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## I. Introduction

On August 27, 2020, the California ISO (CAISO) submitted proposed edits to its Business Practice Manual (BPM) for Reliability Requirements through its BPM change management process. These edits, submitted as proposed revision request (PRR) 1280, strengthen the CAISO's administration of the resource adequacy (RA) program by ensuring only capacity subject to the CAISO's RA tariff requirements counts towards meeting load serving entities' (LSE) RA obligations.<sup>1</sup> PRR 1280 ends the CAISO's accommodation of a practice whereby the CPUC and some local regulatory authorities (LRAs) provide their jurisdictional LSEs with credits toward meeting their RA obligations with resources or load curtailment procedures that do not meet the definition of RA Capacity under the CAISO tariff and that are not subject to the tariff's RA provisions. PRR 1280 stands for the plain and unremarkable, yet requisite, notion that RA obligations must be met with RA Capacity from resources that are both visible and operationally available to the CAISO when and where needed.

Multiple stakeholders objected to PRR 1280 during the BPM change management process, and six stakeholders – the California Public Utilities Commission (CPUC), the Metropolitan Water District of Southern California (MWD), Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), California Efficiency + Demand Management Council (CEDMC), and the California Large Energy Consumers Association (CLECA) – have appealed PRR 1280.

Based on feedback provided during the PRR process and the initial appeal notices, the CAISO understands there are five primary objections to PRR 1280:

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<sup>1</sup> Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the CAISO tariff.

- Objection 1 – PRR 1280 intrudes on LRAs’ authority to recognize the benefits of demand response resources in meeting RA requirements.
- Objection 2 – The changes from PRR 1280 are too significant to handle through BPM revisions, and the CAISO instead should pursue the changes through the FERC tariff amendment process.
- Objection 3 – PRR 1280 exceeds Board authority granted through the slow demand response initiative.
- Objection 4 – The CAISO proposed PRR 1280 too late in the year to fairly apply it to the 2021 RA year.
- Objection 5 – The CAISO’s concerns can be addressed through existing procedures or through less restrictive means.

CAISO staff understands PRR 1280 is unpopular with certain segments of its stakeholder community, but it is an appropriate, overdue, and necessary update to the Reliability Requirements BPM that is consistent with the CAISO tariff. PRR 1280 is motivated by the principle that a resource that counts towards meeting the CAISO balancing authority area’s capacity needs to be Resource Adequacy Capacity subject to the tariff’s RA requirements. In other words, PRR 1280 (1) prevents a LRA from using RA crediting as a means to abrogate or “opt out” of the CAISO’s RA tariff rules and obligations, and (2) ensures there is no undue discriminatory or preferential treatment among RA resource types and their providers. CAISO staff respectfully urge the BPM Appeal Committee to reject these appeals and allow the language added through PRR 1280 to remain.

## **II. Background**

### **A. Overview of Resource Adequacy Program**

California’s RA program, which the CAISO administers jointly with the CPUC and other LRAs in the CAISO balancing authority area, seeks to secure sufficient capacity

when and where needed to support the safe and reliable operation of the CAISO grid. Through the RA program, the CAISO and LRAs establish system, local, and flexible capacity requirements for LSEs. LSEs procure RA Capacity through bilateral capacity contracts or through their ownership/control of generating resources. LSEs and the entities that supply RA Capacity provide the CAISO annual and monthly RA Plans and Supply Plans, respectively.<sup>2</sup> The RA Plans demonstrate to the CAISO that LSEs have met their RA Capacity requirements, and the Supply Plans demonstrate the Resource Adequacy Resources are prepared to accept the tariff obligations of providing RA Capacity.

After LSEs and suppliers submit their RA Plans and Supply Plans, respectively, the CAISO validates that LSEs have met their RA Capacity requirements and cross-validates the RA Plans and Supply Plans to identify potential discrepancies.<sup>3</sup> The CAISO notifies LSEs and suppliers of any deficiencies or inconsistencies and provides a cure period.<sup>4</sup> At the end of that cure period, the CAISO can exercise its capacity procurement mechanism (CPM) authority to backstop for any RA showing deficiencies and allocate the procurement costs to deficient LSEs.

## **B. The Prior Local Regulatory Authority Resource Adequacy Crediting Process**

For several years, the CAISO has accommodated a practice whereby the CPUC and some other LRAs provide RA credits to the CAISO before the RA showings

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<sup>2</sup> CAISO tariff sections 40.2.2.4 (scheduling coordinators for LSEs “must provide annual and monthly Resource Adequacy Plans”) and 40.4.7.1 (“Scheduling Coordinators representing Resource Adequacy Resources supplying Resource Adequacy Capacity shall provide the CAISO with annual and monthly Supply Plans”).

<sup>3</sup> CAISO tariff section 40.7(b).

<sup>4</sup> CAISO tariff section 40.7(a).

process. The CAISO has “counted” a LRA’s credits when determining if a LSE under that LRA’s jurisdiction met its respective RA obligations. Sometimes these credits relate to a single resource that a single LSE showed on its RA Plan, but whose capacity was shared among multiple LSEs. An example is the CPUC’s Cost Allocation Mechanism (CAM), through which an investor owned utility procures a resource on behalf of multiple LSEs. The CAISO processes RA credits for CAM resources to ensure the other LSEs are apportioned their share of that CAM resource. The credits essentially allocate portions of the capacity of a single resource on a Supply Plan among multiple LSEs.

In other cases, however, such as with some demand response resources and liquidated damages contracts, the crediting process essentially counts credited resources as RA Capacity even though the credited LSE does not show the physical resource(s) on its RA Plan, and the supplier does not show the resource(s) on a Supply Plan to support the credited amount. The CPUC and certain LRAs have been submitting RA credits for approximately 2,200 MW of resources that do not appear on Supply Plans, which is a non-trivial amount of capacity.<sup>5</sup>

### **C. CAISO Concerns with LRA Credits**

Processing LRA-provided RA credits for resources not listed on RA Plans or Supply Plans raises clear operational, capacity sufficiency, accountability, and regulatory compliance concerns. PRR 1280 eliminates the practice of crediting these types of resources.

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<sup>5</sup> CAL. INDEP. SYS. OPERATOR CORP., CAL. PUB. UTIL. COMM’N, CAL. ENERGY COMM’N, PRELIMINARY ROOT CAUSE ANALYSIS MID-AUGUST 2020 HEAT STORM, 10 (2020) (reporting a total of 2,197 MW of demand response RA credits for August 2020, which is the majority of RA credits) (Preliminary Root Cause Report).

Importantly, although the CAISO has effectively treated these credits as RA Capacity to meet a LSEs' RA obligations, unlike all other Resource Adequacy Resources providing RA Capacity, these "credited" RA resources are not shown on a Supply Plan and are, therefore, not subject to CAISO RA tariff provisions. The CAISO has no way of knowing if actual resources back the RA credit and will perform without them being shown on a Supply Plan. Even if these resources do exist, because they are not shown in a plan, they are not subject to the RA must-offer obligation, RA Substitute Capacity obligations, or the resource adequacy availability incentive mechanism (RAAIM) because they are not shown on a Supply Plan. Thus, these credited resources have no tariff obligation to bid into the CAISO markets to enable the CAISO to meet its reliability needs, and if they do not perform, or they underperform, they are not subject to RAAIM Non-Availability Charges. They simply do not have the same incentives or obligations as Resource Adequacy Resources. Additionally, where these credited resources are not backed by actual participating resources on the CAISO grid, they are not subject to exceptional dispatch and are not visible to the CAISO's RA-related systems. The practice of crediting resources not subject to RA tariff obligations undermines the RA program's efficacy and jeopardizes reliability.

The regulatory compliance concern arises from the CAISO essentially treating resources that do not meet the tariff definition of RA Capacity as if they were RA Capacity in determining if LSEs have met their RA obligations. As defined in Appendix A of the tariff, RA Capacity is the "supply capacity of a Resource Adequacy Resource listed on a Resource Adequacy Plan and a Supply Plan."<sup>6</sup> Under tariff section 40.7(a),

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<sup>6</sup> CAISO tariff, Appendix A, "Resource Adequacy Capacity."

the CAISO must evaluate whether each annual and monthly RA Plan demonstrates RA Capacity sufficient to satisfy a LSE's (1) allocated responsibility for Local Capacity Area Resources<sup>7</sup> under Section 40.3.2, and (2) applicable Demand and Reserve Margin requirements. Under Section 40.7(a), if the CAISO determines a RA Plan does not meet these requirements, it must notify the LSE's Scheduling Coordinator and LRA of the deficiency. Under the CAISO's practice of recognizing LRA-provided RA credits, the CAISO has made its deficiency evaluation considering both the credited capacity (not shown on a Supply Plan) and the RA Capacity shown on RA Plans and Supply Plans. If a LSE were deficient in meeting its Local Capacity Area Resource obligation or its Demand and Reserve Margin obligation but for the credited capacity not shown on a RA Plan and a Supply Plan, the CAISO has not notified the LSE's LRA or the Scheduling Coordinator a RA Capacity deficiency exists.

Thus, tariff section 40.7 expressly states the CAISO can only consider shown RA Capacity, *i.e.* capacity shown on a RA Plan and Supply Plan, to determine if a LSE is deficient in meeting its RA obligations. The tariff does not permit the CAISO to consider credited resources not shown on RA Plans and Supply Plans, *i.e.*, capacity that is not RA Capacity, in making this determination. This means the CAISO has been using the wrong "trigger" to determine if a LSE has shown sufficient capacity to meet its RA obligations. Also, the CAISO should have been notifying a LSE's Scheduling Coordinator and LRA a deficiency exists where a LSE fails to meet its RA obligations but for the counting of credited resources not shown on Supply Plans. PRR 1280

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<sup>7</sup> The tariff defines a Local Capacity Area Resource as "Resource Adequacy Capacity... that is located in a Local Capacity Area capable of contributing toward the amount of capacity required in a particular Local Capacity Area." CAISO tariff, Appendix A, "Local Capacity Area Resource."

remedies this tariff compliance issue because the CAISO no longer will accept credits for capacity that does not meet the definition of RA Capacity.

**D. Description of PRR 1280 and the “Net Zero Credits” Rule**

As part of the CAISO’s consideration of how to operationalize local demand response resources with slow response times so they can satisfy local reliability requirements, the CAISO reconsidered its practice of accommodating RA credits for capacity not shown on RA Plans and Supply Plans. The CAISO concluded it would no longer accommodate these credits without such local DR resources being shown on a Supply Plan. Although this decision was prompted by an assessment in the CAISO’s slow demand response initiative, it applies broadly to all RA credits of this nature.

On August 27, 2020, the CAISO published PRR 1280 to inform stakeholders of this conclusion. Under PRR 1280, section 4.1 of the Reliability Requirements BPM would state that when “reviewing RA plans for compliance, the CAISO accepts LRA-provided credits against compliance obligations for the LRA’s jurisdictional LSEs provided the credits net to zero.” For example, if the CPUC believes a resource should result in a 10 MW RA credit for a given LSE, then the CAISO would adjust that LSE’s RA obligation in CIRA, the CAISO’s RA system, to match that credit only if the CPUC provides another CPUC jurisdictional LSE (or set of LSEs) a negative credit that totals 10 MW to offset the adjustment for the first LSE. The end result is that the overall amount of RA Capacity LSEs are obligated to provide the CAISO does not change because of the credits.

In addressing the crediting issue, the CAISO has two needs (1) CIRA must reflect the proper overall RA Capacity requirements so the CAISO can operate the grid

reliably, and (2) resources meeting RA requirements must be subject to CAISO RA tariff provisions. The “net zero credits” rule meets both needs. The net zero credits rule meets the first need because it prevents LRAs from using credits to change the overall RA Capacity obligations. Instead, any positive credit must be balanced by equal and opposite negative credits. The “net zero credits” rule addresses the second need because only resources that are listed on Supply Plans will count towards meeting RA obligations. Once a resource is tracked in CIRA as providing RA Capacity, the CAISO’s other systems can then ensure the resource has met its must-offer obligation, is subject to RAIM, and otherwise is treated as a Resource Adequacy Resource.

### **III. Discussion of Concerns Raised in the PRR Process**

#### **A. PRR 1280 Addresses Issues Fully Within the CAISO’s Purview and Does Not Intrude on State Policy or Jurisdiction**

##### *1. Stakeholder Objections on Jurisdiction and CAISO Authority*

The main arguments against PRR 1280 revolve around claims it intrudes on LRAs’ jurisdiction, runs counter to state law, and exceeds the CAISO’s role in administering the RA program.

The starting point of many of these arguments is the (mistaken) view that PRR 1280 precludes demand response resources from being RA Capacity.<sup>8</sup> From this premise, parties argue the alleged invalidation of demand response credits illegitimately supersedes LRAs’ prerogative to set Qualifying Capacity methodologies. MWD, for example, describes PRR 1280 as having the “apparent effect of dramatically changing

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<sup>8</sup> See, e.g., CPUC appeal brief, at 7.

qualifying capacity requirements for System Resource Adequacy”<sup>9</sup> that in turn “effectively eliminates the ability of Local Regulatory Authorities . . . to establish their own demand response requirements and capacity counting methodologies for RA purposes.”<sup>10</sup>

Multiple stakeholders also suggest PRR 1280 contradicts the state’s loading order, which directs that energy efficiency and demand response be pursued first in meeting grid needs, followed by renewables and fossil-fuel-fired generation as a last option. Some stakeholders argue PRR 1280 is contrary to section 454.5(b)(9)(C)(i) of the California Public Utilities Code, which requires a utility “first meet its unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.”

The CPUC staff suggested PRR 1280 is inconsistent with section 380 of the California Public Utilities Code, which provides the CPUC will “[e]stablish new or maintain existing demand response products and tariffs that facilitate the economic dispatch and use of demand response that can either meet or reduce an electrical corporation’s resource adequacy requirements, as determined by the commission.” They argued PRR 1280 would forbid the CPUC from allowing demand response to reduce RA requirements.<sup>11</sup>

Numerous stakeholders claimed PRR 1280’s purported inconsistency with state policy and intrusion into LRAs’ RA jurisdiction financially harms LSEs by invalidating resources they have already procured from meeting RA requirements. They

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<sup>9</sup> MWD appeal brief, at 1.

<sup>10</sup> MWD appeal brief, at 3.

<sup>11</sup> CPUC appeal brief, at 3.

characterized this harm as double procurement – LSEs procuring the now disallowed credited resources and then having to procure additional capacity to fill the gap.<sup>12</sup>

## 2. CAISO Response to Jurisdictional Issues

Contrary to appellants' claims, PRR 1280 does not improperly intrude on state policies regarding demand response or LRAs' authorized responsibilities regarding the RA program. PRR 1280 does not dictate what resources LSEs must procure to meet their RA obligations. Importantly, it does not prevent demand response resources from being Resource Adequacy Resources and providing RA Capacity. PRR 1280 merely requires such resources be shown on RA Plans and Supply Plans to count as RA Capacity. As discussed above, this follows the tariff requirement applicable to every resource that provides RA Capacity. The CAISO's FERC-approved tariff only allows the CAISO to count resources to meet RA obligations if they are shown on a RA Plan and Supply Plan. Appellants also ignore that demand response resources already appear on Supply Plans.<sup>13</sup> These demand response resources are unaffected by PRR 1280, as are any other resources (including previously credited demand response resources) that will be shown on Supply Plans. Allowing credited demand response resources to count toward meeting LSEs' RA obligations and essentially treating them as Resource Adequacy Resources is unduly preferential vis-à-vis all other demand response resources that follow the RA tariff rules, are shown on Supply Plans, and bear all of the obligations and burdens associated with providing RA Capacity.

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<sup>12</sup> CPUC reply comments on PRR, at 4; PG&E opening comments on PRR, at 1; MWD appeal brief, at 4.

<sup>13</sup> For example, for the June 2020 RA month, 235 MW of RA Capacity was shown on Supply Plans from Proxy Demand Resources.

PRR 1280 does not intrude on state or LRA resource adequacy authority. Some stakeholders recognize that FERC approved a balanced approach to RA.<sup>14</sup> Under that balanced approach, the CAISO's FERC-approved tariff defers to LRAs on two primary matters (1) LRAs may determine the planning reserve margin to be added to the Demand forecast to determine system RA requirements for their LSEs,<sup>15</sup> and (2) LRAs may establish a Qualifying Capacity methodology to determine the amount of RA Capacity a Resource Adequacy Resource may provide.<sup>16</sup> In addition, under CAISO tariff section 40.2.3, the Demand component of system RA requirements is based on LSE demand forecasts derived by the California Energy Commission (CEC).<sup>17</sup> The CPUC utilizes the CEC's demand forecasts to determine the system RA obligations of its LSEs.

PRR 1280 continues to respect LRAs' (and the CEC's) primacy on these issues. PRR 1280 addresses matters solely within the CAISO's purview under its tariff, *i.e.*, determining if LSEs have shown sufficient RA Capacity to meet their Demand and Reserve Margin and Local Capacity Area Resource obligations. Nothing about PRR 1280 pertains to, let alone, overrides LRAs' determinations regarding the planning reserve margin for their jurisdictional LSEs.<sup>18</sup> PRR 1280 continues to respect LRAs'

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<sup>14</sup> Western Area Power Administration Comments at 2.

<sup>15</sup> CAISO tariff sections 40.2.1(b) and 40.2.2.1(b). Where the CPUC or a LRA does not establish a planning reserve margin for its LSEs, a 15 percent default planning reserve margin applies.

<sup>16</sup> CAISO tariff sections 40.2.1(c) and 40.2.2.2. Where the CPUC or other LRA does not establish Qualifying Capacity values for the Resource Adequacy Resources meeting their LSEs' RA obligations, the default capacity counting rules in CAISO tariff section 40.8 apply. Under tariff section 40.8, the default Qualifying Capacity criteria only apply "where the CPUC or [LRA] has not established and provided to the CAISO criteria to determine the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity for such eligible resource types."

<sup>17</sup> CAISO tariff sections 40.2.2.3, and 40.2.2.4 (b). If the CEC does not produce a forecast for a LSE, the LSE must provide the information required in the Business Practice Manual. CAISO tariff section 40.2.2.3.

<sup>18</sup> Even assuming, *arguendo*, RA crediting involved LRAs setting the PRM, that still would not allow LSEs to utilize RA credits to meet their Local Capacity Area Resource obligations because those requirements are established by the CAISO, not LRAs, under section 40.3.

(and the CEC’s) primacy on these issues. PRR 1280 addresses matters solely within the CAISO’s purview under its tariff, *i.e.*, determining if LSEs have shown sufficient RA Capacity to meet their Demand and Reserve Margin and Local Capacity Area Resource obligations. Nothing about PRR 1280 overrides LRAs determinations regarding the planning reserve margin for their jurisdictional LSEs. Under the prior crediting practice, LRAs were submitting credits for LSEs to meet the Demand and Reserve Margin obligations and Local Capacity Area Resource obligations that were established through other processes unrelated to the crediting at issue here. Stated differently, RA crediting does not constitute establishing a PRM. LRAs remain able to determine the PRMs applicable to their LSEs.

Similarly, PRR 1280 does not intrude on a LRA’s authority to establish Qualifying Capacity values for resources seeking to provide RA Capacity. Appellants and several stakeholders misconstrue the CAISO tariff and LRAs’ authority regarding Qualifying Capacity determinations. They point to tariff section 40.4.1, which provides that “[t]he CAISO shall use the criteria provided by the CPUC or Local Regulatory Authority to determine and verify, if necessary, the Qualifying Capacity of all Resource Adequacy Resources.”<sup>19</sup> Under Appendix A of the CAISO tariff, Qualifying Capacity is defined as “the maximum Resource Adequacy Capacity that a Resource Adequacy Resource may be eligible to provide.” These stakeholders ignore that under the express terms of the tariff, LRAs’ authority to establish Qualifying Capacity values is limited to determining the Qualifying Capacity of Resource Adequacy Resources, which as discussed above, are only those resources designated on a RA Plan and a Supply Plan

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<sup>19</sup> See, *e.g.*, Western Area Power Administration Comments at 4.

to provide RA Capacity. Under the tariff, LRAs' authority to establish Qualifying Capacity values for Resource Adequacy Resources does not extend to granting RA credits for resources not shown on RA Plans and Supply Plans. Such an extension would inappropriately allow a LRA to deem RA credits equal to shown RA Capacity, even though the credited capacity would not be subject to the RA must-offer obligation the CAISO requires of RA Capacity to maintain system reliability. Because PRR 1280 applies only to credited resources that are not Resource Adequacy Resources, it does not intrude on LRAs' authority to set Qualifying Capacity values.<sup>20</sup>

PRR 1280 likewise does not intrude on the CEC's responsibilities. The CEC will continue to produce LSE Demand forecasts and can consider the impact of any load modifying demand response programs on such forecasts (as it already does). PRR 1280 does not affect Demand side RA obligations; it only addresses the resources that are eligible to provide RA Capacity to meet RA obligations.

CAISO staff disagrees that PRR 1280 conflicts with section 380 of the Public Utility Code. It does not prevent the CPUC from establishing new demand response products or maintaining existing products that can meet or reduce LSEs' RA requirements. PRR 1280 merely requires these "products" be listed on Supply Plans to

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<sup>20</sup> The CAISO will continue to respect LRA qualifying capacity calculations as the starting point for determining Net Qualifying Capacity values. Claims to the contrary reflect a basic misunderstanding of PRR 1280. For example, if MWD's LRA develops a Qualifying Capacity value for its resource adequacy resource that is supported by demand response from its pumping plants, and shows that resource on a RA Plan and Supply Plan, the CAISO will accept the resulting RA capacity. MWD also can avail itself of the CAISO tariff's default Qualifying Capacity methodologies if it wishes to explore registering its pumps as a participating load, proxy demand resource, or reliability demand response resource. The default methodologies for these three resource types are defined in tariff sections 40.8.1.9, 40.8.1.13, and 40.8.1.14, respectively. But if MWD's LRA continues to disallow these pumps from participating in the CAISO market they cannot be RA Capacity under the CAISO tariff. Resource Adequacy Program Elements for the Metropolitan Water District of Southern California, Section 3.1.1 (Jun. 1, 2017) ("Pump load drop will not be a supply-side resource, will not be bid into the CAISO market, and will not be automatically dispatched by the CAISO.")

the extent they are used to meet RA obligations. Section 380 does not address, let alone preclude, this requirement specified in the CAISO's FERC approved tariff. Similarly, PRR 1280 does not prevent the CPUC from establishing load modifying demand response products that do not participate in the CAISO's markets, but instead are designed to reduce LSEs Demand and Reserve Margin requirements. The CPUC, in coordination with the CEC, can process these load modifying demand response programs through the established process for setting the year-ahead Demand forecast. Such load modify demand response products, however, are not the subject of PRR 1280.

Finally, concerns LSEs might have to procure additional capacity as a result of PRR 1280 are misplaced. PRR 1280 does not preclude the previously credited resources from being RA Capacity – as long as they are shown on RA Plans and Supply Plans. Explanations provided during the stakeholder process about why this is inappropriate were (1) it would expose the credited demand response resources to RAIM non-availability charges, and (2) it is unreasonable to expect these resources to meet the RA tariff provisions because the underlying demand response programs were not intended for that purpose. Rather than demonstrating a jurisdictional barrier to PRR 1280, these reasons validate CAISO staff's decision to pursue PRR 1280 and raise concerns about the integrity and value of credited demand response programs. If the credited resources are likely to generate significant RAIM charges due to high unavailability levels, that calls into question whether they are capable of satisfying their claimed and credited capacity values.

Also, LRA crediting practices can cause unduly discriminatory and preferential treatment among LSEs and among different demand response providers. As indicated above, numerous demand response resources are already being shown as RA Capacity and are subject to the must-offer obligation and RAAIM charges. The crediting practice allows other demand response resources to avoid being shown as RA Capacity, enabling them to avoid RAAIM unavailability charges and a must-offer obligation. Further, not all LRAs necessarily engage in the practice of providing credits to their LSEs for resources not shown on RA Plans and Supply Plans. Where this happens, the RA Resources procured by their LSEs can bear greater RA obligations than the resources credited by other LRAs. This potentially could result in some LRA's LSEs "leaning" on the RA Capacity of other LSEs. In summary, if a credited resource is unwilling or incapable of accepting the responsibilities of being RA Capacity, it raises concerns about the capability and dependability of that resource and bolsters the CAISO's concern about inaccurate capacity valuation and possible capacity leaning.

**B. Implementing PRR 1280 Does Not Require a FERC Filing Because it Implements Existing Tariff Authority**

*1. Stakeholder Objections that the Net Zero Credits Rule Requires a Tariff Filing*

Multiple stakeholders argued it was procedurally improper for the CAISO to implement the net zero credits rule through the BPM change management process and claimed the net zero credits rule requires the CAISO to file a tariff amendment with FERC. For example, the CPUC stated "FERC conditioned approval of CAISO's BPM process on the finding that BPM changes do not 'have a material impact on rates'" but

PRR 1280 “would have material impacts on rates because it will affect the ability of already contracted-for Demand Response resources to count as system capacity in RA compliance showings by load serving entities for the 2021 RA compliance year.”<sup>21</sup>

## 2. CAISO Response to the Need for a Tariff Filing

The CPUC correctly noted that in approving the CAISO’s current market system, FERC directed the CAISO not to use its BPM change management process to change the CAISO’s rates.<sup>22</sup> However, PRR 1280 does not change the CAISO’s rates, or its terms and conditions of service. PRR 1280 simply reinforces the CAISO’s existing tariff provisions, as described above. The tariff expressly provides that a LSE is deficient if it does not show sufficient RA Capacity in its annual and monthly RA Plans to meet its Demand and Reserve Margin Requirement and its responsibility for Local Capacity Area Resources. Under these circumstances, the CAISO must notify the LSE’s LRA and Scheduling Coordinator if a RA Plan does not meet this requirement.<sup>23</sup> As discussed above, only RA Capacity can satisfy RA obligations under the tariff for purposes of determining if a RA showing deficiency exists. Because credited resources not shown on RA Plans and Supply Plans are not RA Capacity, the CAISO cannot count them to determine if an LSE is deficient. Implementing PRR 1280 does not change a CAISO rate or require a tariff amendment because it merely effectuates the plain wording of the tariff – ensuring RA obligations are met by RA Capacity.<sup>24</sup>

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<sup>21</sup> CPUC appeal brief, at 3.

<sup>22</sup> See, e.g., *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, PP 1369-1371 (2006).

<sup>23</sup> CAISO tariff section 40.7 (a).

<sup>24</sup> It is insufficient to claim PRR 1280 is invalid because it may affect the rates somebody pays somewhere for something. The key question is whether the PRR alters the CAISO’s rates. As discussed herein, it does not alter the CAISO’s rates.

Some stakeholders suggest the CAISO cannot cease the RA crediting practice because the CAISO accommodated it in the past. The CAISO cannot continue a practice that is inconsistent with the tariff. The tariff requires the CAISO to compare shown RA Capacity to RA obligations, and it must notify a LSE's LRA and Scheduling Coordinator if the LSE does not show sufficient RA Capacity to meet its applicable Demand and Reserve Margin requirements and allocated share of Local Capacity Area Resources.<sup>25</sup> The CAISO has not heretofore provided the requisite deficiency notification in instances where it accommodated LRA credits for resources that do not qualify as RA Capacity. PRR 1280 will ensure the CAISO complies with tariff requirements and only treats resources meeting the tariff definition of RA Capacity as eligible to meet RA obligations.

**C. PRR 1280 is Consistent with Authority the CAISO Governing Board Granted in the Slow Demand Response Initiative**

*1. Stakeholder Objections on Board Approval of Slow Demand Response Initiative*

In opposing PRR 1280, stakeholders argued materials presented to the CAISO's Governing Board on the slow demand response policy initiative suggested the CAISO was only seeking limited authority to restrict RA crediting for demand response resources used to meet local capacity requirements. They claim CAISO staff did not seek, nor did the Board grant, authority to pursue the broader prohibition on RA crediting that PRR 1280 implements.

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<sup>25</sup> CAISO tariff section 40.7 (a).

## 2. CAISO Response to Impact of Slow Demand Response Initiative

CAISO staff has been clear it was not pursuing PRR 1280 solely to implement the slow demand response initiative.<sup>26</sup> Although the operational and regulatory concerns with the existing RA crediting practices came to light in the slow demand response initiative, the CAISO's slow demand response tariff amendment filing only addressed financially settling slow demand response resources when they are subject to exceptional dispatch.<sup>27</sup> The tariff amendment filing did not address RA crediting in any way, nor did it involve any amendments to CAISO tariff section 40, *i.e.*, the section that addresses RA. Thus, although documents presented to the CAISO Board in connection with the slow demand response initiative mentioned RA crediting, they were not directly related to the tariff amendments the Board authorized. Further, the CAISO was not requesting the Board approve of a BPM change because Board approval is not required under the BPM change management process.

The CAISO's concerns that RA needs be met by RA Capacity apply to all resource types and are not limited to a particular type of demand response resource. Also, these concerns are driven by a need to comply with existing tariff provisions that pre-date both PRR 1280 and the slow demand response initiative. Quoting isolated passages from the Board materials on the slow demand response initiative does not render PRR 1280 an illegitimate or unauthorized business practice change.

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<sup>26</sup> The CAISO's Response Matrix to PRR 1280 Initial Comments, provided as Attachment A and also available at [https://bpmcm.caiso.com/Lists/PRR%20Comments/Attachments/1914/PRR1280\\_Initial\\_Comments\\_Matrix.pdf](https://bpmcm.caiso.com/Lists/PRR%20Comments/Attachments/1914/PRR1280_Initial_Comments_Matrix.pdf), stated: "Questions regarding LRA crediting were highlighted in the Slow Demand Response initiative but concerns on this matter cut across all aspects of RA. Further, the tariff amendments from that initiative are tied to financial settlement and accounting of slow demand response resources and do not speak to the crediting issue."

<sup>27</sup> See *Cal. Indep. Sys. Operator Corp.*, Tariff Amendment to Add Settlement Rules for Post-Day-ahead Exceptional Dispatch Energy Schedules, FERC Docket No. ER20-2922-000 (Sept. 18, 2020).

**D. The Timing and Procedures for PRR 1280 Met the Requirements of the BPM Change Management Process**

*1. Stakeholder Objections on PRR 1280 Procedures*

Stakeholders raised concerns about the timing of PRR 1280. They stated that proposing this BPM change in late August was too late in the RA procurement cycle for RA year 2021 and did not give LSEs and other interested parties sufficient time to make adjustments. Stakeholders also expressed frustration that the PRR went into effect on October 30, 2020, the day annual RA showings were due for the 2021 RA year. Stakeholders argued the timing did not provide them sufficient time to appeal the PRR before the CAISO would reject non-neutral credits and potentially designate CPM capacity based on the identified deficiencies. MWD also suggested CAISO staff did not follow its BPM procedures in pursuing PRR 1280.

*2. CAISO Response on Procedural Issues*

The CAISO's BPM for BPM Change Management explains how CAISO staff proceeds with BPM revisions. CAISO staff followed these procedures fully in pursuing PRR 1280. Section 2.4.3 of that BPM creates three PRR categories – Category A, Category B, and Category C – that deal with issues of increasing complexity and significance. The CAISO correctly characterized PRR 1280 as a Category B revision, which deals with “[r]evisions of substantial significance or changes to CAISO or Market Participants’ systems.” Under this category, the CAISO must wait to implement the PRR “until after the next regularly scheduled BPM Change Management meeting” following the meeting where it was first discussed. The CAISO followed this timing in implementing PRR 1280.

MWD suggests the CAISO should have characterized PRR 1280 as Category C, which is for “[r]evisions implementing significant new CAISO policies and/or requiring revisions to the CAISO Tariff.” The CAISO staff disagrees, but it is also irrelevant because the BPM change implementation timeline is identical for both Category B and C changes.

The BPM for BPM Change Management also requires CAISO staff to provide a recommendation report discussing stakeholder responses to the PRR.<sup>28</sup> The CAISO provided this feedback by posting comment matrices and responses for both the initial and reply comments on PRR 1280. Although some stakeholders may disagree with the final outcome, CAISO staff reviewed stakeholder comments fully and provided meaningful responses (and on a few issues even altered the final content of the BPM revisions).

The CAISO staff actually exceeded the requirements of the BPM change management process in connection with PRR 1280. After the CAISO posted PRR 1280 in late August, it conducted separate outreach to the LRAs in the CAISO balancing authority area to ensure they knew about the BPM revision and had a full opportunity to provide feedback through the PRR process. The CAISO also developed an expedited appeal process for PRR 1280 to ensure stakeholders could bring their concerns to the BPM Appeal Committee, and potentially the CAISO Board, by mid-December, rather than late January to early February, which is when the appeal would have been heard based on prior appeal timelines. Because of this accelerated process, both the BPM Appeal Committee and the CAISO Board can consider stakeholder concerns over PRR

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<sup>28</sup> BPM for BPM Change Management, section 2.4.4.

1280 before the CAISO might issue CPM designations in mid-to-late December for annual local or system RA Capacity deficiencies through its annual competitive solicitation process.

Even with these procedural safeguards in place, CAISO staff nevertheless understands that the timing of PRR 1280 was not ideal. In separate discussions with stakeholders, CAISO staff has explained that absent unforeseen circumstances, the CAISO was agreeable to exercise its discretion not to backstop in 2021 for collective or individual RA Capacity deficiencies arising solely from credits disallowed because of PRR 1280.<sup>29</sup> CAISO staff believes this would be a reasonable compromise that delays the most significant effects on market participants for a year, while still providing the CAISO clear visibility over what capacity is available and a path towards tariff compliance. If this approach is adopted, the CAISO will request LRAs provide an accounting of credited capacity disallowed because of PRR 1280 and not shown through RA Plans. This is necessary so the CAISO can determine what RA deficiencies arise solely because of disallowed credits. To ensure tariff compliance, the CAISO will notify LSE's Scheduling Coordinators and LRAs of any RA Capacity deficiencies where shown RA Capacity does not meet or exceed a LSE's RA obligations. Consistent with the tariff, the CAISO will not consider credited resources that are not RA Capacity in making its deficiency determinations and issuing deficiency notifications. Effective for

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<sup>29</sup> This commitment does not extend to CPM designations for significant events or exceptional dispatch, (*i.e.*, intra-monthly CPMs would remain at ISO discretion to address reliability concerns). In addition, collective local or individual LSE deficiencies unrelated to the crediting/showing issue could still be subject to potential CPM. Existing cost allocation rules would apply in all cases of CPM designations in 2021 cases and would apply irrespective of capacity that the LRA would have credited in the absence of PRR 1280.

the 2022 RA year, the CAISO will disregard the impact of disallowed credited capacity in making CPM designation decisions.

**E. PRR 1280 is an Appropriate Response to the Operational and Regulatory Concerns Posed by LRA RA Credits**

*1. Stakeholder Objections on Need for PRR 1280*

Several stakeholders claimed PRR 1280 is unnecessary to address the CAISO's concerns. They argued the CAISO already has information on many of the demand response programs that support the now-disallowed credits, and requiring them to register as Resource Adequacy Resources is unnecessary to utilize them. Some stakeholders pointed to demand response performance during the recent extreme heatwaves as evidence of the value these programs provide in meeting grid needs. The CPUC suggests the CAISO should develop a narrower rule focusing on other LRAs' crediting practices, *e.g.*, LRAs that provide credits for liquidated damages contracts.

*2. CAISO Response on Need for PRR 1280*

CAISO staff respectfully disagrees PRR 1280 is unnecessary to achieve the CAISO's objectives. It is needed both operationally and to support compliance with the tariff. That the CAISO might have information on some credited resources does not convert those resources into RA Capacity and does not subject them to the CAISO's RA tariff provisions. As discussed above, such resources are not subject to the must-offer obligation or RAAIM, and they lack the incentives and obligations of RA Capacity.

Appellants also ignore that currently only the CPUC and a handful of LRAs are utilizing credits for resources not shown on RA Plans and Supply Plans. However, now

that this heretofore limited crediting practice has come to full light, absent implementation of PRR 1280, the risk exists other LRAs will follow suit, and the number of credited resources not shown as RA Capacity could balloon. This could present significant reliability problems. Taking appellants' position to the extreme, absent PRR 1280, it would be permissible for every LRA to permit its LSEs to use only credited resources to meet their RA obligations, and LSEs would not need to show any RA Capacity. Such an outcome would undermine the RA framework and impose grid reliability risks the CAISO cannot accept. Even on a smaller scale it would encourage and enable some LSEs to "lean" on other LSEs that are following the tariff rules and showing actual RA Capacity to meet their RA obligations.

Importantly, PRR 1280 is not a referendum on whether demand response programs or any other credited resource type provides benefits to the CAISO grid. That such resources may provide benefits or may have performed well during a stressed grid condition does not transform them into RA Capacity or mean they are capable of regularly performing up to RA standards. Until those resources appear on RA Plans and Supply Plans, the CAISO's capacity needs are not met, and the resources bear no RA performance obligations.

Finally, the CAISO cannot adopt a rule that forbids some LRAs' non-neutral crediting practices but allows other LRA's LSEs to continue not meeting all their RA obligations with RA Capacity. A rule favoring one LRA's LSEs would be unduly discriminatory and preferential. Nor should the CAISO unduly discriminate by only requiring certain types of resources to be shown on RA Plans and Supply Plans. All of these resources are supposed to be providing the same product – RA Capacity – to

meet the CAISO's reliability needs. This suggestion also ignores that a significant number of demand response resources already appear on RA Plans and Supply Plans. The CAISO must continue to focus broadly on RA crediting issues, as outlined in the joint agency Preliminary Root Cause Analysis on the August 14 and 15 load shedding events.<sup>30</sup>

#### **IV. Conclusion**

CAISO staff urges the BPM Appeal Committee to reject the appeals of PRR 1280. The BPM changes adopted through PRR 1280 will play a critical role in strengthening the CAISO's administration of the RA program, promoting greater grid reliability, and facilitating tariff compliance.

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<sup>30</sup> Preliminary Root Cause Report, at 65 (noting a preliminary recommendation that the CAISO "continue efforts to stipulate its expectations on credits").

### **Attachment A – Key Text of PRR 1280**

In reviewing RA plans for compliance, the CAISO accepts LRA-provided credits against compliance obligations for the LRA's jurisdictional LSEs provided the credits net to zero. For example, the CAISO accepts credits related to the CPUC's Cost Allocation Mechanism because the credits allocate capacity from a known resource to various LSEs but they do not reduce the RA capacity provided and shown to the CAISO.

Consistent with the previous paragraph with respect to credits netting to zero, the CAISO understands that the CPUC may provide, on a quarterly basis, updated obligations/credits for their jurisdictional LSEs due to load migration or other factors. Where the CPUC provides such updates, the CAISO will incorporate the updated obligations/credits into the LSEs' monthly RA requirements as soon as feasible. The CAISO will only use the updated requirements for the month-ahead RA process; updated requirements will not be used to change existing annual CPM cost allocations. If the updated CPUC allocation relates to local RA obligations and the updated allocation does not fully allocate the total sum of each CPUC Load Serving Entity's proportionate share calculated under Section 40.3.2(a), then the ISO will allocate to CPUC load serving entities the difference using the default allocation provisions under section 40.3.2(c) of the tariff.

## Attachment B – CAISO Response Matrix to PRR 1280 Initial Comments

CAISO Response Matrix – PRR 1280 Initial Comments

Comment	Party Making Comment	CAISO Response
PRR1280 will have harmful impacts that are inconsistent with state law and state policy.	CPUC; PG&E; SCE	The key outcome of PRR1280 is to ensure consistent treatment of all RA resources under the CAISO tariff and that resources counting towards meeting RA obligations be shown on RA supply plans. This outcome is neutral as to particular resource types and ensures consistent and non-discriminatory treatment among all resources providing RA capacity. In general, resources shown on RA supply plans face exposure to RAAIM non-availability charges if they cannot satisfy their RA capacity obligations. The CAISO acknowledges some resources may now face such exposure because of this PRR. The CAISO, however, does not agree that ensuring more even application of RAAIM across resources meeting RA obligations is an impermissible harmful impact.
PRR1280 intrudes on state jurisdiction and exceeds CAISO authority.	CPUC; PG&E; SCE	The PRR relates to aspects of the RA program that are within the CAISO's tariff authority. LRAs may set their planning reserve margin and establish qualifying capacity methodologies. Nothing about PRR1280 intrudes on LRAs' ability to exercise their authority on those matters.
PRR1280 exceeds Board authority from Slow Demand Response initiative.	CPUC; PG&E; SCE; SDG&E	Questions regarding LRA crediting were highlighted in the Slow Demand Response initiative but concerns on this matter cut across all aspects of RA. Further, the tariff amendments from that initiative are tied to financial settlement and accounting of slow demand response resources and do not speak to the crediting issue.
PRR1280 is not an appropriate change for a BPM.	CPUC	The key outcome of PRR1280 is to ensure consistent treatment of all RA resources under the CAISO tariff and that resources counting towards meeting RA obligations be shown on RA supply plans. This outcome is consistent with existing tariff and as such, the CAISO finds it is an appropriate BPM change.
PRR1280 is not necessary to achieve CAISO objectives.	SCE; PG&E	The CAISO respectfully disagrees. There is value to the CAISO in ensuring that resources counting towards meeting RA obligations are on RA supply plans. This ensures equal and non-discriminatory treatment of all RA resources under the CAISO tariff and ensures that all RA resources follow the CAISO tariff.
Which LSEs' adjustments get rejected? When?	SDG&E	If LRA credits do not net to zero, then all of the credits would be rejected. It would not be limited to a given LSE falling under the given LRA's jurisdiction.
How does this account for concern that load migration is not net neutral?	SDG&E	The CAISO has adjusted the PRR language to ensure that the revised BPM does not interfere with load migration processes or other aspects of setting LSE RA obligations.
What deficiency penalties would LSEs face?	SDG&E	The CAISO does not have RA deficiency penalties and PRR1280 does not propose to create any such penalties.
How does this relate to CPM designations for deficiencies?	SDG&E	Where the CAISO issues CPM designations for individual LSE deficiencies, then, per the tariff, the CAISO would allocate appropriate procurement costs to the deficient LSEs.
Do the concerns that motivate this PRR extend to liquidated damages contracts?	CPUC	The CAISO's concern extends across all credits that are used to meet RA obligations.
It does not seem appropriate that this PRR could go into effect even while a potential appeal is pending.	CPUC	The CAISO is following its established BPM change management process.

[https://bpmcm.aiso.com/Lists/PRR Comments/Attachments/1914/PRR1280 Initial Comments Matrix.pdf](https://bpmcm.aiso.com/Lists/PRR%20Comments/Attachments/1914/PRR1280%20Initial%20Comments%20Matrix.pdf)

## Attachment C – CAISO Response Matrix to PRR 1280 Reply Comments

CAISO Response Matrix – PRR 1280 Reply Comments

Comment	Party Making Comment	CAISO Response
CLECA; CalCCA; SCE	PRR1280 exceeds Board authority from Slow Demand Response initiative.	See response to initial comments.
CLECA	PRR1280 is not necessary to achieve CAISO objectives.	See response to initial comments.
CLECA; CalCCA; CPUC	This change invalidate IOU DR programs as RA capacity and thus impacts rates.	PRR1280 does not invalidate IOU DR programs. They are fully qualified to be RA capacity provided they are shown on a RA supply plan.
CLECA; CPUC; PG&E	PRR1280 is inconsistent with state law and state policy.	See response to initial comments.
CLECA; CalCCA; CPUC; SDG&E	PRR1280 is not an appropriate change for a BPM.	See response to initial comments.
CLECA	CAISO has created barriers to DR by proposing ELCC in CPUC Supply Side Working Group and opposing proposals for weather sensitive DR.	The CAISO does not agree with this characterization. The CAISO's ELCC methodology addresses and values DR for all reasons that cause DR variability, not just weather. DR can vary based on day of the week, hour of the day, season, temperature, production, occupancy, and various other factors.
CalCCA	The timing of this change is inappropriate coming so close to the annual RA showings deadline.	As stated in the response to initial comments, the CAISO is following its established BPM change management process. Additionally, the CAISO will explore ways to provide stakeholders an accelerated BPM appeal process if there are remaining concerns with PRR1280.
CalCCA; PG&E; SCE	Changes of this sort need to be done in concert with the CPUC	The CAISO and CPUC coordinate to a significant degree in administering the RA program but cannot always reach consensus on all matters. Because PRR1280 deals with critical reliability concerns and addresses them by adjusting items fully within the CAISO's purview, the CAISO finds that PRR1280 is appropriate.
CalCCA	PRR1280 intrudes on state jurisdiction and exceeds CAISO authority.	See response to initial comments.
CPUC; SCE	IOU DR programs provide important benefits as reflected in the recent August heatwave.	PRR1280 is not a referendum on the value of DR programs. Instead, it seeks to ensure that capacity meeting RA obligations is shown through RA supply plans.
CPUC	PRR1280 could be tailored more narrowly to address the the quality of credits allowed by non-CPUC LRAs	The CAISO is not prepared to craft a rule that excludes a particular LRA. PRR1280 is neutral in applying to all LRAs.
CPUC	Existing RMR and CPM credits are not net neutral but the CAISO has suggested these credits are not problematic.	Where the allocation of credits from RMR and CPM units matches the total capacity value of those units, the credits should be net neutral.
CPUC	The key harmful impact from PRR1280 is forcing double procurement rather than avoiding RAAIM.	The CAISO's concern is that RA obligations are met with RA capacity. To the extent existing DR programs can count as RA capacity, there should be no issue of double procurement.
NCPA	PRR1280 interferes with LRAs' tariff-defined authority to set QC values; the changes should be limited to CPUC	The CAISO fully respects that LRAs can still establish their own QC methodologies. The CAISO is not prepared to craft a rule that only applies to one LRA.
SCE	Demand response effectively is a variable energy resource so there needs to be a stakeholder process to consider granting it a RAAIM exemption. Not doing so constitutes discriminatory treatment against DR.	The CAISO understands the perspective that DR is similar to solar and wind in its variability. However, the CPUC has yet to formally state that DR is a variable energy resource and should be treated as such. The CPUC treats DR as a fixed capacity resource, not a variable resource. Specifically, DRAM DR participants must submit a fixed capacity value on their RA supply plan. The CAISO does not see why IOU DR programs should be treated differently than DRAM DR programs. Under the current structure, the CAISO does not see how treating similar resources in the same fashion would constitute undue discrimination.
SCE	The CAISO does not adequately consider that DR programs face prohibitive RAAIM charges because of their unique attributes.	Any IOU DR programs that are shown on supply plans as a result of PRR1280 would be treated the same as DRAM RA resources, which are treated by the CPUC as fixed capacity resources. If the IOU DR programs are incapable of delivering their RA capacity value for which they are deemed, then, as the CAISO has been petitioning, the Commission should formally recognize that fact and begin treating and valuing DR as a variable energy RA resource. If DR were evaluated like other variable resources under an ELCC methodology, then a RAAIM exemption might be appropriate. Until that time, DR is a fixed capacity resource subject to RAAIM like all other similarly situated RA resources.
SDG&E	The concept of credits netting to zero is unclear in the proposed language.	The CAISO does not agree with SDG&E's proposed edits because it ties the concept of credits to a given resource. That is not what the CAISO proposes. The CAISO is indifferent to what resources a LSE shows so long as it has the appropriate NQC values.
SDG&E	Clarifying the "credits" vs. "adjustments" terminology	The paragraph SDG&E points to anticipates that a LRA may provide an intra-year change to either the allocation of credits amongst its LSEs or may change the LSE's actual RA requirement because of factors such as load migration. For this reason, the CAISO refers to both items.

[https://bpmcm.aiso.com/Lists/PRR%20Details/Attachments/1280/PRR1280\\_Reply\\_Comments\\_Matrix%20Final%20Decision.pdf](https://bpmcm.aiso.com/Lists/PRR%20Details/Attachments/1280/PRR1280_Reply_Comments_Matrix%20Final%20Decision.pdf)