

## Stakeholder Comments Template

### Subject: Regional Resource Adequacy Initiative – Working Group, August 10, 2016

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) Working Group Meeting on August 10, 2016 discussing reliability assessments and rules for outages and substitutions:

1. **Does your organization clearly understand the examples that were intended to provide explanation of the Regional RA reliability assessment validation of LSE RA Plans and Supply Plans? If not, please indicate what further details or additional clarity your organization believes should be provided by the ISO in the future.**
  - a. **Please indicate if your organization believes that there are other specific examples or scenarios that are needed to aid in explaining the Regional RA reliability assessment RA and Supply Plan validations. If so, please detail the specific scenarios that your organization would like the ISO to provide examples on.**

The examples in the presentation provided a clear explanation of the CAISO Regional RA reliability assessment as it is currently proposed.

2. **Does your organization clearly understand the examples that were intended to provide explanation of the Regional RA reliability assessment backstop procurement cost allocation? If not, please indicate what further details or additional clarity your organization believes should be provided by the ISO in the future.**
  - a. **Please indicate if your organization believes that there are other specific examples or scenarios that are needed to aid in explaining the Regional RA reliability assessment backstop procurement cost allocation. If so, please detail the specific scenarios that your organization would like the ISO to provide examples on.**

The examples provided a clear explanation of cost allocation and backstop procurement as proposed by the CAISO.

**3. Please provide any further feedback your organization would like to provide on the proposed Regional RA reliability assessment process.**

The proposed reliability assessments and associated backstop procurement protocols do not: (1) adequately mitigate the potential for capacity leaning, (2) create an equitable process, and (3) prevent potential gaming within Regional RA.

The CAISO presentation of the proposed reliability assessment process shows capacity leaning in Examples 2 and 3.<sup>1</sup> In both examples, two Load Serving Entities (“LSEs”) that fail to meet their RA obligations are allowed to under-procure. These examples directly contradict the CAISO’s stated objective for the reliability assessments to “mitigate the potential for inappropriate “leaning” on the RA requirements by individual LSEs.”<sup>2</sup> The CAISO proposal states that the CAISO will determine system deficiencies based on a cumulative system assessment rather than individual LSE filings. Only if a cumulative system deficiency exists will the CAISO proportionately assign any additional procurement needs to deficient LSEs. This allows under-procured LSEs to “lean” on the excess capacity of other LSEs. ORA recommends that Regional RA hold each LSE accountable for meeting its individual procurement requirements consistent with the intent of California Public Utilities Code Section 380 5(c) which states that “Each load-serving entity shall maintain physical generating capacity and electrical demand response adequate to meet its load requirements, including, but not limited to peak demand and planning and operating reserves.”

The CAISO proposal could create opportunities to game the Regional RA system in two ways: first, by discounting the obligations of deficient LSEs by crediting any over-procurement by compliant LSEs and, secondly, by failing to assess any penalties for deficient LSEs. In the CAISO’s two examples, deficient LSEs were either assessed a reduced amount of their deficiency as in Example 2 or had their deficiency completely ignored as in Example 3 when over-procurement by compliant LSEs eliminated a system deficiency. This creates an incentive for LSEs to intentionally under-procure to reduce costs. Furthermore, if the CAISO conducts backstop procurement on behalf of a deficient LSE, the backstop procurement mechanism may result in lower capacity prices for the LSE. Backstop procurement costs will be determined by a market mechanism under which the CAISO conducts a competitive solicitation process to “procure the lowest cost resource.”<sup>3</sup> Thus, an LSE will be assessed a capacity cost that will likely be close to, and perhaps lower, than its own procurement efforts would have produced. With little disincentive and a significant opportunity for cost savings, planned under-procurement by LSEs could game the RA system.

In its revised proposal CAISO notes that “The ISO does not undertake formal enforcement actions with respect to resource adequacy.”<sup>4</sup> In the expanded footprint, the

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<sup>1</sup> Regional Resource Adequacy: Stakeholder Working Group, August 10, 2016 (“Presentation”), pp. 31-33.

<sup>2</sup> Regional Resource Adequacy Second Revised Straw Proposal (“Straw Proposal”), May 26, 2016, p. 5.

<sup>3</sup> Straw Proposal, p. 39.

<sup>4</sup> Straw Proposal, p. 135.

CAISO proposes that penalties may be applied in addition to Capacity Procurement Mechanism (CPM) costs by the Local Regulatory Authorities (“LRAs”) and levied by the LRAs’ on jurisdictional LSEs. Allowing LRAs to independently craft penalty structures, including the option to impose none at all, will not assure equal contributions to grid reliability. Allowing LRAs discretion over penalties and enforcement will result in a patchwork of policies with inequitable treatment of LSEs. Those LRAs that do not ensure compliance or strictly enforce RA policies will bear no direct consequences in an ISO that does not undertake formal enforcement actions.

According to the CAISO, the California RA program “has worked well.”<sup>5</sup> However, the success of California’s RA program partly depends on a substantial penalty regime. As the CPUC has stated, “[I]f LSEs were free to rely on CAISO backstop procurement and simply pay CAISO for that procurement...and nothing more, the Local RA program could be rendered ineffectual....”<sup>6</sup> The CPUC also notes that “[A] regulatory program that imposes significant procurement obligations upon LSEs cannot be expected to succeed unless those LSEs have reason to believe there are consequences for noncompliance that outweigh the costs of compliance.”<sup>7</sup> Unfortunately, the CAISO proposal does not adequately ensure RA compliance by allowing LSEs to choose backstop procurement without penalty. Regional RA should include disincentives for non-compliant LSEs to ensure success of the Regional RA program. The current penalty structure in California ensures LSE compliance while allowing reasonable cure periods for deficient LSEs and rarely assesses fines. This structure should be imposed equally on all LRAs or alternatively, a new uniform enforcement structure should be created by a cross section of stakeholders similar to that proposed under Section 3.3 of the revised governance proposal<sup>8</sup>

#### **4. Please provide any feedback on the other discussions that occurred on the other Regional RA topics during the working group meeting.**

One of the objectives of the Regional RA initiative is to “provide the flexibility for LRAs and LSEs to maintain their current capacity procurement mechanisms.”<sup>9</sup> ORA recognizes that a Regional RA program will necessitate some changes in state and LRA programs. The CAISO proposal would result in some significant changes to the CPUC RA program with the CAISO assuming control of uniform counting, which includes Effective Load Carrying Capacity (“ELCC”) modeling, modeling for planning reserve margins, determination of LSE requirements, validation of LSE filings, and mechanisms to address procurement deficiencies. To assist the states, LRAs and LSEs in understanding the changes required for the functioning of a Regional RA mechanism, ORA requests that the CAISO describe the specific authority that the various entities will exercise under each element of the CAISO’s proposed Regional RA structure. For example, the CAISO proposes to allow LRAs to retain the right to develop their own counting methodologies, but also proposes that the ISO will develop and apply uniform

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<sup>5</sup> Regional Resource Adequacy Straw Proposal, February 24, 2016, p. 4.

<sup>6</sup> CPUC D.06-06-042, p. 66.

<sup>7</sup> CPUC Decision (D) 05-10-042, p. 93.

<sup>8</sup> California ISO, Revised Proposal, Principles for Governance of Regional ISO, July 15, 2016, Section 3.3, p. 5.

<sup>9</sup> Straw Proposal, p. 3.

counting methodologies for RA showings and the reliability assessment.<sup>10</sup> To help stakeholders understand how the shared responsibility for developing counting methodologies would work in practice, it would be useful to provide specific examples of how the LRAs' right to develop their own counting methodologies would be harmonized with the ISO's responsibility to develop and apply uniform counting methodologies for RA showings and the reliability assessment. In general, more examples illustrating how shared responsibility for maintaining reliability would work under a regional ISO would be helpful.

ORA appreciates the opportunity to provide comments and looks forward to working with the CAISO to further develop the Regional Resource Adequacy Initiative.

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<sup>10</sup> Straw Proposal, p. 31