

ORA Stakeholder Comments

Subject: Regional Resource Adequacy Initiative Straw Proposal

Submitted by	Company	Date Submitted
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The State of California's Office of Ratepayer Advocates (ORA) provides the following comments on the California Independent System Operator Corporation's (CAISO) Straw Proposal on regional Resource Adequacy (RA) issued on February 24, 2016, and briefing materials presented at the March 2, 2016, stakeholder meeting.

ORA has questions regarding the Planning Reserve Margin, Counting Resource Capacity, Load Forecast, Initiative Time Frame and Governance, and the CAISO Initiative Development. The regional RA effort is proceeding in advance of (1) critical studies¹ not yet completed that would evaluate the potential impacts of regionalization; and (2) a proposed governance structure for the expanded regional independent system operator, including California's role within the new governance structure. ORA elaborates on its questions in the following comments.

1. Planning Reserve Margin (PRM)

As proposed in the Straw Proposal, the Local Resource Authorities (LRAs) and Load Serving Entities (LSEs) could "continue to establish their own PRM and procure to that level if they choose for their planning purposes."² At the same time, however, the Straw Proposal states that "there may be some risk that the ISO's reliability needs will not be met if entities employ PRMs that are significantly different than the PRM used by the ISO."³

The CAISO⁴ will determine a minimal PRM to apply to all LRAs and use that figure to run monthly reliability assessments. If an LRA uses a PRM lower than the CAISO determined

¹ California Senate Bill SB 350 in section 395.5e(1) calls for the following studies to determine if regionalization is in the best interests of California and its ratepayers: overall benefits to ratepayers, including the creation or retention of jobs and other benefits to the California economy, environmental impacts in California and elsewhere, impacts in disadvantaged communities, emissions of greenhouse gases and other air pollutants, and reliability and integration of renewable energy resources.

² Regional Resource Adequacy, Straw Proposal, February 24, 2016 (Straw Proposal), p. 13.

³ Ibid.

⁴ The Straw Proposal recommends changes to the CAISO tariff that will create a framework for expansion into other states. The current schedule provides that FERC approval will be sought later this year ahead of the California legislature's

PRM, the CAISO could require the LRA to increase its procurement to meet the minimum. Should an LRA use a PRM above the CAISO-mandated minimum, it could procure unnecessary quantities at ratepayer expense to meet this higher PRM without receiving any additional reliability benefits. As currently written, the Straw Proposal would allow an LRA to procure an amount below the minimum PRM if that under-procurement did not result in a system-wide deficiency. In this situation, an under-procured LRA that did not meet the minimum PRM may not be ordered increase procurement and could receive an unfair advantage at the expense of LRAs with higher PRMs that contribute to system-wide resource adequacy

The Straw Proposal attempts to allow LRAs and LSEs to determine independent PRMs for their area. However, it is unclear what authority would be left to the states or LRAs if the CAISO-mandated minimum exists. In the workshops, independent LRAs and LSEs mentioned that they would like to continue to determine their PRM. Further discussions / workshops are warranted regarding how the LRA PRM determinations with differing values from the CAISO's may lead to different procurement levels creating potential inequities that would need to be resolved.

2. Counting Resource Capacity

Currently the CPUC determines resource counting methodologies for RA resource capacity values which may impact California's climate policies related to energy efficiency, energy storage, demand response, distributed energy resources, and other renewable resources. The Straw Proposal proposes to alter this process to obtain consistency in an expanded ISO.

The CAISO states that it "must have consistent counting rules such that resources in different areas and different technologies are treated comparably."⁵ The CAISO therefore proposes to develop a uniform counting methodology through a CAISO-led stakeholder process. Similar to the proposed PRM process, the Straw Proposal would allow the LRAs and LSEs to develop their own resource counting methodologies, subject to risks of over- or under-procurement if their methodologies create capacity values that differ from that of a regional ISO's calculations. In the case of under-procurement, the CAISO may order the LRA or LSE to cure the deficiency, while in the case of a counting methodology leading to over-procurement, ratepayers of the LRA or LSE in question could spend more money than necessary to meet grid reliability needs. Thus, there is an incentive under the Straw Proposal for the LRAs and LSEs to arrive at the same counting results as the CAISO's methodologies. Further discussion is needed to consider whether different local or statewide conditions within a regional ISO might require unique counting methodologies as discussed below.

Currently, the LRAs in California develop unique counting methodologies in cooperation with the CAISO. These California specific methodologies allow for prioritization of the state's climate change goals. The annual RA stakeholder proceeding in California promotes stakeholder engagement and interactions to arrive at calculation methodologies for resources

necessary revisions of current state law and ahead of other states deciding to join a newly formed regional ISO to replace the CAISO.

⁵ Ibid.

such as demand response, energy storage, distributed generation, and renewable resources. Representatives of ratepayers are key stakeholders in the process. California's goals for these resources lead to unique calculation methodologies and ongoing revisions to properly grant appropriate RA capacity values. In the case of wind and solar, the California Legislature mandated complex Effective Load Carrying Contribution (ELCC) modeling to both adequately determine the accurate capacity value and to reflect changing values as these resources expand. In contrast, PacifiCorp does not model wind and solar with ELCC modeling. This raises questions of unequal resource counting between LRAs from the use of different counting methodologies, which requires additional analysis as part of the regional RA effort.

Each state's resource mix can vary widely. It is not clear in the Straw Proposal how the resource capacity will be counted so that RA capacity for renewable resources continues to advance California's climate change initiatives and the RA capacity procured is the most cost efficient for its ratepayers.

3. Load Forecasting

The Straw Proposal states that it "will allow the ISO to develop accurate and transparent load forecasts for use in an expanded ISO."⁶ The CAISO proposes that under the proposed expansion, each LRA would submit its load forecast to the regional ISO. Load forecasting under the proposed expansion would significantly alter the current process for RA in California and where the California Energy Commission (CEC) would no longer modify forecasts for RA requirement allocations. The third-party review and independent stakeholder process performed by the CEC to both determine load forecasts and order LSE plausibility adjustments is an important part of the current RA process in California. In the Straw Proposal, the CAISO may accept or modify LRA and LSE forecasts, thereby eliminating a neutral process and third party review. This raises questions for some of California's key programs, as discussed below.

California has established many unique and progressive programs to reduce GHG emissions, expand low-cost electric vehicle charging, provide reasonable rates for low-income households, and achieve energy efficiency targets. These programs produce unique assumptions and modeling scenarios utilized by the CEC in determining appropriate load forecasts. California's unique regulatory mechanisms in support of its climate goals may be limited or change in unknown ways if a regional ISO assumes authority over forecasting. The blending of individual state forecasts that each use unique assumptions and differing modeling methodologies into one multi-state forecast could contradict the state's determination of resource capacity or may potentially cost California ratepayers more by requiring additional procurement in order to meet its unique policies and goals. Further detail is needed to specifically address a fair balancing of unique LRA forecasting under a regionalized ISO and how individual state policies and goals can be maintained

⁶ Straw Proposal, p. 10.

4. Initiative Time Frame and Governance

In meetings, stakeholders raised questions about the Straw Proposal, asked for more details on the specific SB 350 studies and called for a reasonable extension of the time frame for considering issues critical to the regional RA initiative. The CAISO's current schedule would conclude the stakeholder effort in May with a CAISO Board decision in June followed by a tariff submission to FERC. If the schedule is extended, the proposed tariff filing with its RA framework will be informed by upcoming studies currently being conducted as directed by California Senate Bill 350.

The Straw Proposal explains that it only focuses on "need to have" items and "does not intend for this initiative to explore broader changes to the general RA construct."⁷ In response, more than one party has pointed out that "the devil is in the details." Some stakeholders among the various states are hesitant to sign off on a binding RA framework that lacks details. Stakeholders request additional information and time to develop those details. More time would allow for stakeholders to develop a framework which includes enough detail for states to make informed decisions regarding a regional RA framework.

In this regard, governance of the proposed regional ISO is critically important to California and other states. A Straw Proposal has not yet been issued on governance. Governance of the regional ISO is key, since the future governing body of the proposed regional ISO may seek to make tariff changes it finds necessary for reliability and other purposes. Questions arise since potential future revisions and modifications to the expanded ISO's RA framework by the new board are unknown. For this reason, the governance structure of the new board is vital when considering changes to the current resource adequacy paradigm. ORA would like to see a final governance proposal that clearly defines each state's role and authority in a new regional entity. Therefore, ORA requests that the regional RA initiative be scheduled for consideration following completion of a governance framework.

Finally, the Straw Proposal indicates that broader changes and improvements to the RA provisions of the ISO tariff can be appropriately addressed in the CAISO initiative process.⁸ While the CAISO seeks to maintain open and transparent processes, unlike formal proceedings at the CPUC, the CAISO initiative process does create a record or allow for evidentiary hearings on complex issues. Therefore, any additional efforts by CAISO to increase public transparency, access and involvement by all affected parties, including consumer interests, in this vital initiative would be time well spent, in ORA's opinion.

⁷ Straw Proposal, p. 4.

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