

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

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

Rulemaking 21-10-002
(Filed October 7, 2021)

**REPLY COMMENTS ON WORKSHOP AND PROPOSALS
OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

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I. Introduction

Pursuant to the September 2, 2022 *Assigned Commissioner's Amended Scoping Memo and Ruling* (Ruling), and the February 13, 2023 *E-mail Ruling Granting Western Power Trading Forum's Request for Extension to File Comments on Phase 3 Proposals*, the California Independent System Operator Corporation (CAISO) provides its reply comments on the Resource Adequacy Implementation Phase 3 Workshop and all Party Proposals (Phase 3 Proposals). The CAISO's reply comments focus on the need for the California Public Utilities Commission (Commission) to develop a programmatic procurement framework to alleviate supply issues in the resource adequacy timeframe. The CAISO also responds to comments that characterize inaccurately the CAISO's process for setting local capacity requirements (LCRs), and urges the Commission to reject proposed changes to the CAISO's maximum import capability (MIC) and available transfer capability (ATC) processes. Lastly, the CAISO agrees with parties that the Commission should not adopt a must-flow or self-schedule requirement for non-resource-specific resource adequacy imports.

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II. Discussion

A. The Commission Should Focus on Developing an Orderly Procurement Process in the Integrated Resource Planning Proceeding to Address Supply Issues in the Resource Adequacy Timeframe.

1. The Commission Should Discontinue Use of Temporary Measures to Address Supply Issues.

The CAISO agrees with parties that the Commission should set the planning reserve margin (PRM) in the resource adequacy program to meet at least a 1 in 10 loss of load expectation (LOLE).¹ Energy Division’s LOLE study demonstrates that the PRM for 2024 should be higher than 17 percent to meet a 1 in 10 LOLE target.² The CAISO also agrees with parties that caution against continued use of an “effective” PRM. Resources used to meet an “effective” PRM are not necessarily subject to the same requirements as resource adequacy resources. For example, Southern California Edison (SCE) notes that an effective PRM construct allows for “less stringent resource counting.”³ The CAISO agrees with other parties that use of an “effective” PRM can result in reliance on capacity that is subject to less stringent rules compared to resource adequacy resources, and that use of an “effective” PRM hinders the CAISO’s ability to use its backstop procurement mechanisms.⁴

2. The Commission Should Prioritize Development of an Orderly Procurement Framework.

The CAISO understands that tight supply conditions currently exist in the resource adequacy market and that load serving entities (LSEs) have reported they face significant procurement challenges currently. The Commission also projects that resource needs will increase significantly over the next ten years.⁵ There are a number of factors contributing to

¹ Calpine Corporation (Calpine) Opening Comments p. 1; Middle River Power LLC (MRP) Opening Comments p. 7; Vistra Corp. (Vistra) Opening Comments p. 16; Microsoft Corporation Opening Comments p. 3.

² Energy Division Staff, “Loss of Load Expectation and Slice of Day Tool Analysis for 2024,” January 20, 2023, p. 8.

³ SCE Opening Comments, p. 9.

⁴ Calpine Opening Comments p. 2, MRP Opening Comments, p. 8, Western Power Trading Forum (WPTF) Opening Comments, pp. 2-3.

⁵ Commission, D.23-02-040, *Decision Ordering Supplemental Mid-Term Reliability Procurement (2026-2027) And Transmitting Electric Resource Portfolios To California Independent System Operator For 2023-2024 Transmission Planning Process*, February 23, 2023.

these supply challenges, including: (1) the Commission appropriately adjusting effective load carrying capability values for wind and solar to more accurately reflect their current contribution to reliability; (2) increases to the load forecast; and (3) tightening supply conditions across the West. The CAISO believes it is critical that the Commission prioritize planning and procurement reforms to ensure reliability going forward.

The CAISO agrees with Marin Clean Energy (MCE) that “[t]he state of the RA program emphasizes the importance of strong, long-term resource planning processes that ensure long-term resource needs are contemplated and resources are planned, brought online in an orderly fashion, and ultimately available to the RA program.”⁶ The CAISO also agrees with MCE that the Commission should focus on developing an ordered procurement process that identifies needs early based on empirical analysis to help address supply issues.⁷ Ideally, LSEs will contract with a significant portion of the needed resources well in advance, such that incremental procurement required in the annual timeframe is minimized and limited to address, for example, small changes to load forecasts. The CAISO also appreciates MCE’s comment regarding the need for coordination between the Integrated Resource Planning (IRP) process and the CAISO’s interconnection process.⁸ The CAISO will continue to work with the Commission and California Energy Commission (CEC) to advance new resource development through alignment of resource planning, transmission planning, procurement processes, and the CAISO interconnection process.⁹

3. The Commission Should Evaluate Consolidating Existing and Incremental Procurement Under an IRP Procurement Program.

The CAISO appreciates the significant steps the Commission has taken in recent years to advance procurement in California. The CAISO agrees with parties that the Commission should expeditiously develop a programmatic procurement framework that considers new and existing resources.¹⁰ The CAISO also agrees with parties that the Commission should consider ongoing

⁶ MCE Opening Comments, p. 7.

⁷ *Id.*, p. 8.

⁸ *Id.*

⁹ *Memorandum of Understanding between CPUC, CEC, CAISO Regarding Transmission and Resource Planning and Implementation*: <http://www.caiso.com/Documents/ISO-CEC-and-CPUC-Memorandum-of-Understanding-Dec-2022.pdf>.

¹⁰ Calpine Opening Comments, p. 7; MRP Opening Comments, p.17; Vistra Opening Comments, p. 25.

efforts to enhance the procurement framework in the IRP proceeding before adopting a multi-year resource adequacy framework in this proceeding.¹¹ Although multi-year resource adequacy is an enhancement to the status quo, the CAISO sees significant efficiencies in moving existing and new procurement under the IRP framework. Finally, the CAISO agrees with the California Environmental Justice Alliance, Union of Concerned Scientists, and the Natural Resources Defense Council (Joint Parties) that the Commission should account for system and local resource needs in an enhanced IRP procurement process.¹²

B. The Commission Should Reject Claims that the CAISO Artificially Reduces Local Capacity Requirements.

The CAISO disagrees with WPTF that CAISO’s LCR study process “artificially” reduces LCRs. The CAISO also disagrees with WPTF that Vistra’s local resource adequacy proposal would result in a more “accurate” measure of LCRs.¹³ As stated in opening comments, the CAISO already includes “new resources” expected to be in-service by June 1 of the study year in its local capacity studies.¹⁴ Further, as Pacific Gas and Electric Company (PG&E) notes, Vistra’s proposal ignores transmission solutions that reduce LCR needs.¹⁵ Some projects may already be approved in the CAISO’s Transmission Planning Process (TPP). Vistra’s proposal also does not consider the interaction between generation and transmission in local areas. Adding a resource to a local area could create deliverability issues requiring transmission upgrades to connect new generation. In this case, transmission upgrades will lower the local capacity requirement, potentially obviating the need for new generation. Therefore setting LCRs such that only new generation can meet local needs will not result in more “accurate” LCRs.

Additionally, LCR studies and reports are prepared consistent with direction in the CAISO tariff. As such, parties should bring comments and suggestions regarding the CAISO-established LCR process to the CAISO’s LCR stakeholder process.

¹¹ PG&E Opening Comments p. 12; Joint Parties Opening Comments, p. 4.

¹² Joint Parties Opening Comments, p. 4.

¹³ WPTF Opening Comments p. 12.

¹⁴ CAISO Opening Comments, p. 12.

¹⁵ PG&E Opening Comments p. 9.

C. The Commission Should Reject Energy Division’s Available Transfer Capability Proposal.

The CAISO disagrees with San Diego Gas & Electric Company (SDG&E), the Department of Market Monitoring (DMM), and Shell Energy Solutions (Shell Energy) that the Commission should allow ATC to be paired with imports for resource adequacy purposes.¹⁶ First, the CAISO reiterates that MIC and deliverability concepts are subject to the CAISO tariff, and any changes to MIC and its application to resource adequacy must be vetted through the CAISO’s stakeholder processes, approved by the CAISO Board of Governors, and approved by FERC. Accordingly, the Commission should reject Energy Division’s proposal to alter rules related to ATC and MIC in this proceeding.

Second, allowing LSEs to use ATC to show resource adequacy imports would inappropriately conflate the MIC processes for resource adequacy imports to serve CAISO load and the ATC processes for external parties to support wheels across the CAISO footprint. The CAISO’s proposed ATC process does not replace the processes LSEs in the CAISO balancing area have today to obtain MIC and ensure simultaneous deliverability of imports shown as resource adequacy. In opening comments, the CAISO noted that total transfer capability (TTC) across the interties to the CAISO is approximately 45,000 MW. Although this amount of imports is not simultaneously deliverable to the aggregate of CAISO load, the CAISO expects resource adequacy imports and priority wheeling volumes to remain in line with historical levels, which are far less than the combined TTC. The CAISO’s ATC calculation represents the transmission available at the interties to support priority wheel throughs after accounting for native load needs (accounting for historical resource adequacy and non-resource adequacy contracts and native load growth) and existing transmission contracts. The CAISO will also include a transmission reliability margin in the monthly and daily ATC calculations to account for uncertainty before releasing ATC to parties external to the CAISO to support wheel throughs.¹⁷ Entities seeking ATC to establish wheeling through scheduling priority must also have contractual arrangements for the wheel through supply in order to access the ATC. With these requirements, the CAISO does not expect significant changes in volumes of high priority

¹⁶ SDG&E Opening Comments, p. 6; DMM Opening Comments p. 10; Shell Energy comments p. 8.

¹⁷ CAISO, *TSMSP Phase 2 Final Proposal*, January 18, 2023:

<http://www.caiso.com/InitiativeDocuments/FinalProposal-TransmissionService-MarketSchedulingPrioritiesPhase2.pdf>

wheel through transactions across the CAISO system compared to historical volumes. Therefore the CAISO's proposed ATC process should not displace or augment existing MIC processes. The CAISO nevertheless has committed to monitoring impacts of the Transmission Service and Market Scheduling Priorities (TSMSP) Phase 2 proposal to the CAISO system, and will seek to enhance the design if it observes any adverse impacts on flows or system reliability.¹⁸ For the reasons set forth above, the Commission should reject the Energy Division's ATC proposal.

The Commission should also reject SDG&E's and Shell Energy's suggestions that the Commission consider removing MIC requirements for imports altogether. MIC is a measure of deliverability for import resource adequacy, and allows for allocation of deliverability across interties for imports to serve CAISO demand. The CAISO, however, remains open to reviewing and evolving its MIC design to ensure that LSEs can utilize and transact for allocated intertie capacity to the maximum extent possible to support import resource adequacy.

D. The Commission Should Not Adopt a Must-Flow Requirement for Non-Resource Specific Import Resource Adequacy.

The CAISO agrees with parties that the Commission should not adopt Energy Division's proposal to impose a must-flow or self-schedule requirement for non-resource-specific import resource adequacy, which would remove the current ability of non-resource-specific import resource adequacy to bid a price between zero and -\$150/MWh.¹⁹ The CAISO agrees with SCE and Bonneville Power Administration (BPA) concerns that a self-schedule requirement during availability assessment hours could adversely affect market efficiency and make it difficult for the CAISO to manage potential over-supply conditions.²⁰

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¹⁸ *Id.*

¹⁹ SCE Opening Comments, p. 19; BPA Opening Comments p. 4; WPTF Opening Comments, p. 15; California Community Choice Association Opening Comments, p. 28; Alliance for Retail Energy Markets Opening Comments, p. 14.

²⁰ SCE Opening Comments, p. 20, BPA Opening Comments p. 4.

III. Conclusion

The CAISO appreciates the opportunity to provide reply comments.

Respectfully submitted

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