Stakeholder Comments Template

Subject: Regional Resource Adequacy Initiative

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This template has been created for submission of stakeholder comments on the Third Revised Straw Proposal for the Regional Resource Adequacy initiative that was posted on September 29, 2016. Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **October 27, 2016.**

Please provide feedback on the Regional RA Third Revised Straw Proposal below.

The ISO is especially interested in receiving feedback that indicates if your organization supports particular aspects of the proposal. Alternatively, if your organization does not support particular aspects of the proposal, please indicate why your organization does not support those aspects.

Comments on the Third Revised Straw Proposal

The Industrial Customers of Northwest Utilities ("ICNU") appreciates this opportunity to provide feedback on the California Independent System Operator's (the "ISO") Regional Resource Adequacy ("RA") Third Revised Straw Proposal. 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 large customers of PacifiCorp or other potential new Participating Transmission Owners ("PTOs"); and 2) any incremental benefits associated with the market are shared equitably between market participants. ICNU looks forward to further analysis to determine if such a showing can be reached.

A. Load Forecasting

ICNU does not necessarily oppose the ISO's decision to move back to a monthly coincident peak forecasting aggregation approach for Load Serving Entities ("LSEs"), after the

ISO had most recently considered an hourly load forecast proposal.[1/] ICNU supports the current monthly forecasting approach in that it "allows for maximum flexibility because individual LSEs can make their own determination of how to apply a coincidence factor unique to their needs," meaning that "it is not necessary for the ISO to develop a uniform coincidence factor methodology under this proposal."[2/] This framework should help to preserve state authority as a fundamental governing principle of a regional ISO,[3/] in accord with ICNU's prior support for three key features in a load forecasting approach: 1) flexibility; 2) deference to Local Regulatory Authorities ("LRAs"); and 3) accommodation of individual LSE needs.[4/] Similarly, ICNU supports the ISO's proposal not to define load modifier treatment, in order "to help individual LSEs meet their unique State or LRA policy goals because they are provided flexibility to determine the treatment of these items in their own load forecasting processes."[5/]

Regarding the load forecasting review process, ICNU supports the ISO's decision to abandon the prior proposal to trigger reviews on a 4% historical variance threshold.[6/] ICNU agrees "that the previously proposed review trigger is not appropriate under this revised flexible load forecasting proposal."[7/] Further, the new proposal to annually review limited subsets of LSE forecasts addresses ICNU's prior concerns over the analytical justification for a 4% divergence threshold.[8/]

Also, ICNU does not necessarily oppose the ISO's proposed "right to conduct a load forecast for LSEs that decline to resubmit an adjusted load forecast following the ISO's request to do so."[9/] However, ICNU believes that this right should be accompanied by stronger protections in regional ISO governance principles and governing documents to ensure that LSE ratepayers will not ultimately be forced to pay higher costs as an eventual consequence of any potential variance between RA determinations of a regional ISO and an LRA, including load forecasting.[10/] In other words, new PTO customers should not be susceptible to RA costs beyond what their LRAs approve or acknowledge, or what they could reasonably have expected to pay, but for integration into a regional ISO. This is essentially the flip side of the California Legislature's position on an ISO-PacifiCorp grid merger: "Any merger proposal should demonstrate that *costs for* capacity, energy, and transmission borne by California customers under the proposal *would* be less than costs *California customers could reasonably be expected to pay, absent the merger*."[11/] ICNU will explain its proposals for such added LSE ratepayer protection in comments to be submitted by October 31, 2016, on the ISO's 2nd Revised Governance Proposal, in CEC Docket No. 16-RGO-01.

1/ Second Revised RA Straw Proposal at 12.
2/ Third Revised RA Straw Proposal at 10.
3/ California Energy Commission ("CEC") Docket No. 16-RGO-01, 2nd Revised Governance Proposal at 3.
4/ ICNU Comments on June 22 Load Forecasting Working Group at 3.
5/ Third Revised RA Straw Proposal at 11.
6/ Id. at 15 & n.5.
7/ Id. at 15-16.
8/ See ICNU Comments on Second Revised RA Straw Proposal at 3 & n.7.
9/ Third Revised RA Straw Proposal at 16.
10/ For instance, based on a regional ISO load forecast in variance with an LSE forecast acknowledged or approved by an LRA, an LSE might later be considered deficient in a regional ISO reliability assessment, prompting the regional ISO to potentially trigger backstop procurement and assess charges to the LSE.
11/ Letter from California Legislature to Governor Edmund G. Brown, Jr., at 2 (Feb. 3, 2016) (emphasis in original).

B. Reliability Assessment

ICNU does not agree that the ISO must "mitigate the potential for undue 'leaning' on the system" of a regional ISO,[12] particularly in light of sub-regional transmission constraints, nor does ICNU agree that a system wide planning reserve margin ("PRM") is necessary in order to perform future reliability assessments.[13] In fact, the existence of multiple PRMs within a regional ISO would mirror the framework successfully employed by the Midcontinent Independent System Operator ("MISO"), and would likely *avoid* cost shifts between sub-regions that seem probable under a single, system wide PRM.[14] Moreover, just as the ISO points out that a flexible and bottom-up load forecasting approach has proven workable via MISO implementation,[15] ICNU believes that MISO has also shown that a system wide PRM approach is not a prerequisite to a workable reliability assessment program. At the very least, the ISO should acknowledge that a system wide PRM is a current preference, rather than the only viable option, as the ISO currently presents—i.e., "the ISO *must* first have an established system-wide PRM target to evaluate reliability levels and ensure adequate capacity."[16]

Notwithstanding, ICNU will soon be proposing clarifications to the ISO's proposed governing principles in CEC Docket No. 16-RGO-01 which, if implemented, could significantly protect new PTO customers from potential rate increases attributable to a system-wide PRM or uniform counting rules, as proposed by the ISO in this initiative.[17] To the extent a system-wide PRM would be established, ICNU supports the ISO's proposal to give the Western States Committee ("WSC") primary approval authority on setting a PRM.[18] Likewise, ICNU also recommends consideration of WSC primary authority on uniform counting rule issues, as will be explained in ICNU comments on the ISO's WSC Paper and Draft Proposal in CEC Docket No. 16-RGO-01. ICNU continues to support a Loss of Load Expectation ("LOLE") analysis if a system-wide PRM is established,[19] as well as the use of Effective Load Carrying Capability ("ELCC") methodology for wind and solar resources if uniform counting rules are developed.[20]

12/ Third Revised RA Straw Proposal at 17.

13/ See, e.g., ICNU Comments on RA Straw Proposal at 5-7; ICNU Comments on Revised RA Straw Proposal at 6; ICNU Comments on August 10 RA Working Group at 4.

14/ ICNU Comments on August 10 RA Working Group at 4.

15/ Third Revised RA Straw Proposal at 12.

16/ Id. at 17 (emphasis added).

17/ See also ICNU Comments on August 10 RA Working Group at 3 (explaining potential for increased cost allocations to new PTOs and referencing prior ICNU comments on these issues). In the latest proposal, the ISO also "recognizes the importance of providing resource capacity values in a timely manner to … ensure that LSEs are able to complete any procurement activities prior to the resource adequacy showings." Third Revised RA Straw Proposal at 23. This statement illustrates how lower resource counting values established by a regional ISO, as compared to LRA approved or acknowledged values, could lead to additional LSE procurement and increased customer costs.

18/ CEC Docket No. 16-RGO-01, WSC Paper and Draft Proposal at 6. ICNU makes this and all other WSC recommendations with the understanding that the WSC will fairly and adequately represent all individual state interests.

19/ See ICNU Comments on Second Revised RA Straw Proposal at 6.

20/ ICNU Comments on July 21 RA Working Group at 5-6.

As to backstop procurement and cost allocation issues, ICNU emphasizes the need for stronger ratepayer protections in proposed regional ISO governing principles. That is, following ISO backstop procurement: "The associated costs will be allocated first to those LSEs that have not met their individual system RA requirements."[21/] ICNU has previously explained, at some length, why regional ISO backstop procurement and cost allocation practices could expose new PTO customers to considerable risk of cost increases,[22/] and ICNU has also proposed tariff safeguards as a means to protect LSE ratepayers from such RA cost risks while still allowing a regional ISO to operate its system reliably.[23/] These safeguards are needed now, however, and in the form of clarified governance principles, because there will be no opportunity in the near future to protect new PTO customers against backstop procurement and cost allocation risks via Federal Energy Regulatory Commission ("FERC") tariff modifications.

Specifically, the ISO disclosed at the October 6, 2016 Stakeholder Meeting that, at the conclusion of the present RA initiative: 1) the ISO no longer contemplates a FERC tariff filing; and 2) stakeholders are expected to go back to the state level to describe the ISO's vision on regionalization issues.[24/] This creates something of a conundrum for potential new PTO customers, however, since the ISO also explains that, "[t]o effectively incorporate the proposed reliability assessment[,] the ISO[] will need to make some adjustments to [] tariff provisions," and that "[t]he ISO is proposing to revise the tariff to recognize that a reliability assessment may identify a shortage that the ISO needs to cure and authorize the ISO to procure backstop capacity …."[25/] In sum, new PTO customers can no longer expect to see tariff modifications on backstop procurement and cost allocation prior to potential state regulatory proceedings to approve new PTO integration, or recommend ratepayer safeguards within such tariffs prior to state decisions on regionalization issues. Thus, ratepayer protections against backstop procurement and cost allocation risks must be implemented now through the concurrent governance principles proposal, if at all.

C. Maximum Import Capability ("MIC")

ICNU agrees with the ISO's decision not to develop a transition period or transition mechanism for MIC refinements, for reasons previously stated.[26/] Otherwise, ICNU continues to support ISO proposals on MIC calculation and allocation changes.[27/]

D. RA Import Requirements

ICNU does not support the ISO's proposal on the types of resources that will qualify as RA imports. In particular, "the ISO will not allow intra-month spot market energy purchases or other contractual arrangements that have not been executed or otherwise secured

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21/ Third Revised RA Straw Proposal at 28.
22/ E.g., ICNU Comments on RA Straw Proposal at 6-8; ICNU Comments on Revised RA Straw Proposal at 7; ICNU Comments on August 10 RA Working Group at 3.
23/ E.g., ICNU Comments on Second Revised RA Straw Proposal at 4-7; ICNU Comments on July 21 RA Working Group at 6; ICNU Comments on August 10 RA Working Group at 3.
24/ Keith Johnson, ISO, audio file of October 6 Meeting at 0:09:45.
25/ Third Revised RA Straw Proposal at 26.
26/ ICNU Comments on July 21 RA Working Group at 3-4.
27/ Id.

prior to the due date for RA showings."[28/] ICNU believes that such restriction on bilateral spot market purchases may create pressure on LSEs to engage in hedging practices which could harm ratepayers.[29/] Nevertheless, recognizing the ISO's concern in ensuring system reliability, ICNU suggests that a compromise position could be pursued, in the form of some limitation or cap on the volume of short-term transactions that individual LSEs could use for regional RA purposes.[30/]

E. External Resource Substitution

ICNU does not support the ISO's present reconsideration of its previous proposal to remove external resource substitution restrictions.[31/] While the ISO now "proposes not to remove the restriction due to the complexities associated with implementation,"[32/] the election to avoid any "complexities" may be considerably detrimental to potential new PTO customers, and especially to PacifiCorp ratepayers, prompting possible opposition to regional ISO integration in future state regulatory approval proceedings.

Specifically, the ISO's current proposal would not allow a new PTO to economically substitute pseudo-tied resources, in the event of a forced outage on an internal resource.[33/] ICNU has explained how external substitution restrictions would likely have immediate consequences upon operation of a regional ISO with PacifiCorp as the first new PTO, since "PacifiCorp relies on dynamic transfer capability to pseudo-tie several resources into its balancing area and is currently able to rely upon those resources to provide replacement power …. Restricting this ability in a regional ISO would be a less efficient way for PacifiCorp to operate its system …."[34/] Thus, barring a demonstration that the external substitution restrictions proposed by the ISO would have no effect on new PTO customers—a showing that seems improbable, particularly in regard to PacifiCorp—ICNU might not be able to support regional ISO integration for LSEs in the Pacific Northwest. At a minimum, ICNU would ask the ISO to reassess its position "that the potential benefits … are far outweighed by the implementation complexity,"[35/] given the potential for this issue to be critical in state regulatory approval proceedings.

F. Allocating RA Requirements to LRAs and LSEs

ICNU supports the proposal to allocate all RA requirements directly to multi-jurisdictional LSEs (e.g., PacifiCorp),[36/] but ICNU believes that a regional ISO should also directly allocate RA requirements to *all* LSEs. As the ISO acknowledges, ISOs/RTOs in other regions follow this simple and uniform direct allocation approach, regardless of whether an LSE

28/ Third Revised RA Straw Proposal at 39-40.
29/ ICNU Comments on July 21 RA Working Group at 5.
30/ See id. at 5.
31/ Third Revised RA Straw Proposal at 40.
32/ Id.
33/ See ICNU Comments on Second Revised RA Straw Proposal at 2.
34/ ICNU Comments on July 21 RA Working Group at 4.
35/ Third Revised RA Straw Proposal at 41.
36/ Id. at 42.

is multi-jurisdictional or not.[37] Moreover, by allocating RA requirements directly to all LSEs, the regional ISO could eliminate potential preemption controversies. For instance, under the current ISO proposal, "to create a new mechanism for LRAs and state agencies to elect to defer allocation of RA requirements to the ISO so the ISO can allocate RA requirements directly to the LSEs,"[38] such sequencing may create the implication of "tacit acceptance" on the part of a deferring LRA. Stated differently, by actively electing to defer to the regional ISO the communication of RA requirements, an LRA might be seen as implicitly accepting the regional ISO's specific RA allocation. This could prove pivotal in future retail rate process; for example, if an LRA had approved lower RA requirements for an LSE, and then was asked to determine whether LSE ratepayers should be responsible for lower RA costs approved by the LRA, or increased costs incurred by the LSE to meet higher RA requirements communicated by the regional ISO. Lastly, a simple approach of directly allocating RA requirements to all LSEs would avoid any future complexities associated with an LSE becoming multi-jurisdictional, i.e., there would be no need to change the dynamics of the RA requirements allocation process.

Nonetheless, ICNU understands that the proposal to allow LRAs the option to directly receive RA requirements from a regional ISO may be designed to accommodate existing California LSEs and the current regime in which the California LRA already directly receives RA allocations from the ISO. Accordingly, ICNU suggests two alternatives that could retain the existing California approach while also addressing the potential preemption controversy concerns associated with new PTOs. First, a regional ISO could follow different approaches in different sub-regions, just as the ISO proposes to factor and respect unique sub-regional concerns in the MIC allocation proposal.[39] In particular, LSEs in the sub-region created from the existing ISO footprint would follow the LRA election approach, while in new sub-regions created outside California LSEs would be directly allocated all RA requirements. Second, a regional ISO could implement a "reverse" election/deferral proposal. Namely, this would be a new mechanism for an LSE to elect to defer allocation of RA requirements, meaning that the ISO can thereby allocate RA requirements directly to the LRA. Of course, an LRA could refuse an LSE's election, but such a refusal by an LRA would not create the same sort of potential preemption controversy because there would be no tacit acceptance of the allocation regime. Quite the opposite, an LRA in such a scenario would be actively refusing to act as a go-between in receiving a regional ISO allocation. Moreover, California LSEs would be expected to elect to defer allocation directly to the California LRA, and the California LRA would be expected to accept the LSE election, in order to maintain the continuity of the longstanding California process. In sum, there appears to be no downside or harmed parties within these alternative approaches, whereas the current ISO proposal could create significant controversy and opposition outside California.

G. Monitoring Locational RA Needs and Procurement

ICNU appreciates the ISO's proposal "to internally monitor and evaluate procurement by LSEs in an expanded BAA before considering any zonal RA procedures and/or

[37] Id. at 43 n.19.
[38] Id. at 41.
[39] Id. at 30-31.

requirements in the future."[40/] While ICNU has been a proponent of a zonal RA construct for the initial formation of a regional ISO,[41/] and continues to support this approach, the ISO's proposed monitoring commitment would at least facilitate later zonal RA analysis and consideration.

H. Updating ISO Tariff Language to be More Generic

Like most, if not all, stakeholders, ICNU has supported updates to FERC tariff language to be more generic. As the ISO points out, "[t]he current tariff utilizes California-centric language that may not be applicable to entities in an expanded balancing area."[42/] ICNU agrees, but would add that a similar rationale applies to ICNU's recommendations to revise FERC tariff language to add protections for new PTO ratepayers in an expanded ISO footprint.[43/] Specifically, potential new PTOs could be faced with significant cost increases resulting from a system wide PRM and other RA program changes, which the customers of those new PTOs would not be subjected to, absent integration into a regional ISO. Thus, just as generic language tariff changes have been proposed to address new concerns arising from an expanded ISO footprint, newly arising ratepayer protection concerns should similarly be addressed. ICNU understands that "[t]he ISO's tariff stakeholder process" may not be initiated anytime in the near future.[44/] But, the fact that the ISO has expressly addressed the need for FERC tariff updates in *this* initiative means that considerations of other needed tariff changes should also be discussed now. In CEC Docket No. 16-RGO-01, ICNU will soon be recommending clarifications to proposed ISO governing principles which could address many of the new PTO ratepayer concerns at issue. Nevertheless, similar protections to actual regional ISO governing documents and FERC-approved tariffs should also be considered.

I. The ISO Should Consider Additional Measures to Prevent Over-Compliance with the Proposed RA Standards

ICNU understands that over-supply of electric generation in other ISOs/RTOs has been recognized in the past, such that the ISO should take steps to avoid a similar result in the West. When establishing PRMs and other RA standards, the ISO should be mindful that over-compliance with an RA standard can be just as damaging to ratepayers as reliability issues that may arise because of under-compliance with an RA standard.

In terms of avoiding excess generation in the West, there are two general areas of concern for ICNU. First, capacity contribution of renewable resources needs to be established at a reasonable level. Renewable resources in a regional transmission system have the potential to produce an amount of capacity that is greater than what may be experienced in an isolated transmission system. Accordingly, the ISO needs to be sure that the resource counting rules do not understate the capacity contribution of these renewable resources. ICNU believes that the use of an ELCC methodology is a reasonable methodology; however, since it can be deployed

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40/ Id. at 43.

41/ See, e.g., ICNU Comments on Revised RA Straw Proposal at 2, 5-6; ICNU Comments on Second Revised RA Straw Proposal at 4.

42/ Third Revised RA Straw Proposal at 44.

43/ E.g., ICNU Comments on Second Revised RA Straw Proposal at 4-7; ICNU Comments on July 21 RA Working Group at 6; ICNU Comments on August 10 RA Working Group at 3.

44/ Third Revised RA Straw Proposal at 44 n.21.

many different ways, the specifics of methodology (i.e., whether based on LOLE (days/yr) or LOLE (events/yr)) needs to be reviewed appropriately.[45/]

Second, measures need to be undertaken to ensure that the regional ISO, as a whole, does not materially exceed a system wide PRM, if one is to be established. If each utility is planning to exceed a particular PRM approved or acknowledged by an LRA, the aggregate of all the utilities' resources in the region has the potential to perpetually exceed the target system wide PRM, and by a considerable amount. For example, if the region is surplus in capacity, yet one of the utilities in the region is not expected to satisfy its LRA-approved PRM, the short utility may still be required to proceed with acquiring a resource, even though it would be uneconomic for the region as a whole, since the system will be placed in an even greater surplus position. Thus, the current structure, as proposed by the ISO, has the potential to encourage utilities to acquire unneeded capacity, resulting a scenario where the region is perpetually overbuilt. ICNU is still evaluating solutions to this second issue, and looks forward to the ISO's thoughts as to ways to avoid being placed in a perpetual oversupply position.

45/ See also ICNU Comments on Revised RA Straw Proposal at 7 (describing additional considerations that should be reflected in ELCC calculations).