA. The ISO appears to have considered these concerns, as evinced by the detailed description of the ISO's various capacity procurement mechanisms ("CPMs"), and the clarification that "[t]he ISO has never issued a CPM designation because of a RA deficiency, a collective local deficiency, or failure to replace capacity."[13/] ICNU appreciates that, based on such ISO experience, the risk of a future CPM event affecting customers of PacifiCorp or any other new PTO may be small.

Nevertheless, the stakeholder risk still exists, and the ISO's experience in this regard may not translate to a much broader, fully-regional ISO. For example, "it is possible that even if all LSEs in a particular local area[] *meet their procurement obligation* … collective procurement may not be sufficient to permit the ISO to meet reliability criteria."[14/] In this circumstance, despite an LSE having actually met its obligation, it would seemingly still incur additional procurement costs—either through a voluntary "cure by procuring its share of the collective deficiency,"[15/] or involuntarily through the ISO's exercise of backstop authority. "If a LSE procures its share of the collective deficiency, the ISO will not assign it any CPM costs if the ISO is required to procure CPM capacity …."[16/] In other words, an LSE has the "choice" to incur procurement costs on its own or be assigned such costs by the ISO in the event that the ISO determines that a collective deficiency exists. The end result is similar if not identical either way, and the fact that PacifiCorp or any other new PTOs could be susceptible to added costs regardless of fulfilling individual obligations continues to be a concern.

[11/] Please see the Direct Testimony of Bradley Mullins on behalf of ICNU, in Oregon Public Utility Commission Docket UM 1719, for greater detail related to each of these considerations.

[12/] ICNU Comments on RA Straw Proposal at 6-8.

[13/] Revised RA Straw Proposal at 48.

[14/] Id. at 43 (emphasis added).

[15/] Id.

[16/] Id.

7. Other Considerations

ICNU encourages the ISO to reconsider its present thinking on the prioritization of governance issues, as modifications to accommodate the broader governance necessary for a regional ISO could obviate concerns over diminished LRA authority.

Although "[t]he ISO does not believe that the governance of an expanded ISO must be fully resolved before policy changes can be designed to support a regional market,"[17/] ICNU does not agree with the ISO's reasoning in support of such a position. According to the ISO: "It is essential to proceed with the various ISO regional stakeholders initiatives … because *these issues are pertinent* for any potential entity seeking to join the ISO."[18/] The unavoidable implication of this statement is that governance issues are *not* pertinent for a potential PTO—a proposition which is probably alarming to many stakeholders, including PacifiCorp customers and LRAs in states outside the current boundaries of the ISO.

ICNU is optimistic that the ISO will carefully consider and reevaluate its position on governance prioritization, to the extent that it could moot concerns over federal preemption and the ISO's ability to overrule LRA determinations. For instance, the ISO appeared to expressly respond in the revised RA straw proposal to state jurisdictional concerns relayed in prior comments from ICNU and other stakeholders. Specifically, in response to comments expressing concern that tariff changes approved by the Federal Energy Regulatory Commission could "potentially impact the current jurisdiction of regulatory entities, before any changes to ISO membership and BAA footprint were made," the following assurance was offered:

> The ISO will ensure that any tariff provisions associated with a regional ISO would become effective only as necessary to support the integration of a new Participating TO. This means that provisions with substantive impact would only become effective once the regional ISO includes PacifiCorp (or any new Participating TO outside of the ISO's current BAA) ….[19/]

Assurances like this are constructive and appreciated; however, they are not a substitute for the assurance that the interests of stakeholders associated with a potential new PTO will be protected through a fully regional ISO governance structure. Rather, concerns over the diminishment of LRA authority could best be addressed by ensuring that stakeholders of potential new PTOs will have an equal role in the governance of a newly constituted regional ISO

[17/] Id. at 7.
[18/] Id. (emphasis added).
[19/] Id. at 11-12.