Stakeholder Comments Template

Subject: Regional Resource Adequacy Initiative

Submitted by	Company	Date Submitted
Jesse E. Cowell (503) 241-7242 Bradley G. Mullins (503) 954-2852	The Industrial Customers of Northwest Utilities	March 16, 2016

This template has been created for submission of stakeholder comments on the Straw Proposal for the Regional Resource Adequacy initiative that was posted on February 23, 2016. Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **March 16, 2016.**

Please provide feedback on the Regional RA Straw Proposal topics:

1. Load Forecasting
2. Maximum Import Capability Methodology
3. Internal RA Transfer Capability Constraints
4. Allocation of RA Requirements to LRAs/LSEs
5. Updating ISO Tariff Language to be More Generic
6. Reliability Assessment
   a. Planning Reserve Margin for Reliability Assessment
   b. Resource Counting Methodologies for Reliability Assessment
   c. ISO Backstop Procurement Authority for Reliability Assessment
7. Other

RA Straw Proposal Comments

The Industrial Customers of Northwest Utilities ("ICNU") appreciates this opportunity to comment on the California Independent System Operator's (the "ISO") straw proposal regarding potential Regional Resource Adequacy ("RA") modifications to accommodate the integration of new Participating Transmission Owners ("PTOs"). 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 PTOs.

In submitting these comments on the RA straw proposal, ICNU has not necessarily concluded that integration into the ISO of PacifiCorp or any other particular entity will be beneficial to large consumers. Such a conclusion can only be reached by a clear showing that: 1) joining the market will result in no harm to PacifiCorp or other new PTO customers; and 2) any benefits associated with the market are shared equitably between the market participants. ICNU looks forward to further analysis of the changes proposed by the ISO to determine if such a showing can be reached. Pursuant to the limited scope of this initiative, ICNU will mainly address the six specific topics on which the ISO has requested feedback within the context of the two criteria discussed above.

1. Load Forecasting

ICNU supports the proposal "that the coincident system load forecast for an expanded BAA would be created each year by the ISO based on load forecast data created by and submitted by LSEs."[1/] Such flexible accommodation of existing methodologies for current and potentially new PTOs seems practical and efficient, in accordance with the "key principle" identified by the ISO "to develop an approach that will allow state regulatory commissions and load service entities ("LSEs") to continue their existing procurement programs."[2/]

In developing tariff proposals for Federal Energy Regulatory Commission ("FERC") approval, however, ICNU is especially concerned with a particular aspect of the ISO's proposal which could possibly undermine the "key principle" just noted. Particularly, the ISO proposes to "review LSE forecasts and *make adjustments* to submitted forecasts if an LSE forecast diverges unreasonably from the LSE's actual peak loads or historical usage and the LSE cannot demonstrate their forecast is reasonable."[3/] Notably missing from this equation is the involvement of a local regulatory authority ("LRA")—potentially giving the ISO unchecked authority to "make adjustments" to LSE forecasts, based on unilateral reasonableness determinations, and thereby dictate the effective outcome of "existing procurement programs."

1/ RA Straw Proposal at 10.
2/ Id. at 3.
3/ Id. at 10 (emphasis added).

ICNU recognizes that the ISO proposes "to develop accurate and transparent load forecasts for use in an expanded ISO."[4/] While this goal is commendable, "transparent" forecasting is distinct from the feature that concerns ICNU. A transparent ISO process does not, by itself, provide any safeguards to customers of potential new PTOs if the ISO has plenary authority to make adjustments to forecasts developed through traditional LRA processes. Therefore, to avoid any concerns over wresting practical control from LRAs and altering the course of existing procurement processes, ICNU recommends that the tariff submitted to FERC simply allow for state regulatory input or involvement as a requisite element in ISO reasonableness and forecast adjustments determinations.

2. Maximum Import Capability ("MIC") Methodology

ICNU believes that the MIC framework needs to be reevaluated in order for PacifiCorp or any other new PTO to meet a hold harmless standard. For instance, in its current Integrated Resource Process ("IRP"), PacifiCorp relies on front office transactions at bilateral market hubs, such as the Mid-Columbia and Four Corners markets. If the MIC rules do not allow PacifiCorp the exclusive ability to use its current access to these markets for RA purposes, then the framework will likely result in additional costs to PacifiCorp, in violation of a hold harmless standard. Specifically, if the import rights that PacifiCorp currently enjoys at the various market points in its balancing area are reallocated under the ISO's MIC framework, PacifiCorp will, pursuant to the RA standard, have to acquire new resources at great cost to its customers.

With the proposed move towards segregated transmission rates for new participants, the ISO's current methodology of allocating import rights must be changed. ICNU believes that the only way to allocate import rights under a hold harmless standard, in relation to PacifiCorp or any other new PTO, is to adopt a system where each sub-region retains exclusive rights to the import capability physically deliverable into its sub-region. In addition, transfers between sub-regions should be available for RA up to the coincidence factor, and not to exceed transmission limitations.

The Midcontinent Independent System Operator ("MISO") uses zonal RA requirements, which is likely a better template to evaluate imports rights in a system with sub-regional transmission rates than the ISO's existing framework. While the existing ISO methodology could still be applied within the preexisting ISO sub-region, it is not clear that the ISO method would be appropriate for use between two sub-regional transmission areas.

Finally, ICNU believes that the ISO needs to adopt a more analytically rigorous method for determining the contribution of imports towards RA. The ISO states that it plans to continue to use the "historical usage, looking at the maximum amount of simultaneous energy schedules into ISO BAA."[5/] The historical usage is dependent on a variety of market and economic factors, which may not be a fair reflection of the amount of imports that can be reliably depended upon for satisfying load requirements. Certainly, the ISO's current approach is much less rigorous than that used by other transmission operators, such as the loss of load studies

---

4/ Id.

5/ Id.

performed by the MISO. ICNU encourages the ISO to begin looking at better ways to analyze these import rights.

3. Internal RA Transfer Capability Constraints

ICNU supports the proposal "to establish the concept of intra-BAA transfer capability constraints under the ISO tariff to ensure that any constraints that may potentially limit the transfers of RA resources between the major internal areas in an expanded BAA are properly respected in the ISOs related processes."[6/] More specifically, ICNU supports allowing sub-regions to rely on transfers from another sub-region for RA purposes in an amount not to exceed the allocated coincident peak load savings or transmission limitations, whichever is smaller.

As an illustration, PacifiCorp's current 2015 IRP relies on approximately 800 MW of capacity at several interchange points with the ISO, such as the California-Oregon-Border, Nevada-Oregon-Border and Mona market hubs. To meet a hold harmless standard, the amount of RA capacity obtained by PacifiCorp at these potential interconnection points with the ISO must be no less than what is currently being acquired through bilateral markets. Because, according to the E3 study, PacifiCorp's share of the coincident peak savings is expected to exceed transmission limitations to the ISO, it follows that the proposal to restrict the coincident load savings to the available transfer capability should not be harmful to the Company, relative to its existing market rights.

4. Allocation of RA Requirements to LRAs/LSEs

ICNU is very concerned about the potential loss of LRA jurisdiction over PacifiCorp's RA practices. The ISO suggests that the "key principle" guiding its proposal is "to build on existing, proven mechanisms to create a multi-state ISO"; i.e., "to develop an approach that will allow state regulatory commissions and load serving entities ("LSEs") to continue their existing procurement programs."[7/] By requiring the local and flexible capacity requirements to come from the ISO, however, the ISO could presumably preempt any decision made by a LRA regarding RA. The issue of preemption is important, particularly because PacifiCorp stakeholders are presently faced with the prospect of holding little influence in the governance of the ISO. Simply put, until ISO governance changes, the states should not abrogate any jurisdiction to the ISO, even for issues such as local and flexible capacity requirement.

This is particularly troubling to ICNU because, based on the current integration timeline, the ISO is seeking FERC approval of a regional ISO tariff *prior* to individual state regulatory proceedings involving PacifiCorp. Once a revised tariff is approved by FERC, however, the LRAs presently exercising jurisdiction over PacifiCorp rates may lose authority over PacifiCorp transmission system costs, meaning that the subsequent state regulatory proceedings to approve the regional ISO could have little to no bearing on the continuation of market integration.

[6/] Id. at 11.
[7/] Id. at 3.

According to the ISO: "It is important that the provisions for a multi-state ISO be put in place through an order by the FERC by the end of 2016, so that regulatory outreach can occur by early 2017 by entities that may be interested in joining an expanded BAA."[8/] Thus, the RA program adopted after this initiative would presumably be incorporated into a FERC tariff anticipated to go into effect before LRAs are able to make any determinations on potential new PTOs integrating into the ISO. Federal preemption may, therefore, feature prominently in such later state regulatory proceedings, and essentially obligate LRAs to conduct the continued *form* of existing procurement processes although the *substance* of those processes has been functionally coopted by the ISO—whether expressly or implicitly, via operation of a FERC tariff. Similarly, if federal preemption is a factor, LRAs would presumably have the same obligations to filed FERC tariffs, regardless of whether the ISO provides LSE requirements directly to the LSEs, rather than the LRAs.

5. Updating ISO Tariff Language to be More Generic

With the same caveat applicable to all of ICNU's comments—that support for a particular proposal in this initiative applies merely to the rationality of its specific terms, and does not constitute agreement with ISO expansion as a general matter or as to the integration of certain entities—it would make sense for the ISO to revise its tariff with a view to making its language more generic. To the extent that there is a showing that integration holds harmless the customers of PacifiCorp and any other potential new PTOs, and that any benefits are allocated fairly, then revising certain California-specific terminology will be necessary.

6. Reliability Assessment

a. Planning Reserve Margin ("PRM") for Reliability Assessment

One of the most concerning aspects of the straw proposal has to do with the PRM of future reliability assessment. For example, the difference between the ISO's PRM of 15-17% and PacifiCorp's PRM of 13% is considerable.[9/] Moreover, given that ICNU believes that PacifiCorp's recent use of a 13% PRM is itself excessive, the prospect of material increase, via the proposal for "a system-wide" PRM,[10/] will likely be troubling for stakeholders throughout the Pacific Northwest as well as in PacifiCorp's eastern regions.

If the PRM is increased, then customers of PacifiCorp (and, likely, of any other potential new PTO) would not be held harmless. For instance, increasing the PRM to 17% would represent approximately 400 MW of additional capacity obligations to PacifiCorp. Assuming a capacity cost of $1,000/kW, such a change would cost PacifiCorp customers approximately $400 million, an amount that will severely dilute any purported benefits associated with joining a regional market.

ICNU understands the ISO's desire to use a common PRM standard across the expanded ISO footprint. The problem of "leaning," however, is not necessarily a reason to

8/ Id. at 9.
9/ Id., App. 2 at 32.
10/ Id. at 12.

assume a common standard. Because the interconnection points between the ISO and PacifiCorp will be limited, the amount of capacity that PacifiCorp can obtain from the preexisting ISO sub-region will be limited by transmission constraints. The adoption of a lower PRM for PacifiCorp will, therefore, not result in it receiving any incremental capacity from the CAISO sub-region. The use of a lower PRM in the PacifiCorp sub-region will only result in greater reliability risk to customers in the PacifiCorp sub-region, a risk which ICNU believes is already overstated.

Here again, ICNU's concerns about effective preemption of LRA authority seem critical. While the ISO explains that "LRAs and LSEs can continue to establish their own PRM and procure to that level if they so choose for their planning purposes,"[11/] this may be an illusionary "choice." Under the ISO proposal, "there may be some risk that the ISO's reliability needs will not be met if entities employ PRMs that are significantly different than the PRM used by the ISO when the ISO conducts its monthly reliability assessment," prompting the ISO to potentially "utilize backstop procurement to resolve the shortfall."[12/] As discussed below, the ISO's proposed "backstop" authority would then allow the ISO to charge LSEs for employing different PRMs. Since those same LRAs could potentially be forced to incorporate the ISO's additional backstop cost allocations in local LSE rates, as under the filed rate doctrine, the "choice" to establish a different PRM could then be illusory, at best.

b. Resource Counting Methodologies for Reliability Assessment

ICNU understands the goal of establishing consistent counting rules across an expanded ISO. Once more, however, ICNU is concerned about potentially waning LRA authority. "The ISO stresses that it is not proposing to eliminate the ability of LRAs and LSEs to develop their own resource counting methodologies. The ISO intends to continue to allow the LRAs and LSEs to have discretion in developing their RA and procurement programs."[13/] Yet, regardless of the ISO's intentions, differing LRA and LSE counting methodologies will be of little effect if the ISO determines that a particular LSE is over-counting resources, prompting the ISO to exercise backstop procurement authority based on its own methodological assessment and then to collect costs incurred from the LSE as a result. The ISO's proposal to provide "transparent methodologies,"[14/] in the resource counting context, does nothing to ensure the continued effectual authority of LRAs, as noted elsewhere.

c. Backstop Procurement Authority for Reliability Assessment

Ultimately, 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's ability to allocate the cost of backstop procurement to entities that are short of resources in circumstances where the aggregate amount of resources that have been procured are insufficient to meet the ISO's reliability needs *is an important aspect of the reliability assessment*."[15/]

11/ Id. at 13.
12/ Id.
13/ Id.
14/ Agenda and Presentation, RA Straw Proposal, March 2, 2016 ("March 2nd Presentation"), at 36.
15/ RA Straw Proposal at 14 (emphasis added).

ICNU is concerned that this "important" backstop role will translate into significant rate increases for customers of potential new PTOs, like PacifiCorp, that currently employ much lower PRMs. The ISO has signaled an intent to "identify whether entities are leaning on other entities and allocate them a fair share of the associated financial burden."[16/] But, from the perspective of customers who contend that a 13% PRM is already too high, it would be difficult to accept further increases to the PRM. If a new PTO is currently sufficiently meeting its reliability needs using a lower PRM, there needs to be more justification than a simple "melding principle" to support a system-wide PRM and the allocation of additional costs after ISO integration. A larger ISO footprint, for example, may support a lower PRM, but no loss of load study of which ICNU is aware has been performed to analyze the reliability requirements of the larger footprint.

Although ISO backstop procurement authority is advanced as a means to "mitigate potential for some to lean on other entities that have procured their share of reliability needs,"[17/] application of the melding principle would operate to increase PacifiCorp's "share" of reliability needs upon integration into the ISO. ICNU has serious reservations about supporting the integration of PacifiCorp, or any other potential new PTO, if the practical application of a melded PRM level equates to customers of a new PTO signing on to increased rates.

The ISO suggests that it "cannot safely operate different areas of system at different levels of reliability."[18/] ICNU, however, cannot identify any circumstance where the safety of the system would be at risk if the PacifiCorp sub-region were to perform planning using a lower PRM than the preexisting ISO sub-region. Certainly, the MISO allows for differing PRMs in its zonal resource areas, based on specific loss of load characteristics of each zone. It is, therefore, unclear why safety issues would be created if the regional ISO were to do the same thing.

As discussed above, ICNU does not believe that the use of a lower PRM for the PacifiCorp sub-region will allow PacifiCorp to "lean" by obtaining incremental capacity from the ISO sub-region. Transmission constraint will prevent undue leaning. Similarly, the reliability risk of having a lower PRM in the PacifiCorp sub-region would be largely borne by customers in the PacifiCorp sub-region. An outage at Lake Side II, for example, is unlikely to result in lost load in California. To the extent that the use of a lower PRM in the PacifiCorp sub-region does increase reliability risk in California, such an argument must be supported by concrete loss of load studies, which do not seem to have been performed.

As noted above, ICNU is concerned that LRAs may not be able to safeguard customers of any new PTOs against ISO backstop allocations because of the filed rate doctrine or related federal-state supremacy principles. Thus, it is extremely important that a reliability assessment methodology be worked out in this initiative process, to ensure that future cost allocations are made in a truly "fair and open manner."[19/] To the extent ambiguity exists at the

---

16/ Id.
17/ March 2nd Presentation at 38.
18/ Id. at 33.
19/ RA Straw Proposal at 13.

time the ISO submits a revised tariff for FERC approval in 2016, stakeholders may be forced to accept plenary exercise of ISO discretion on "leaning" and responsibility issues going forward, and even LRAs may have little authority to challenge ISO decisions or to prescribe parameters once anticipated state regulatory processes are underway in 2017. Even if the ISO conducts its cost allocations in an open manner, the potential lack of authority held by LRAs, LSEs, and regional stakeholders may mean that the "fairness" of those allocations will, in actuality, be a self-defined ISO term.

Finally, ICNU addresses a particular stakeholder comment noted by the ISO on this issue: "In the absence of enforceable RA requirements … regulators have no mechanism to ensure that the resources acquired by the LSEs under their jurisdiction are not being 'leaned on' by LSEs in neighboring jurisdictions."[20/] ICNU would not agree that the ISO should function as a "mechanism," or some sort of policeman, to enforce the decisions of certain LRAs at the expense of other LRAs, as this comment seems to suggest. If one LRA approves a higher PRM for an LSE under its jurisdiction, then that LRA has no more of a "right" to enforcement of its policy than does a neighboring LRA within the ISO that approves a lower PRM for an LSE under its jurisdiction.

7. Other Considerations

ICNU shares the concerns of other stakeholders who have commented that the RA initiative schedule is too aggressive.[21/] The very short timeframe is especially troubling in view of potential federal preemption concerns. In particular, the ISO's plan to file revised tariffs for FERC approval in 2016 may preempt LRAs from any effective authority to safeguard jurisdictional LSE customers when LRAs consider PacifiCorp's integration into the ISO through state regulatory proceedings in 2017—and the same concerns would apply to other potential new PTOs. Any details or decisions that are left ambiguous after the current RA initiative would potentially, after FERC approval of revised tariff terms, allow the ISO plenary authority to implement cost allocations which LRAs could then be compelled to simply pass on to jurisdictional ratepayers. The aggressive RA initiative schedule all but assures that critical details will not be fully and adequately vetted by interested stakeholders before the ISO Board makes its decision on a revised tariff filing in June 2016.

Moreover, the aggressive RA initiative schedule ensures that more holistic revision and substantive modification of the ISO tariff structure is impossible. The ISO admits that it has constructed this initiative to exclude "[m]ajor revisions to [the] RA construct."[22/] Therefore, this minimalist emphasis, of an abbreviated initiative "focused on 'need to have' items,"[23/] will inevitably maximize ISO discretion and authority to unilaterally define all methodological details impacting potential new PTOs. ICNU supports an RA initiative that is not needlessly constrained, and which allows for thorough review of the entire RA construct.

20/ March 2nd Presentation at 27.
21/ Id. at 7.
22/ Id. at 44.
23/ RA Straw Proposal at 4.

Finally, ICNU is concerned that the structure of the RA framework may penalize participants, even when they have been compliant with the ISO's instructions. That is, under the ISO's framework, an LSE could still find itself allocated additional costs after demonstrating compliance with an initial "analysis of reliability needs and allocations," because the first element of the RA framework is the provision of "an analysis of reliability needs and allocations" by the ISO to LRAs and LSEs.[24/] This is followed by LRAs and LSEs securing RA capacity and a requirement that "LSEs 'show' to the ISO the RA capacity that has been secured."[25/] Notwithstanding, the ISO can later determine that its reliability needs have not actually been met and "procure additional capacity" on an LSE's behalf.[26/] As already discussed, the ISO proposes to then allocate the costs for such backstop procurement to specific LSEs. ICNU's concern is that this entire framework may constitute a form of "double jeopardy" for potential new PTOs, with continuing risk following an initial showing of reliability compliance. Customers of PacifiCorp or any other potential new PTO should not be exposed to the risk of additional cost allocations under the RA framework adopted by the ISO.

24/ Id. at 8.
25/ Id.
26/ Id.