

Metropolitan Water District of Southern California Opening Brief – Appeal of Final Decision on PRR 1280

Submitted by	Organization	Date Submitted
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Previous Comments on PRR

The Metropolitan Water District of Southern California (“Metropolitan”) timely filed a notice of appeal on November 13, 2020. Metropolitan had not previously filed comments in PRR 1280 because it was only made aware of the proposed changes when the California ISO rejected Metropolitan’s System Resource Adequacy Plan for 2021 on October 30, 2020, citing to PRR 1280 as the reason for the rejection.

Reason for Appeal

I. Introduction

In a one-line addition to its Business Practice Manual for Reliability Requirements, PRR 1280 has made a significant change in the resource adequacy requirements for Local Regulatory Authorities (“LRAs”), one that will have a serious financial impact on Metropolitan, an LRA that operates a unique system within the CAISO controlled grid. PRR 1280 requires that LRA-provided credits against compliance obligations “net to zero” but not reduce the RA capacity provided and shown to CAISO. While the language and intent are not clear, it appears from CAISO’s

responses to stakeholder comments, and in CAISO's rejection of Metropolitan's RA plan, that it is interpreting this language to restrict LRAs from using load-reduction mechanisms in System RA plans and showings unless the load reduction is used as a supply-side demand response resource. CAISO's Tariff does not include this limitation, and CAISO is operating beyond its authority to change rates, terms and conditions of service without seeking Board and FERC approval by imposing this limitation through a change to a Business Practice Manual.

In addition, CAISO has not demonstrated that it is just and reasonable to impose these limitations on System RA plans and showings for entities like Metropolitan that operate large wholesale water supply systems with steady and predictable pump load. While Metropolitan appreciates that CAISO must take appropriate and reasonable steps to address the RA deficiency in California, CAISO has not demonstrated that this change will be effective in addressing the real problems the RA framework is facing, problems illustrated well in many CAISO comments filed at the California Public Utilities Commission over the years. CAISO should not be making changes that have significant financial impact on wholesale water ratepayers in California without a stakeholder process that examines the potential solutions and results in a Board and FERC-approved revision that meets the requirement that the change be just and reasonable.

This PPR is substantively flawed and its adoption is procedurally defective. Metropolitan therefore respectfully requests that PRR 1280 be rescinded.

II. Argument

A. *The changes to CAISO's Resource Adequacy rules imposed under PRR 1280 are changes to the rates, terms and conditions of service and therefore cannot be accomplished by amending a Business Practice Manual*

Prohibiting Local Regulatory Authorities from relying on load reduction mechanisms in System RA plans and showings, unless used as a supply-side demand response resource, significantly revises rates, terms and conditions of service. CAISO must seek Board and FERC approval to amend its Tariff to make changes like this to its resource adequacy rules.¹

The revised BPM language adopted by CAISO pursuant to PRR 1280 specifies that, in reviewing RA plans, “the CAISO accepts LRA-provided credits against compliance obligations for the LRA's jurisdictional LSEs provided the credits net to zero.” Although this language does not explicitly restrict the use of any type of demand response resource to meet System RA requirements, stakeholder comments, CAISO's responses to those comments in the two matrices, and Metropolitan's experience with

¹ Cal. Indep. Sys. Operator Corp., at para. 43, Docket No. ER16-1085-000, 155 F.E.R.C. P61,229 (June 2, 2016) (“Decisions on whether to place an item in CAISO's tariff or a business practice manual are shaped by the Commission's ‘rule of reason’ policy, which dictates that provisions that ‘significantly affect rates, terms, and conditions’ must be included in the filed tariff. The Commission noted that it is appropriate for a business practice manual to contain ‘implementation details, such as instructions, guidelines, examples and charts, which guide internal operations and inform market participants of how the [public utility] conducts its operations under the ...tariff.’ The Commission has also found that the ‘rule of reason’ test requires evaluation on a case-by-case basis, comparing what is in a tariff against what is in an unfiled business practice manual.”). Cal. Indep. Sys. Operator Corp., at para. 17 fn. 19, Docket No. ER15-2565-001, 154 F.E.R.C. P61,122 (Feb. 19, 2016) (“The Commission's regulations require public utilities to file rate schedules ‘clearly and specifically setting forth all rates and charges for any transmission or sale of electric energy subject to the jurisdiction of this Commission.’ 18 C.F.R. § 35.1(a) (2015).”). See Cal. Indep. Sys. Operator Corp., at para. 23, 122 F.E.R.C. P61,271 (March 24, 2008) (requiring CAISO to include the formula for calculating incremental heat rates in its tariff rather than its Business Practice Manual for Market Instruments.).

its 2021 RA plan, strongly suggest that CAISO is reading such a restriction into this language.

Imposing these restrictions via amendments to the CAISO Reliability Requirements BPM is improper. These changes are not implementation details but significant and material changes to how CAISO has been working with LRAs to evaluate RA plans and showings. CAISO's apparent interpretation of PRR 1280 effectively eliminates the ability of Local Regulatory Authorities such as Metropolitan to establish their own demand response requirements and capacity counting methodologies for RA purposes. Section 40 of the CAISO Tariff contains numerous provisions pertaining to the relationship between Local Regulatory Authorities and CAISO, including LRA adoption of Reserve Margins (Section 40.22.1); determining qualifying resource types and Qualifying Capacity from resources (40.2.2.2 and 40.4.1); establishing circumstances for the LRA to set the terms and conditions for how Participating Loads, Reliability Demand Response Resources, or Proxy Demand Resources are administered by the CAISO when included in RA plans (40.6.12); and how CAISO interacts with LRAs when evaluating RA plans for compliance purposes (40.7). CAISO's Tariff does not restrict LRAs from relying on load-interruption programs as credits against compliance obligations related to meeting System RA requirements.

Consistent with, and in reliance upon, this Tariff framework, Metropolitan's Board of Directors adopted an LRA RA program that permits it to utilize load interruption at two of its pumping plants to meet its System RA requirements, a program that has led to Metropolitan successfully submitting its RA plans and showings, and CAISO accepting them, since Metropolitan executed its Operating Agreement with CAISO in 2017.

By restricting the use of demand response resources in the manner apparently contemplated in PRR 1280, CAISO has effectively eliminated Metropolitan's ability to use pump load interruption to meet its RA requirements in a manner consistent with its LRA-approved RA program. This change cannot be made by amending a Business Practice Manual.²

B. CAISO has not demonstrated eliminating the option for LRAs to use load-reduction mechanism for System RA plans and showings is just and reasonable

In eliminating the load-reduction mechanism for Metropolitan and other LRAs, CAISO would impose significant additional expenses on Metropolitan's ratepayers without making any showing that the change is warranted or effective. While CAISO has developed an extensive record before the California Public Utilities Commission supporting why other elements of the RA framework should be changed to improve reliability,³ no such demonstration has been made related to the elimination of relying

² Metropolitan has reviewed CAISO's July 15, 2020 Board memorandum describing the mechanism CAISO has developed to allow slow demand response PDRs to participate as supply-side resources in local capacity areas. We do not see the Board action as either authorizing CAISO to stop considering load-reduction mechanisms as part of RA plans and showings or being an adequate step for CAISO to do so even if the Board authorized it. Finally, the memo addressed resources needed to meet local reliability requirements, not system reliability requirements. Memorandum from Mark Rothleder to the ISO Board of Governors, "Decision on slow demand response and proxy demand resources proposal" (July 15, 2020), available at: <http://www.caiso.com/Documents/DecisiononSlowDemandResponseandProxyDemandResources-Memo-July2020.pdf> (approved during CAISO's July 22, 2020 Board meeting).

³ See, e.g., California Independent System Operator Corporation Track 2 Testimony Chapter 1: Introduction and Background, at 2-4, Cal. Pub. Util. Comm'n. Rulemaking 17-09-020 (July 10, 2018) (CAISO's testimony filed at the CPUC includes the following needed RA reforms: a 1-in-5 year demand forecast during months with the highest peak demand uncertainty; multi-year procurement; load migration and the proliferation of smaller LSEs procuring RA resources; and the shifting reliability concern from peak load to net peak load).

on pump load interruption as a load-reduction mechanism in a System RA plan and showing.⁴

CAISO has established a Metropolitan-specific TAC area for RA compliance purposes. As this area has no Local RA requirements, Metropolitan uses its LRA-approved qualifying capacity, including the pump load drop referenced above, to meet its System RA requirements. Until recently, CAISO has accepted Metropolitan's annual RA plans, which have included demand credits for its pump load drop. However, CAISO rejected Metropolitan's RA plan for 2021, referencing PRR 1280 and indicating that Metropolitan could no longer claim demand credits for its pump load drop but would need to either register its RA resource as a supply-side demand response resource or obtain an alternate resource to meet its System RA requirement. This direction, which appears to validate Metropolitan's above interpretation of PRR 1280 to apply new restrictions on the use of demand reduction resources for System RA showings, places Metropolitan in the untenable position being unable to use pump load drop consistent with its Board of Director's LRA-approved RA program,⁵ and requires Metropolitan to procure costly replacement capacity without any evidence this is needed.

Metropolitan's Operating Agreement with CAISO includes demand reduction provisions to effectively balance supply and demand on Metropolitan's Colorado River

⁴ While CAISO's July 15, 2020 Board memo relating to slow demand response and proxy demand resources references comments filed at the California Public Utilities Commission urging the Commission to discontinue its practice of crediting demand response programs against resource adequacy requirements, CAISO focuses its argument on local DR resources that can participate in CAISO's new dispatch mechanism allowing slow proxy demand response resources to participate as supply-side resources. However, CAISO does not provide any demonstration that using the crediting mechanism for the DR resources has any detrimental impact on reliability.

⁵ Because operation of the pumps must consider a variety of factors related to southern California water needs and maintaining flow in the 242 miles of aqueducts on Metropolitan's system, pump load drop cannot participate as a supply-side resource under CAISO's current rules.

Aqueduct system. When called upon, these provisions provide System RA support to the CAISO grid. CAISO should continue to allow Metropolitan to use its load reduction mechanism for its System RA plans and showings without requiring Metropolitan's pump load to participate as a supply-side resource.

C. *PRR 1280 is procedurally defective*

Metropolitan is dismayed by the lack of publicly available documentation on PRR 1280 and, in particular, the lack of any articulation of the rationale for the change to the BPM for Reliability Requirements. To Metropolitan's knowledge, the only CAISO-authored documentation on PRR 1280 is the proposed change, two one-page matrices with responses to comments, a revision to the proposed change, and a fragmentary "final decision," indicating only that the PRR was adopted as modified. This final decision does not appear to comply with the letter or the spirit of the process laid out in CAISO's BPM for BPM Change Management. Metropolitan questions the categorization of PRR 1280 as "B," given the PRR's significant policy and practical impacts (see discussion below), but even a Category B change appears to require a recommendation report and impact analysis. The lack of such documentation makes it extremely difficult for market participants to interpret the BPM change (much less evaluate its implications) and provide meaningful comments and appeals.

For Metropolitan, the substance and the impact of the changes proposed by PRR 1280 were not even apparent until the rejection of its 2021 RA plan which prompted a review of stakeholder comments. This lack of clarity and transparency stands in stark contrast to CAISO's standard stakeholder engagement processes.

Conclusion

In a November 11, 2020 memorandum to its Board of Governors, CAISO indicated that PRR 1280 is “intended to ensure consistent treatment of all [RA] resources” by requiring that such resources be “shown on RA supply plans.”⁶ CAISO also indicated it will continue to work through stakeholder concerns regarding PRR 1280. To the extent that CAISO believes that load drop resources such as Metropolitan’s should no longer be counted in a manner consistent with LRA-approved RA programs, CAISO should initiate a stakeholder process to evaluate impacts and alternative approaches, including exceptions for resources like pump load which have unique attributes and implications for water supply in Southern California. In the meantime, however, PRR 1280 is inconsistent with Section 40.4.1 of the CAISO Tariff, and Metropolitan respectfully requests that CAISO’s adoption of PRR 1280 be rescinded immediately for the reasons provided herein.

⁶ Memorandum from Stacey Crowley to the ISO Board of Governors, “Business practice manual change management report” (Nov. 11, 2020), *available at*: <http://www.caiso.com/Documents/BusinessPracticeManualChangeManagementReport-Memo-Nov2020.pdf>.