

## Stakeholder Comments Template

### Subject: Regional Resource Adequacy Initiative

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the Draft Regional Framework Proposal for the Regional Resource Adequacy initiative that was posted on December 1, 2016. Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **January 4, 2017.**<sup>1/</sup>

Please provide feedback on the Regional RA Draft Regional Framework 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 Regional Framework 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”) Draft Regional Framework Proposal (“Framework 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.

In general, ICNU believes that a regional ISO will be more successful and more extensible if it is based on a zonal RA framework, similar to that currently used by the Mid-Continent System Operator. Many of the issues surrounding governance, transmission cost allocation, and resource adequacy would be more manageable in a zonal market framework, and accordingly, ICNU continues to believe that a zonal construct will better serve the ISO if it is to be expanded throughout the region. ICNU is appreciative of ISO efforts to adopt some

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<sup>1/</sup> Later modified to January 11, 2017.

provisions that are generally more consistent with a zonal market, such as providing priority allocation of imports to utilities located in the region where the import occurs. Notwithstanding, ICNU is concerned that the existing structure may not provide potential new market participants with sufficient value to justify participation in the expanded market. For instance, PacifiCorp already receives a great deal of resource adequacy through the interties with the ISO, as well as its many other interties with many other utilities located throughout the West. Absent a zonal approach, ICNU is concerned that the existing resource adequacy currently available to PacifiCorp through these interties will be diluted. Coupled with potential requirements to plan to higher planning reserve margins (“PRMs”), and there could be significant costs to PacifiCorp customers if PacifiCorp were to join the ISO.

The comments below primarily focus on particular aspects of the Framework Proposal that represent changes from ISO positions stated in the Third Revised Straw Proposal, as well as on issues or discussion topics newly addressed or articulated in a different manner within the Framework Proposal. For ICNU feedback on aspects of the RA initiative that have remained unchanged, please see ICNU’s comments on the Third Revised Straw Proposal, submitted October 27, 2016, in addition to prior ICNU comments.

#### **A. Load Forecasting**

ICNU has repeatedly expressed concerns over elements of the ISO’s load forecasting proposals, including negative cost allocation implications associated with reliability assessment for ratepayers of potential new PTOs.<sup>2/</sup> In an effort to allay such concerns, ICNU has proposed stronger protections in regional ISO governance principles and governing documents to ensure that ratepayers of a Load Serving Entity (“LSE”) will not ultimately be forced to pay higher costs, through the exercise of ISO backstop procurement, as an eventual consequence of any potential variance between RA determinations of a regional ISO and a Local Regulatory Authority (“LRA”), including variance on load forecasting.<sup>3/</sup>

Rather than addressing such concerns, however, the Framework Proposal has effectively doubled down on an inflexible position holding that new PTO ratepayers would be responsible for all variances between LRAs and a regional ISO: “The ISO proposes to exercise backstop procurement based on *any shortfalls* between the demonstrated procured capacity and the reliability assessment the ISO conducts ...”<sup>4/</sup> In the context of load forecasting, this means that, 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.

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<sup>2/</sup> See, e.g., ICNU Comments on Third Revised Straw Proposal at 2; California Energy Commission Docket No. 16-RGO-01, ICNU Comments on 2<sup>nd</sup> Revised Governance Proposal at 3 (Oct. 31, 2016).

<sup>3/</sup> See, e.g., ICNU Comments on RA Reliability Assessment Working Group at 3 (Aug. 24, 2016); ICNU Comments on Second Revised RA Straw Proposal at 3 & n.6 (Jun. 15, 2016); ICNU Comments on RA Load Forecasting Working Group at 4 (July 12, 2016).

<sup>4/</sup> Framework Proposal at 3-4 (emphasis added).

ICNU continues to maintain that 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.*”<sup>5/</sup> Moreover, the “any shortfalls” backstop procurement responsibility standard under the Framework Proposal is contrary to the ISO’s own representations on load forecasting. For instance, the ISO claims “that all load forecast submittals will still be the responsibility of the LSEs and its LRA,” in a manner “clearly placing the responsibility for the final forecast on the individual LSE or LRA responsible for the load forecast.”<sup>6/</sup> If LSEs and LRAs are truly to be responsible for “the final” load forecast, then ratepayers of new PTOs should not be expected to pay costs associated with alleged shortfalls that appear only via comparison between regional ISO and LRA load forecasting.

ICNU respects that the ISO seeks to ensure that a future RA framework will provide for reliable operation of an expanded regional grid, and this is probably the well-intentioned rationale behind the absolute nature of the proposal “to exercise backstop procurement based on *any shortfalls* between the demonstrated procured capacity and the reliability assessment the ISO conducts.” Yet, ICNU strongly encourages the ISO to consider options for nuance and flexibility in the future, should the ISO be interested in realistic opportunities for regionalization support from ratepayers of potential new PTOs. ICNU’s proposals for ratepayer protections, via stronger governing principles and tariff safeguards, would allow a regional ISO to ensure maximum operational reliability. The only difference in ICNU’s approach is the recognition of ratepayer interests, similar to those sought for California customers, to ensure that new PTO customers outside California are not responsible for additional costs that would not have been assessed, “absent the merger.”

For regionalization to achieve broad acceptance, ICNU believes the ISO cannot persist in a strictly “siloeed” or multiple-initiative “parallel” approach that practically ignores vital stakeholder concerns, such as increased ratepayer cost assessments, by narrowly focusing only on technical aspects of operational concerns in isolation, such as load forecasting.<sup>7/</sup> Conversely, if regionalization efforts resume, the ISO would be much more likely to find consensus through a holistic approach that simultaneously considers associated cost implications and LSE/ratepayer responsibilities alongside technical and operational matters. This would probably require the ISO to view the RA initiative as open for more adjustment than the “close to final” status currently presented.<sup>8/</sup>

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<sup>5/</sup> Letter from California Legislature to Governor Edmund G. Brown, Jr., at 2 (Feb. 3, 2016) (emphasis in original).

<sup>6/</sup> Framework Proposal at 10.

<sup>7/</sup> See, e.g., *id.* at 6 (explaining that the RA initiative is among multiple “elements of a larger set of initiatives that comprise the ISO’s development of a framework for regional expansion,” including “the initiative on governance,” with all such initiatives “proceeding in parallel”); *id.* at 54 (noting an understanding of ICNU’s concerns, but stating a belief that “stronger protections against variance in LRA and ISO determinations ... are best dealt with under the governance proceedings”).

<sup>8/</sup> *Id.* at 20.

## B. Reliability Assessment

The ISO states that it is not proposing any significant changes to reliability assessment proposals.<sup>9/</sup> Accordingly, ICNU feedback on reliability assessment issues is limited to the two issues below, as a supplement to feedback provided above and in prior comments.

### 1. Zonal RA Concept v. System-Wide PRM

ICNU has consistently advocated in favor of a zonal RA construct, in which each zone or sub-region of a regional ISO would have a unique PRM, as determined by LRAs under traditional processes.<sup>10/</sup> While the referenced comments provide more detail on the issue, in short, different regions have different loads and resources, which poses unique reliability characteristics and imposes distinct RA requirements. The reliability characteristics of resources used to serve the Northwest, for example, are different than those of resources used to serve Southern California. Accordingly, one expects the PRM of a utility in the Northwest to be different than the PRM of a utility in Southern California, even if calculated using the same methodology.

Using a system-wide PRM disregards the unique characteristics of resources located in different regions, and instead assumes that the reliability characteristics are uniform for all resources located within an expanded ISO. This assumption, however, has the potential to result in a significant problem of leaning. Under a system-side PRM, those regions with resource portfolios possessing better-than-average reliability characteristics may be required to purchase an amount of RA that exceeds the amount required to maintain reliability in that region. Similarly, regions with resource portfolios that are less reliable than the system average may avoid acquiring resources even though additional resources may be needed for reliability purposes in those regions. ICNU does not believe that the use of a single, system-wide PRM is the proper way to conduct system planning, and accordingly, continues to oppose its use in the ISO's RA proposal.

Also, as an appendix to the Framework Proposal, the ISO has provided certain responses that point to the need for reconsideration of zonal alternatives and sub-regional PRM standards to avoid LRA preemption. For instance, the ISO states that it “will use the RA allocations determined by the LRA,” but with the major caveat that “the ISO will utilize the proposed system-wide PRM.”<sup>11/</sup> ICNU believes that the caveat here effectively swallows up the ISO's ostensible deference to LRAs. Specifically, the ISO submits “that any conflicting determinations” between LRA and ISO can be avoided, because “[e]ntities will have the information related to these determinations available when making procurement decisions.”<sup>12/</sup> In operation, however, the ISO is essentially reasoning that an LRA or LSE can avoid conflicts by making procurement decisions based on system-wide PRM information available from the ISO.

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<sup>9/</sup> Id. at 20.

<sup>10/</sup> See, e.g., ICNU Comments on Third Revised Straw Proposal at 7; ICNU Comments on Second Revised RA Straw Proposal at 4; ICNU Comments on Revised RA Straw Proposal at 2, 5-6 (May 4, 2016); ICNU Comments on RA Straw Proposal at 5-6.

<sup>11/</sup> Framework Proposal at 59.

<sup>12/</sup> Id. at 60.

While this may be an effective strategy to avoid conflicts, making procurement decisions based on a system-wide PRM would practically undermine the independence of RA allocations determined by an LRA. That is, should an LRA approve a lower PRM determination, as may occur in PacifiCorp’s biennial Integrated Review Processes, conflict would only be avoided if PacifiCorp were to make procurement decisions based on a higher, system-wide PRM from the regional ISO. In this manner, the LRA determination would become an effectual nullity.

Likewise, the ISO notes concerns expressed by the Bonneville Power Administration (“BPA”) and PacifiCorp over the use of backstop procurement authority, but offers similarly unpersuasive rationale to allay LRA preemption concerns.<sup>13/</sup> For example, while understanding “PacifiCorp’s concerns that the backstop procurement, based on the ISO’s PRM ... may be inconsistent with the PRM ... of LSEs,” the ISO contends that, because it will make necessary information “public in advance of procurement ... LSEs will have the necessary information in order to avoid the potential inconsistency.”<sup>14/</sup> Again, this effectively means LSEs can avoid inconsistency by disregarding LRA determinations in preference to ISO guidance. Indeed, the ISO confirms a belief “that it is not appropriate to use LRA PRMs” due to an alleged potential to create “inconsistent levels of reliability across an expanded balancing area and cause the ability for certain entities to lean on other areas of the system.”<sup>15/</sup>

## 2. Propriety of Directly Addressing Tariff Revisions

ICNU finds a particular statement in the reliability assessment section of the Framework Proposal worthy of note: “The ISO also provides additional detail on the proposed *revisions to the current backstop procurement authority and cost allocation tariff language* that are necessary to fully implement this reliability assessment.”<sup>16/</sup> Plainly, the ISO finds it “necessary” to revise tariff provisions concerning cost allocation and backstop procurement, and to consider direct tariff revisions within the confines of the present RA Framework Proposal. In this sense, ICNU’s concerns on reliability assessment matters—and ICNU’s recommendations to allay such concerns, e.g., those associated with backstop procurement and cost responsibility, as noted above—should be considered appropriate for future RA initiative considerations. This would hold true, even if the ISO maintains a siloed approach, notwithstanding recommendations for a more holistic and nuanced analysis, should regionalization efforts ever resume in earnest. In sum, it would be unreasonable to claim that tariff revisions proposed by ratepayer advocates

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<sup>13/</sup> Id. at 61. ICNU notes that additional stakeholders, both within and outside California, have also expressed concerns over the effective preemption and diminishment of traditional RA authority exercised by an LRA. See id. at 69 (acknowledging concerns by ORA and SCL).

<sup>14/</sup> Id. at 61. See also id. at 67 (arguing again for practical preemption by stating that “LSEs and LRAs will have the necessary information available in sufficient time to allocate RA requirements in a way that avoids conflicting outcomes”).

<sup>15/</sup> Id. at 62. ICNU notes that other stakeholders have expressed concern over the ISO’s “leaning” arguments in support of a reliability assessment proposals. E.g., id. at 59 (“LSA believes that the ISO should not care whether some LSEs are ‘leaning’ on others”); id. at 61 (noting “BPA’s concerns over the ISO using its backstop authority to address leaning issues”). See also ICNU Comments on Third Revised Straw Proposal at 8 (expressing concerns about oversupply positions resulting from a system-wide PRM, in contrast to the ISO’s leaning arguments in support of a system-wide PRM).

<sup>16/</sup> Framework Proposal at 20 (emphasis added). See also id. at 7 (asserting it “necessary to consider potential modifications to the ISO’s resource adequacy tariff provisions”).

are beyond the scope of RA initiative consideration, so long as the ISO itself continues to propose direct tariff modification in the context of backstop procurement and cost allocations.

### C. Requirements for RA Imports

ICNU supports the ISO's proposal to permit up to 10% of an LSE's total system RA requirements to be met through short-term capacity.<sup>17/</sup> This proposal shows flexibility on the ISO's part, and a willingness to find reasonable compromises in direct response to concerns raised by stakeholders associated with potential new PTOs, such as ICNU and PacifiCorp.<sup>18/</sup> It is common practice for utilities not located in the ISO to procure capacity in the month-ahead, and other short-term markets, after the ISO's RA showing due date. Restricting the ability of utilities to rely on these markets may impose costs on new participants, who are not presently bound by the RA showing timeframes required by the ISO. ICNU is supportive of providing flexibility for new PTOs to continue these sorts of procurement practices.

### D. Resource Substitution

ICNU also supports the ISO's proposal to remove current restrictions on the use of external resources as a substitute for internal resources.<sup>19/</sup> Here again, the ISO has shown flexibility and a willingness to reconsider proposals based on the concerns of stakeholders associated with potential new PTOs, such as ICNU and PacifiCorp.<sup>20/</sup>

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<sup>17/</sup> Id. at 42.

<sup>18/</sup> E.g., ICNU Comments on Third Revised Straw Proposal at 5; ICNU Comments on July 21 RA Working Group at 5 (July 29, 2016); PacifiCorp Comments on Third Revised Straw Proposal at 2-3.

<sup>19/</sup> Framework Proposal at 46-47.

<sup>20/</sup> E.g., ICNU Comments on Third Revised Straw Proposal at 5; ICNU Comments on July 21 RA Working Group at 5; ICNU Comments on Second Revised Straw Proposal at 2; PacifiCorp Comments on Third Revised Straw Proposal at 1-2.