Stakeholder Comments Template

Subject: Regional Resource Adequacy Initiative

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This template has been created for submission of stakeholder comments to the Second Revised Straw Proposal for the Regional Resource Adequacy initiative that was posted on May 26, 2016. Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **June 15, 2016.**

Please provide feedback on the Regional RA Straw Proposal topics:

1. Resource Adequacy Unit Outage Substitution Rules for Internal and External Resources
2. Discussion of Import Resources that Qualify for RA Purposes
3. Load Forecasting
4. Maximum Import Capability
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<u>Comments on the Regional RA Second Revised Straw Proposal</u>

The Industrial Customers of Northwest Utilities ("ICNU") appreciates this opportunity to comment on the California Independent System Operator's (the "ISO") May 26, 2016 Second Revised Straw Proposal regarding Regional Resource Adequacy ("RA").

As noted in prior comments, ICNU has not necessarily concluded that integration into the ISO of PacifiCorp or any other particular entity will be beneficial to large power consumers. In order to form such a conclusion, it would be necessary to find, among other things, that: 1) joining the market will result in no harm to customers of PacifiCorp or other potential new Participating Transmission Owners ("PTOs"); and 2) any incremental benefits associated with the market are shared equitably between market participants. ICNU looks forward to further analysis of the changes proposed by the ISO to determine if such a showing can be reached.

1. Resource Adequacy Unit Outage Substitution Rules for Internal and External Resources

ICNU supports the ISO's resource substitution proposal as a means to potentially minimize new PTO costs. For instance, ICNU understands that a flexible accommodation to allow substitution of external resources would permit PacifiCorp to economically substitute pseudo-tied resources, in the event of a forced outage on an internal resource. The specific substitution criteria proposed by the ISO appear reasonable.

2. Discussion of Import Resources that Qualify for RA Purposes

ICNU agrees that it is important "to have a common understanding of what may constitute a 'firm monthly commitment' for the purposes of meeting RA system requirements."[1/] While ICNU does not yet have a definitive position on this issue, a preliminary thought is offered. In response to the question of how "firm" system RA resources must be, ICNU recommends that, at a minimum, Western Systems Power Pool Schedule C transactions ought to be considered a firm system resource for RA purposes.

3. Load Forecasting

In prior comments, "stakeholders have raised concerns that the ISO's load forecasting proposal would take control away from LRAs and state commissions that oversee the load forecasting for their jurisdictional LSEs."[2/] Although the ISO proposal may "not *intend* to somehow supersede the LRAs load forecasting,"[3/] ICNU reiterates that a practical consequence of the ISO's proposal may very well be the superseding of current LRA authority over load forecasting for potential new PTOs.

1/ Second Revised RA Straw Proposal at 11.
2/ <u>Id.</u> at 14.
3/ <u>Id.</u> (emphasis added).

For example, the ISO explains that load forecasts from LSEs will determine LSE contribution to the coincident system peak, which in turn will be used "to determine each LSEs respective share of the system's RA needs."[4/] Standing alone, this passive sequence would not seem to affect existing LRA control over LSE load forecasting. However, the ISO is also proposing a forecast review process in which a new Regional System Operator ("RSO") might "request" forecasting adjustments.[5/] If this adjustment "request" was actually a mandatory tariff "requirement," then the future RSO could, via mandated revisions, effectively overrule the load forecast approved by the LRA.[6/]

Additionally, ICNU reiterates a concern over the propriety of a four percent divergence threshold, which the ISO proposes as a trigger for load forecasting review purposes. Specifically, survey results supplied by the ISO in the previous RA straw proposal seemed to indicate that a 4% divergence error may be a normative result—meaning that such a bright-line threshold may not be the best approach to trigger potential remedial action.[7/] Accordingly, ICNU recommends that the ISO consider the use of a higher threshold, possibly in conjunction with an additional preliminary screening process to weigh any obvious mitigating circumstances before an actual forecasting review is initiated.

4. Maximum Import Capability ("MIC")

While continuing to believe that a zonal stand-alone analysis is a better way to handle import capability, ICNU does not necessarily oppose the ISO's proposal to align MIC allocation methodology with Regional Transmission Access Charge ("TAC") policy. ICNU agrees that the proposal to limit initial MIC allocations on a sub-regional basis, as defined in the TAC initiative, will more fairly distribute potential MIC created by new PTO areas.

5. Monitoring Locational Resource Adequacy Needs and Procurement Levels

As an initial matter, ICNU seeks clarity on the ISO's present RA monitoring proposal. In departing from the recent proposal to explore "zonal RA requirements," the ISO now proposes to "only monitor" RA needs within an RSO, "as in the current practice in the existing ISO BAA today."[8/] Yet, the ISO also explains that "the California PUC currently *enforces* the Path 26 Counting Constraint methodology."[9/] The proposal to "only monitor" RA needs, as a passive approach, does not appear to match with current, proactive methodological enforcement practice. Thus, ICNU requests that the ISO consider whether there is any issue that needs to be addressed in the current proposal.

4/ Id. at 12.

5/ Id. at 14-15.

6/ When asked during the June 2, 2016 RA Stakeholder Meeting, the ISO answered that it had not yet determined whether the "request" phrasing signified a future tariff mandate or an elective request that an LSE could decline without penalty. In the next iteration of the RA proposal, ICNU requests that the ISO clarify whether a future RSO would have power, under the tariff, to require LSEs to make load forecasting adjustments.

7/ ICNU Comments on Revised RA Straw Proposal at 4 (citing Revised RA Straw Proposal at 17).

8/ Second Revised RA Straw Proposal at 24.

9/ Id. at 23 (emphasis added).

Overall, ICNU is disappointed that the ISO will no longer actively explore the implementation of zonal RA requirements. For reasons explained at some length in prior comments, ICNU is concerned that customers of potential new PTOs, including PacifiCorp, may be harmed if a zonal RA construct is not adopted.[10/] Notwithstanding, ICNU believes that the ISO's proposed methodologies may be a reasonable compromise and could potentially address some of the issues that were driving ICNU's support for a zonal RA construct.

6. Allocation of RA Requirements to LRAs/LSEs

ICNU would likely support an allocation of RA requirements directly to LSEs rather than LRAs. In conjunction with the possible adoption of a tariff provision explained below, this approach could best safeguard customers of a new PTO.

In prior comments, ICNU expressed concern over the ISO's RA requirements allocation proposal, to the extent that LRA authority may be superseded by operation of an RSO tariff, with new PTO customers being potentially harmed thereby.[11/] To mitigate any such concern, the ISO might consider the adoption of a tariff provision to hold new PTO customers harmless, in the event that an RSO allocation increases RA requirements costs for a new PTO—i.e., beyond RA requirements costs that would otherwise have been incurred, had the LSE not joined the RSO. By such provision, customers of PacifiCorp and other potential new PTOs would be provided with an important incentive to support RSO integration, as direct RA requirements allocations from an RSO may not implicate federal preemption concerns, or prevent LRAs from the ability to shield customers from the pass-through of excessive and harmful RA allocation costs.

For example, a tariff provision might expressly acknowledge state authority over resource adequacy issues. Alternatively, a provision could state that LSE shareholders would be responsible for all RA requirements costs exceeding LRA-approved levels. This would ensure that current LRA practices may continue unchanged, in keeping with ISO's willingness to "consider a potential alternative under which it *always* would defer to each LRA/state commission, even for the RA requirements of multi-jurisdictional LSEs."[12/] Thus, the RSO would simply allocate RA requirements directly to LSEs, in keeping with the ISO's preferred approach, and the LSE would appropriately bear responsibility for any extra RA costs that would not have been incurred, but for RSO integration.

If concerns about LRA authority being superseded are considered unfounded, then the proposed tariff modification will harm no one, since the protective provision will prove superfluous. Conversely, stakeholders could potentially find it difficult to support the integration of PacifiCorp or other potential new PTOs, in the face of opposition to a tariff safeguard on the argument that the recommended provision is unnecessary. In short, if there is no real risk of LRA authority being practically superseded, then there should be no risk in adopting the recommended "hold harmless" provision. ICNU and other stakeholders representing potential new PTO customers are being asked to support the creation of an RSO on representations of

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10/ See ICNU Comments on Revised RA Straw Proposal at 2, 5-6.

11/ E.g., id. at 5; ICNU Comments on RA Straw Proposal at 4-5.

12/ Second Revised RA Straw Proposal at 26 (emphasis added).

huge future benefits. However, stakeholders might be unable to attach any reasonable degree of confidence to these alleged benefit representations, if the ISO or PacifiCorp are averse to accepting any cost or risk responsibility.

Under the ISO's preferred approach, and in the case of a multi-jurisdictional LSE like PacifiCorp, "LRAs would still be responsible for determining how any associated costs should be assigned to those particular jurisdictional areas and underlying customers from the procurement necessary to meet the RA allocation."[13/] This seems to presume a full pass-through of RA requirements costs by LRAs to "underlying customers," based on the RA allocation deemed "necessary" by the RSO. The only discretion afforded to LRAs would be in the spread of full RSO costs among retail rate customers, i.e., the RSO "allocation of LRA-specific RA requirements would not predetermine how *those costs* were recovered at the retail-rates level."[14/] In other words, the ISO's proposal seems to contemplate that "those costs" deemed necessary by the RSO will be recovered, without modification by the LRA.

In this sense, a "hold harmless" tariff provision could be essential to avoid future arguments over a potential preemption of LRA determinations on RA requirements. Ultimately, ICNU aims to ensure that LRAs of potential new PTOs will at least have the option to follow the same RA requirements processes, after integration and with impunity, that are in place today. ICNU's goal is consistent with the ISO's rationale for not preferring "Option 2," in which the RSO would allocate RA requirements to LRAs. Specifically, the ISO explained that Option 2 "potentially would require changes to how those requirements are calculated today."[15/] Adopting a possible tariff safeguard, in conjunction with direct allocation to LSEs, might ensure that LRAs will not be required to make changes in RA requirement calculations.

7. Reliability Assessment

In the context of RSO "backstop procurement authority," which could result in harmful cost assessments to individual PTOs, the ISO acknowledges that "*applying the ISO PRM or resource counting rules* that are used in the reliability assessment may result in a shortage of one of [] four types of RA capacity."[16/] Thus, RA shortages could be imputed to new PTOs based on variances between planning reserve margin ("PRM") and counting rules used by an RSO and LRAs. To prevent potentially harmful applications of RSO backstop authority, ICNU recommends that the ISO consider additional tariff safeguards.

a. Planning Reserve Margin for Reliability Assessment

In response to the original RA straw proposal, ICNU stated: "One of the most concerning aspects of the straw proposal has to do with the PRM of future reliability assessment."[17/] ICNU explained how the customers of PacifiCorp and other potential new PTOs faced the prospect of material rate increases, if the much higher PRM used by the existing ISO

13/ Id. at 26.
14/ Id. (emphasis added).
15/ Id.
16/ Id. at 39 (emphasis added).
17/ ICNU Comments on RA Straw Proposal at 5.

caused new PTOs to increase capacity obligations under a melded or "system-wide" PRM used by an RSO.[18/] Accordingly, ICNU had supported the ISO's proposal to establish zonal PRM targets within a larger zonal RA construct, as a means of mitigating concerns over potential rate impacts caused by a single, melded PRM.[19/]

Given the ISO's recent determination that it will not be developing a zonal RA construct, however, ICNU remains very concerned over regional PRM impacts. Further, although the ISO "understands that entities seek certainty on issues like the PRM level," the ISO has stated that "it is *not feasible* to conduct" more detailed PRM studies within the current RA initiative.[20/] Presumably, this means that the Federal Energy Regulatory Commission and state regulatory commissions will be asked to approve tariff modifications and new PTO integration requests, respectively, prior to customers of PacifiCorp receiving any additional certainty over PRM impacts within an RSO.

The ISO should consider a simple solution that could possibly ensure "certainty on issues like the PRM level" for customers of potential new PTOs, while also allowing the ISO and PacifiCorp to continue exploring integration on current timetables. Similar to the proposed consideration of a tariff provision safeguarding customers against excess RA requirements allocations attributable to integration, the ISO could consider another tariff provision acknowledging its limitations over state PRM authority. Alternatively, a provision might stipulate that new PTOs will bear full cost responsibility for increased capacity obligation costs resulting from increases to PRM levels. In this manner, new PTO customers would be held harmless in the event that integration results in LSEs like PacifiCorp incurring new costs under a higher PRM—costs that would not have been incurred, but for integration into an RSO. If new PTOs are unwilling to accept risk and responsibility for potential cost increases attributable to PRM increases, ICNU's concerns would effectively be validated and the representations of massive integration benefits would be rendered suspect.

From a purely conceptual standpoint, ICNU supports the ISO's proposal to develop the option of a probabilistic study, if system-wide PRM targets are to be determined. Regarding the appropriate level of a Loss of Load Expectation ("LOLE") criterion, ICNU continues to emphasize the need for transparent modelling, with both inputs and models accessible to all interested stakeholders, given the considerable variability and likely controversy that might attend a future LOLE determination process.

b. Resource Counting Methodologies for Reliability Assessment

ICNU has also expressed prior concern over the loss of LRA authority and customer harm that is potentially associated with the ISO's proposal to develop uniform resource counting methodologies for reliability assessment purposes.[21/] While ICNU appreciates that "[t]he ISO is not proposing to eliminate the ability of LRAs to develop their own resource

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[18/] Id. at 5-6.
[19/] ICNU Comments on Revised RA Straw Proposal at 6.
[20/] Second Revised RA Straw Proposal at 29-30 (emphasis added).
[21/] E.g., ICNU Comments on RA Straw Proposal at 6; ICNU Comments on Revised RA Straw Proposal at 6-7.

counting methodologies for developing their RA and procurement programs,"[22/] the ISO might still consider an explicit safeguard to ensure that potential new PTO customers are not harmed by any variance between LRA and RSO counting methodologies.

For instance, a tariff provision could be added to stipulate that new PTO customers will not be responsible for cost increases attributable to counting methodology variance. If PacifiCorp or any other potential new PTO believes that such a provision could be of sufficient impact to alter an assessment of whether the LSE should join an RSO, then such a position would effectively validate the concern that potential new PTO customers would undertake an unacceptable level of risk without the safeguards of such a "hold harmless" provision.

ICNU continues to support the exploration of the Effective Load Carrying Capability method as more rigorous and preferable to the Exceedance Methodology. ICNU is not necessarily opposed to the ISO's proposed counting methodologies, provided that they are implemented in a transparent manner.

8. Other

According to the ISO, a multi-state ISO or RSO "should provide lower procurement costs *over time*."[23/] If accurate, this prediction would eventually render tariff safeguards designed to protect customers of new PTOs redundant—e.g., "over time," the system-wide PRM level for an RSO would not cause PacifiCorp to incur increased capacity obligation costs. In the short term, however, ICNU believes that tariff safeguards are essential to ensure stakeholder support for RSO formation and new PTO integration, since even the ISO contemplates that lower cost benefits for customers would only be realized "over time."

New PTO customers should not be saddled with short-term cost increases resulting from integration on the mere promise of benefits that may not materialize. If the ISO and PacifiCorp are confident enough that future integration benefits are so considerable and so certain as to dismiss serious discussion and consideration of whether benefits "may" actually materialize, such representations of confidence and certainty should be supported by a willingness to bear short-term risk and cost increase responsibility.

The ISO recognizes that "obtaining the necessary state regulatory authorizations" is one of the "key dependencies" which must be satisfied prior to PacifiCorp participating in an RSO.[24/] In fact, "PacifiCorp has made it clear" to the ISO "that this process requires a high degree of regulatory certainty to be successful."[25/] New tariff safeguard proposals would provide that "high degree of regulatory certainty" essential to success in the crucial state authorization

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[22/] Second Revised RA Straw Proposal at 31.
[23/] Id. at 7 (emphasis added).
[24/] Id.
[25/] Id.

processes anticipated to begin within the coming year. Conversely, the ISO and PacifiCorp could encounter stakeholder opposition to RSO formation if customers of potential new PTOs are asked to accept potential short-term cost increases, only on the hope and promise of lower costs realized “over time.”