

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations

Rulemaking 19-11-009
(Filed November 7, 2019)

**OPENING COMMENTS ON PROPOSED DECISION ADOPTING
LOCAL CAPACITY AND FLEXIBLE CAPACITY OBLIGATIONS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Roger E. Collanton
General Counsel
Anthony Ivancovich
Deputy General Counsel
Jordan Pinjuv
Senior Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom California 95630
Tel.: (916) 351-4429
jpinjuv@caiso.com

Date: June 10, 2021

Table of Contents

I.	Introduction	1
II.	Discussion.....	1
A.	The Proposed Decision Fails to Ensure Reliable and Dependable Resource Adequacy Imports	1
1.	The Commission Should Adopt the CAISO’s Resource Adequacy Import Proposal.	2
2.	The Proposed Decision Does Not Present a Compelling Reason for Deferring Resource Adequacy Import Rule Changes.....	4
B.	If the Commission Does Not Adopt the CAISO’s Resource Adequacy Import Proposal in Full, It Should, at a Minimum, Ensure Robust Implementation of Existing Commission Rules.	7
C.	The CAISO Supports President Batjer’s Ruling on Effective Load Carrying Capacity Methodology for Investor Owned Utilities’ Demand Response Programs for Resource Adequacy Year 2022.....	8
D.	The Commission Should Officially Increase the Planning Reserve Margin per the CAISO’s Proposal.....	9
III.	Conclusion.....	11

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations

Rulemaking 19-11-009
(Filed November 7, 2019)

**OPENING COMMENTS ON PROPOSED DECISION ADOPTING
LOCAL CAPACITY AND FLEXIBLE CAPACITY OBLIGATIONS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

I. Introduction

The California Independent System Operator Corporation (CAISO) provides opening comments on the proposed *Decision Adopting Local Capacity Obligations for 2022-2024, Flexible Capacity Obligations for 2022, and Refinements to the Resource Adequacy Program* (Proposed Decision). The CAISO appreciates the opportunity to provide opening comments.

II. Discussion

A. The Proposed Decision Fails to Ensure Reliable and Dependable Resource Adequacy Imports.

The CAISO opposes the Proposed Decision's conclusion to defer considering the CAISO's resource adequacy proposal to allow time for the Commission to evaluate the impacts of recent rule changes limiting the ability of resource adequacy imports to bid economically into the market. The Proposed Decision fails to adopt enhancements necessary to make resource adequacy imports more reliable and dependable. As the western interconnection faces increased risk of supply shortfalls and stressed summer grid conditions,¹ resource adequacy import reliability and dependability are critical to maintaining grid reliability. As a result, the Commission should adopt CAISO's proposal

¹ Western Electric Coordinating Council (WECC), *August 2020 Heatwave Event Analysis Report*, March 19, 2021, p. 2.

or, at a minimum, ensure a portion of procured resource adequacy imports are delivered on firm transmission to the CAISO system, consistent with the Commission’s current requirements. The Commission should also require resource adequacy import contracts to contain provisions preventing double counting of capacity and/or energy.

1. The Commission Should Adopt the CAISO’s Resource Adequacy Import Proposal.

The Commission should adopt CAISO’s proposed resource adequacy import requirements. The CAISO’s proposal would require resource adequacy imports (1) identify the source and balancing authority area where the generation is located, (2) meet attestation requirements to ensure capacity and/or energy is not committed to other parties or uses, and (3) be delivered on high priority transmission.² These requirements are consistent with industry practice in the western interconnection (through the Open Access Transmission Tariff (OATT) frameworks) and regional transmission operator/independent system operator (RTO/ISO) organized markets. These requirements are prudent measures to ensure reliable and dependable import supply.³

The CAISO proposed minimum 16x7 availability requirements, *i.e.*, 16 hours per day from 0600-2200 and 7 days a week, for non-dynamic resource specific resource adequacy imports (not pseudo-tie or dynamically scheduled imports) to improve import product liquidity.⁴ Furthermore, the CAISO proposed a transitional framework for 2022 in which the Commission would require a portion of procured imports meet the CAISO’s proposed rules, while allowing load serving entities to procure the remaining portion under the Commission’s current rules. The CAISO proposed full implementation of its recommended requirements in 2023.⁵

Requiring resource adequacy imports to identify their source and balancing authority area will ensure physical generation supports the contract for the duration of the showing, rather than allowing spot market purchases. Requiring resource adequacy imports to attest the capacity and/or energy under contract has not been committed to other parties or uses ensures the CAISO can reasonably rely on shown resource adequacy plan supply, because

² CAISO, *Reply Comments on Track 3B.1 Proposals*, March 26, 2021, pp. 1-9.

³ California Public Utilities Commission Track 3.B.1/Track 4 Workshops, *Import RA: CPUC Workshop*, R.19-11-009, February 25, 2021, pp. 18-19.

⁴ CAISO, *Reply Comments on Track 3B.1 Proposals*, March 26, 2021, pp. 1-9.

⁵ *Id.*

the import will be available solely to the CAISO regardless of system conditions, particularly during stressed system conditions. These are prudent contractual terms to prevent resource double counting.

Lastly, requiring resource adequacy imports be delivered on high priority transmission, secured by the monthly showing deadline, provides greater assurance imports will be deliverable to the CAISO during west-wide stressed conditions.⁶ Resource adequacy imports are subject to delivery risk because they must traverse one or more transmission systems to reach the CAISO, and they are subject to curtailment across any of those intervening systems. Requiring high priority transmission is prudent and consistent with industry practice to minimize curtailment risk and better ensure reliable delivery.

Taken as a whole, the CAISO's proposed resource adequacy import requirements are prudent and reasonable measures to help ensure the CAISO can rely on contracted imports to serve its balancing authority area. Without these measures, imports may not be available to the CAISO in stressed system conditions, particularly when there is competition across the west for supply.

The CAISO also proposed the Commission adopt a minimum 16x7 availability requirement for non-dynamic resource specific resource adequacy imports and a framework for an orderly transition to the new proposed requirements.⁷ The Commission's current Maximum Cumulative Capacity (MCC) framework permits load serving entities to procure resource adequacy imports that are available only five or six days a week, for 16, 8, or even fewer hours. These availability requirements are inadequate and can place grid reliability at risk. The 16x7 availability requirement balances the need to maintain grid reliability during the morning and evening peak hours seven days a week, while providing liquidity with a product that can be available less than 24x7.

To facilitate orderly implementation, the CAISO proposed 2022 be a transitional year for implementing its resource adequacy import proposal, with full implementation for compliance year 2023.⁸ For 2022, the Commission would have discretion to determine the amount of resource adequacy imports load serving entities would procure under the

⁶ The CAISO proposal would require resource adequacy imports to acquire firm transmission on the last leg to the CAISO and firm, conditional firm, or monthly non-firm transmission on all other transmission legs.

⁷ *Id.*

⁸ *Id.*

CAISO's proposed requirements versus the amount procured under existing rules. The Commission could consider requiring load serving entities to procure a specified percentage of imports meeting the CAISO-proposed requirements for the transitional year. This would allow load serving entities to adjust their procurement practices and enable suppliers to make any necessary arrangements to offer an import product meeting the new requirements. However, under the CAISO's transition proposal, all resource adequacy imports would be required to meet the high priority transmission requirement in 2022 to provide greater deliverability assurance.

Failure to adopt the CAISO's proposal will allow proliferation of problematic practices the Commission and the region have sought to address during the last two resource adequacy proceedings. Inaction could adversely affect the CAISO's ability to respond in stressed system conditions and manage the grid reliably. As California enters a challenging summer 2021 for grid reliability, the CAISO will continue to evaluate and monitor resource adequacy import performance. At a minimum, the Commission should establish an expedited procedural venue to assess 2021 resource adequacy import performance and allow time to adopt new import requirements before summer 2022. The CAISO will be prepared to make any commensurate and necessary tariff modifications to accommodate a Commission decision in any expedited procedural venue prior to summer 2022.

2. The Proposed Decision Does Not Present a Compelling Reason for Deferring Resource Adequacy Import Rule Changes.

The Proposed Decision defers adopting resource adequacy import rule changes partially based on the finding that additional changes are premature in light of recently adopted changes in D.20-06-028 effective for compliance year 2021.⁹ To support this conclusion, the Proposed Decision references speculation by some commenters that adopting high priority transmission requirements for resource adequacy imports could promote the exercise of transmission market power, create market confusion, increase costs, or reduce import resource liquidity. The rationale for rejecting the CAISO's proposal is not compelling given the limitations and gaps in the Commission's current rules and it

⁹ California Public Utilities Commission, *Proposed Decision Adopting Local Capacity Obligations for 2022-2024, Flexible Capacity Obligations for 2022, and Refinements to the Resource Adequacy Program*, May 21, 2021, p. 62.

disregards the challenges facing the CAISO-controlled grid and the western interconnection.

In prior filings in this proceeding, the CAISO extensively responded to concerns regarding the potential exercise of transmission market power on the interties by transmission rights holders.¹⁰ The CAISO shared data indicating twenty-one (21) different parties—ranging from load serving entities to power marketers—currently hold long-term firm transmission rights on the California Oregon Border (COB) intertie and the Nevada Oregon Border (NOB) intertie.¹¹ Ten (10) of those existing transmission rights holders are power marketers, the majority of which, if not all, have historically supplied resource adequacy imports to load serving entities in the CAISO balancing authority area.

Load serving entities seeking to secure and deliver resource adequacy imports across the COB or NOB interties can contract directly with these suppliers or other parties holding long-term firm transmission rights to deliver a power product. Alternatively, load serving entities can contract with other suppliers who can seek to procure the necessary transmission rights via resale from existing rights holders, or load serving entities themselves can seek to procure those transmission rights via resale. A high priority transmission requirement should provide a clear signal to suppliers seeking to sell a resource adequacy product, or load serving entities within CAISO, to enter the relevant transmission queues causing transmission providers to study potential system expansion. Depending on resource adequacy imports delivered on non-firm transmission, which can cause import non-delivery during stressed conditions, places system reliability at undue risk. Moreover, general concerns the high priority transmission requirement will cause transmission rights holders to exercise system market power are unsupported. In any event, if those concerns materialize, parties can raise those issues with the relevant transmission providers under their open access transmission tariffs (OATTs) and with the Federal Energy Regulatory Commission (FERC).

The CAISO acknowledged its proposed resource adequacy import requirements may increase costs.¹² However, the benefits of reliable and dependable import supply, on which

¹⁰ California Public Utilities Commission Track 3.B Workshops: Day 2, R.19-11-009, CAISO’s *Import RA Proposal*, November 23, 2020, pp. 109-111.

¹¹ *Id.*

¹² *Final Track 3.B Proposals of the California Independent System Operator Corporation*, December 18, 2020, p. 12.

the CAISO increasingly relies upon to manage the grid reliability, outweighs concerns regarding marginally increased costs. Throughout the proceeding, prospective import suppliers have noted their ability and willingness to identify both the source of generation and meet the attestation requirement.¹³ Requiring physical supply to support the import should not increase costs. Securing high priority transmission may potentially add cost if the load serving entity has not previously secured such rights. However, any increased costs associated with higher priority transmission are warranted because higher priority transmission service is generally more costly under OATT frameworks than non-firm transmission, and it makes imports more reliable.

The assertion the CAISO's proposed resource adequacy import requirements will lead to market confusion is unfounded. The CAISO's proposed changes are consistent with industry practice and are prudent requirements suppliers already must comply with in some form when contracting with load serving entities under the OATT framework. Separately, parties have provided no data to support assertions the proposed rule changes will reduce import liquidity. Nevertheless, the CAISO has proposed a minimum 16x7 availability requirement, which should improve liquidity. Moreover, as explained above, the CAISO has proposed a transitional year in 2022 to allow suppliers and load serving entities to understand the impacts, adjust practices, and improve available import product quality.

Finally, adopting the CAISO proposal will not prevent the Commission from evaluating the impacts of the import rule changes adopted in D.20-06-028. The CAISO proposal does not modify the rules the Commission adopted requiring non-pseudo tie and non-dynamically scheduled resource adequacy imports to be self-scheduled or offered economically at prices ranging between -\$150/MWh to \$0/MWh during availability assessment hours. The Commission can evaluate the impacts of these rule changes throughout resource adequacy year 2021 and the proposed transitional year 2022, while adopting incremental requirements to address resource adequacy import quality.

¹³ *Comments of Bonneville Power Administration on Track 3B.1 Proposals*, March 12, 2021. Available at: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M371/K105/371105622.PDF>

B. If the Commission Does Not Adopt the CAISO’s Resource Adequacy Import Proposal in Full, It Should, at a Minimum, Ensure Robust Implementation of Existing Commission Rules.

The Commission’s current resource adequacy import rules, originally adopted in D.04-10-035, and reaffirmed in D.20-06-028, specify the qualifying capacity for import contracts is the contract amount, provided the contract: (1) is an Import Energy Product with operating reserves, (2) cannot be curtailed for economic reasons, and (3a) is delivered on transmission that cannot be curtailed in operating hours for economic reasons or bumped by higher priority transmission, or (3b) specifies firm delivery point (*i.e.*, not seller’s choice).¹⁴ Under Commission rules, load serving entities have the option to require import delivery on firm transmission under element 3a, but ultimately can avoid this requirement by pursuing delivery at a firm delivery point consistent with element 3b. Neither load serving entities nor Energy Division staff have explained how or whether element 3a has been implemented and how compliance is tracked. To help ensure import reliability and dependability, the Commission should require load serving entities to secure a portion (a percentage) of contracted imports under current requirement 3a (*i.e.*, delivered on firm transmission). This would allow the Commission to evaluate the impacts of requiring firm transmission delivery, while providing the CAISO with a specified quantity of imports that are more reliable and dependable. Adopting this requirement would not preclude the Commission from evaluating the effectiveness of its recently adopted import rules in D.20-06-028.

The Commission should also require import contracts to contain provisions preventing double counting of contracted capacity and/or energy. Firm power contracts, whether for capacity and/or energy, regularly contain certain warranties and representations that the supplier/seller has not committed the power under contract to other parties or uses. Such provisions provide assurance the power will be available to the contracting party when called upon. As far back as 2005, during the Rulemaking 04-04-003, the Commission considered standardized contract language¹⁵ to address double counting. Ultimately, the

¹⁴Decision 20-06-028, *Decision Adopting Resource Adequacy Import Requirements*, June 25, 2020, p. 4

¹⁵ Resource Adequacy Phase 2 Workshop Report in R.04-04-003, Appendix B page 4 June 10, 2005.

Stakeholders considered “Illustrative Capacity Product Contract Language” under section 2.3(iv)(a) - “Furthermore, Seller represents and warrants to Buyer and Seller: a. has not committed, and shall not commit, any portion of the Contract Quantity to satisfy the Forward Commitment Obligations, or analogous obligations

Commission declined to adopt mandatory standard language.¹⁶ During this proceeding, there has been limited, if any, opposition to the CAISO's proposal to incorporate attestation language to prevent double counting of capacity and/or energy under contract. The Commission should adopt this discrete requirement regardless of whether it adopts the CAISO's other resource adequacy import proposals. The Commission need not adopt specific contractual language, but could suggest sample language, allowing parties determine the exact terms and conditions. The sample language could be similar to that discussed during resource adequacy workshops in 2005.¹⁷

During the Commission's resource adequacy compliance and validation processes, Energy Division staff should review import contracts to ensure they contain adequate provisions against double counting. Lack of such a provision is clear indication the capacity and/or energy under contract may consist of speculative supply and be double-counted. Adopting this requirement does not preclude the Commission from evaluating the effectiveness of the import rules in D.20-06-028.

C. The CAISO Supports President Batjer's Ruling on Effective Load Carrying Capacity Methodology for Investor Owned Utilities' Demand Response Programs for Resource Adequacy Year 2022.

On June 3, 2021, President Batjer released an Assigned Ruling on *Submission of Refreshed Effective Load Carrying Capability Study Results* (Ruling).¹⁸ This Ruling directs the CAISO in collaboration with Southern California Edison (SCE), Pacific Gas and Electric (PG&E), and San Diego Gas and Electric (SDG&E) to replicate the Energy +

in other markets, of any party other than Buyer during the Delivery Period.” Available at:

<https://docs.cpuc.ca.gov/PUBLISHED/REPORT/46914.PDF>

¹⁶ California Public Utilities Commission (CPUC) *Order Instituting Rulemaking to Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning*, R.04-04-003, 2005, p. 23. The Commission declined to adopt mandatory standard contract language noting “[w]e are persuaded that it is neither necessary nor desirable to require that specific language be adopted as a mandatory component of qualifying contracts. As AReM point out, contract language is sometimes modified on a company-by-company basis due to internal legal requirements or preference. We agree that the focus should be on essential contract elements.” The Commission went on to note further “[m]oreover, we note that PG&E has developed contract language as part of its efforts to fulfill its incremental RA portfolio for 2006. Whether or not this language should be an appropriate template for other parties and in other circumstances, PG&E’s advice letter demonstrates that parties are able to craft necessary contract language without our first adjudicating it.”

¹⁷ Footnote 15, above, contains the specific language considered in Rulemaking 04-04-003.

¹⁸ *Assigned Commissioner's Ruling on Submission of Refreshed Effective load Carrying Capability Study Results*, R.19-11-009, June 3, 2021.

Environmental Economics' (E3's) 2019 effective load carrying capacity (ELCC) analysis using updated 2020 data. The Ruling requires filing of the updated analysis with the Commission no later than July 1, 2021 to allow the Commission ample time to consider adopting the refreshed ELCC study results as qualifying capacity values for IOU demand response for 2022.¹⁹

The CAISO fully supports the Ruling and appreciates the Commission's additional consideration of this issue. The CAISO agrees to make the filing directed in the Ruling. The filing will include (1) refreshed study results using 2020 bid data from the IOUs, (2) documentation of study methodology, assumptions, and explanation if the Load Impact Protocol (LIP) filings were utilized, (3) a summary of differences between LIP and ELCC methodology, and (4) a workshop summary report. Per the Ruling, the CAISO looks forward to stakeholder participation, including the Energy Division staff, during the workshop. Furthermore, the CAISO agrees with the three conditions in the Ruling limiting application of any adopted ELCC qualifying capacity values to the 2022 compliance year only to IOU demand response programs.²⁰ Finally, based on this understanding, the CAISO commits to make appropriate filings at FERC to waive application of the resource adequacy availability incentive mechanism (RAAIM) to demand response resources with qualifying capacity values based on an ELCC methodology. This will allow the Commission to direct the IOUs to show demand response resources on supply plans rather than credit the capacity toward meeting resource adequacy requirements. The CAISO looks forward to collaborating with the Energy Division staff, IOUs, and parties to fulfill the Ruling's requirements.

D. The Commission Should Officially Increase the Planning Reserve Margin per the CAISO's Proposal.

In the *Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Reliable Electric Service in California in the Event of an Extreme Weather Event* in 2021, the Commission adopted two decisions to ensure electric reliability for summer 2021

¹⁹ *Id.*, p. 2.

²⁰ *Id.*, pp. 3-4.

and 2022.²¹ D. 21-03-056 “effectively” increased the planning reserve margin (PRM) from 15% to 17.5% for summer 2021 and 2022 in light of the heatwave events experienced in summer 2020.²² The Commission directed the IOUs to procure a minimum of 1,000 MW of capacity for summer 2021 and 2022. However, the PRM for procurement requirements remains at 15%, and the decision noted that permanent changes to the PRM should ultimately be made in the Integrated Resource Planning and Resource Adequacy proceedings.

The Commission should officially adopt a 17.5% PRM in this decision, as suggested in D. 21-03-056. Adopting the CAISO’s PRM proposal for resource adequacy year 2022 will ensure all Commission-jurisdictional load serving entities are equally responsible for their resource adequacy showings. Currently, D.21-03-056 only directs the IOUs to procure additional capacity to meet the “effective” 17.5% PRM. Adopting an official PRM in this decision will ensure equitable procurement among all Commission-jurisdictional load serving entities. In addition, adopting an official PRM will eliminate the risk of load serving entities simply procuring existing capacity to satisfy the additional procurement requirement. For example, portions of the 3,300 MW of new capacity authorized in the IRP proceeding will begin to come online by summer 2021.²³ However, without an increase in the PRM requirement, existing capacity contracts could simply replace the new capacity, and there would be no incremental benefit. Therefore, adopting an increased PRM in this decision will ensure load serving entities procure new resources as incremental capacity, ensuring there is sufficient overall capacity to meet reliability needs. Finally, increasing the PRM enables the CAISO to use its backstop mechanism if there is a deficiency in overall procurement. Although the Commission acknowledged the need for a 17.5% PRM in D.21-03-056, at this time, the CAISO can only backstop up to the official PRM, which remains 15%. Adopting a 17.5% PRM is crucial for the CAISO to exercise its backstop procurement

²¹ Decision 21-02-028, *Decision directing Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company to seek contracts for additional power capacity for summer 2021 reliability*, R.20-11-003, February 17, 2021. Decision 21-03-056, *Decision directing Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company to take actions to prepare for potential extreme weather in summers of 2021 and 2022*, R. 20-11-003, March 25, 2021.

²² Decision 21-03-056, *Decision directing Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company to take actions to prepare for potential extreme weather in summers of 2021 and 2022*, R. 20-11-003, March 25, 2021.

²³ Decision 19-11-016, *Decision Requiring Electric System Reliability Procurement for 2021-2023*, R. 16-02-007, November 13, 2019.

mechanism, if needed. The CAISO believes the Commission should adopt the 17.5% PRM proposal for resource adequacy year 2022 to ensure all resource adequacy incentives and mechanisms are applied.

III. Conclusion

The CAISO appreciates the opportunity to provide comments on the Proposed Decision and looks forward to working with the Commission to address resource adequacy issues going forward.

Respectfully submitted

By: /s/ Jordan Pinjuv

Roger E. Collanton
General Counsel
Anthony Ivancovich
Deputy General Counsel
Jordan Pinjuv
Senior Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 351-4429
Fax: (916) 608-7222
jpinjuv@caiso.com

Attorneys for the California
Independent System Operator
Corporation

Dated: June 10, 2021