

**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 23-10-011

**REPLY COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON TRACK 1 PROPOSALS**

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Dated: March 22, 2024

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I. Introduction

Pursuant to the *Assigned Commissioner’s Scoping Memo and Ruling* (Ruling), issued on December 18, 2023, the California Independent System Operator Corporation (CAISO) submits reply comments on parties’ Track 1 proposals filed in this proceeding.

The CAISO’s reply comments support the Western Power Trading Forum’s (WPTF) proposal to stress test and calculate the resource adequacy (RA) planning reserve margin (PRM) for 2025. If the Commission does not adopt WPTF’s PRM approach for 2025, then the Commission should retain at least the 17% PRM and “effective” PRM for 2025 adopted in Decision (D.) 23-06-029. The CAISO also supports WPTF’s recommendation to “stress test” the PRM for 2026 and beyond.¹

The CAISO’s reply comments also caution the Commission against adopting various proposals that, in aggregate, could erode the ability of the RA program to ensure reliability. The Commission should reject Pacific Gas and Electric Company’s (PG&E) proposals to adopt a 15.43% PRM for 2025 and reject PG&E’s proposal that the Commission allocate the Strategic Reliability Reserve (SRR) resources to Commission-jurisdictional load-serving entities to count

¹ PRM “stress testing” will ensure the Commission sets RA requirements that meet reliability targets. The stress test involves first identifying an annual portfolio that meets the smallest reserve margin using the Slice of Day tool, based on the “worst” day of the month with the highest managed peak load, then testing that portfolio back in SERVM to determine whether the portfolio achieves a 0.1 loss of load expectation (LOLE) across the year.

towards RA requirements. The CAISO also cautions the Commission against adopting a system waiver process if RA requirements are set below levels necessary to meet 0.1 LOLE.

Lastly, the CAISO responds to party comments on an unforced capacity (UCAP) accreditation framework.

II. Discussion

A. The Commission Should Adopt WPTF’s PRM Stress Testing Approach to Ensure RA Requirements Meet a 0.1 LOLE.

1. Stress Testing for the 2025 RA Year

In opening comments, the CAISO recommended the Commission retain at least the 17% PRM and “effective” PRM for 2025 adopted in D.23-06-029 until the Commission adopts a process to stress test the PRM to meet a 0.1 LOLE.² The CAISO expressed concerns that the Commission did not stress test the 15.43% PRM for the Slice of Day test year to ensure 2025 RA requirements meet a 0.1 LOLE.

WPTF’s opening comments presented a PRM stress testing analysis developed in coordination with Astrape. WPTF used the same testing approach as Energy Division and Astrape in 2022 Slice of Day workshops. Astrape’s analysis shows that a 15.43% PRM produces a 0.372 LOLE and a 17% PRM produces a 0.229 LOLE.³ Further, Astrape’s analysis shows “19.7% is the lowest PRM that produces a reliable target portfolio meeting the 0.1 LOLE standard.”⁴ These results demonstrate that a 15.43% PRM or 17% PRM for 2025 would not result in RA requirements that meet a 0.1 LOLE.

The Commission should adopt WPTF’s stress testing approach to establish the PRM for 2025. This approach includes identifying an annual portfolio that meets the smallest reserve margin using the Slice of Day tool based on the “worst” day of the month with the highest managed peak load, then testing that portfolio in SERVVM to determine whether the portfolio achieves a 0.1 LOLE across the year. If the portfolio does not meet a 0.1 LOLE, then the Commission should increase the PRM in increments and repeat SERVVM testing steps until the portfolio meets a 0.1 LOLE. This stress testing process aligns with PRM testing proposals

² CAISO Opening Comments, p. 3.

³ WPTF Opening Comments, p. 4.

⁴ *Id.*

submitted by the CAISO and American Clean Power (ACP).⁵ The CAISO also supports WPTF’s recommendation that the Commission hold an additional workshop and comment opportunity to vet additional analysis to establish the PRM for 2025.⁶

Finally, the CAISO agrees with WPTF that a PRM that ensures the target portfolio meets a 0.1 across the year could result in system requirements that exceed resources available for load-serving entities (LSEs) to procure.⁷ As such, the CAISO agrees with WPTF and American Clean Power (ACP) that the Commission could consider adopting multiple PRMs across the year to ensure RA requirements meet a 0.1 LOLE. Multiple PRMs would prevent RA requirements and any single month PRM from exceeding the planned resource portfolio while ensuring LSE procurement remains feasible.⁸

2. If the Commission Does not Adopt WPTF’s PRM Approach for 2025, the Commission Should Not Adopt a PRM Lower than 17% and Should Retain the “Effective” PRM for 2025.

If the Commission does not adopt WPTF’s PRM approach for 2025, the Commission should not adopt a PRM lower than 17% and should retain the “effective” PRM for 2025 until the Commission adopts a process to stress test the PRM to meet a 0.1 LOLE. As discussed in CAISO’s opening comments, the CAISO remains concerned that simply taking the 2024 Slice of Day test year approach to set a single annual PRM will not result in RA requirements that meet a 0.1 LOLE.⁹ The CAISO also has concerns about whether the 17% PRM adopted for 2025 is high enough to ensure RA requirements meet a 0.1 LOLE. WPTF’s analysis casts further doubt that a 17% PRM is sufficient to meet a 0.1 LOLE.¹⁰

Although the CAISO continues to have concerns about retention of an “effective” PRM in the RA program, there is no evidence to suggest that additional procurement under the “effective” PRM is unnecessary to ensure reliability of the RA program. The Commission should not eliminate this additional procurement requirement until the Commission sets the PRM at a level that is tested and meets a 0.1 LOLE.

⁵ CAISO Track 1 Proposal, January 19, 2024; ACP Track 1 Proposal, January 19, 2024, pp. 5-6.

⁶ WPTF Opening Comments, p. 6.

⁷ *Id.*

⁸ ACP Opening Comments, p. 6.

⁹ CAISO Opening Comments, p. 4.

¹⁰ WPTF Opening Comments, p. 4.

3. Stress Testing for the 2026 RA Year and Beyond

Regardless of whether the Commission adopts WPTF's PRM stress testing proposal for 2025, the Commission should adopt this PRM stress testing approach for 2026 and beyond. The Commission should also establish PRM stress testing as a formal part of the process to set the RA PRM. Stress testing is critical for ensuring the RA PRM will result in RA requirements that meet a 0.1 LOLE across the year.

B. The Commission Should Not Adopt Proposals that, in Aggregate, Erode the Ability of the RA Program to Ensure Reliability.

In proposals and opening comments, parties submitted various proposals to either reduce or limit RA requirements, or allow for system and flexible capacity RA waivers.¹¹ The CAISO acknowledges concerns with the tightness of the RA market, but agrees with Calpine Corporation (Calpine) that "any relief should be structured in a manner that does not discourage contracting for imports (and encourages the retention of in-state resources) to meet RA requirements."¹²

Proposals to reduce up front RA requirements include PG&E's recommendations to: (1) adopt a 15.43% PRM for 2025; and (2) allocate the SRR resources to Commission-jurisdictional LSEs to count towards RA compliance through 2026. Parties also submitted several proposals that the Commission adopt a system and flexible RA waiver processes. The Commission should not adopt proposals that could, in aggregate, erode the ability of the RA program to ensure reliability. The CAISO is concerned that a combination of these proposals, even if temporary, will risk the CAISO balancing area losing resources under RA contracts with LSEs near-term years.

As PG&E notes, other factors for the 2025 RA year will provide relief to the RA market. For example, the California Energy Commission (CEC) adopted a lower demand forecast for 2025 (which trends lower than prior years' forecasts in near-term years beyond 2025) and the

¹¹ PG&E Opening Comments, p. 4; California Community Choice Association (CalCCA) Track 1 Proposals, p. 9; Southern California Edison Company Track 1 Proposals, p. 2; ACP Revised Track 1 Proposals, p. 2.; City of San José Track 1 Proposal, p. 3.

¹² Calpine Opening Comments, p. 3.

Commission will allocate RA capacity from Diablo Canyon Power Plant (DCPP) during extended operations.¹³

The CAISO also agrees with Middle River Power (MRP) that the “Commission adopted the current 17% PRM due in part to the concern of lack of overall supply resulting from delays to projects under development.”¹⁴ The Commission already set the 2025 PRM below the level Energy Division found necessary to meet a 0.1 LOLE and extended the “effective” PRM for 2025 in order to address RA supply concerns.¹⁵ As the current 17% PRM already does not ensure RA requirements will meet a 0.1 LOLE, adopting PG&E proposals will only exacerbate this issue.

To ensure RA requirements produce reliable portfolios, the Commission should reject PG&E’s proposal to adopt a 15.43% PRM for 2025 and reject PG&E’s proposal to allocate SRR resources as RA credits to Commission-jurisdictional LSEs, as discussed further below.

Regarding system RA waivers, the CAISO cautions against adopting a system RA waiver process if RA requirements do not meet a 0.1 LOLE. If the Commission sets RA requirements to meet a 0.1 LOLE, the Commission could consider temporary waiver proposals carefully, but should account for the lower CEC demand forecast in near term years, new resources expected to come online in future years, and allocation of DCPP RA credits during extended operations in its decision-making on whether waivers are necessary.

1. The Commission Should Reject PG&E’s Proposal that the Commission Allocate SRR Resources to Commission-Jurisdictional LSEs to Count Towards RA Requirements.

PG&E proposes that “the Commission coordinate with the CAISO and the Department of Water Resources (“DWR”) to allocate out approximately 2,859 MW of capacity from the once-through cooling (OTC) natural gas resources that are under contract with DWR to all Commission-jurisdictional LSEs to use towards their respective RA compliance requirements.”¹⁶

The Commission should reject PG&E’s proposal. First, the SRR, which is comprised of more than just the OTC resources in the Electricity Supply Strategic Reliability Reserve Program

¹³ PG&E Opening Comments, p. 4.

¹⁴ MRP Opening Comments, p. 11.

¹⁵ Decision Adopting Local Capacity Obligations for 2024-2026, Flexible Capacity Obligations for 2024, and Program Refinements (D.23-06-029), July 5, 2023, p. 24.

¹⁶ PG&E Opening Comments, p. 12.

(ESSRRP) managed by DWR, was designed to address “extreme events” which includes an “event occurring at a time and place in which weather, climate, or environmental conditions, including temperature, precipitation, drought, fire, or flooding, present a level of risk that would constitute or exceed a one-in-ten event, as referred to by the North American Electric Reliability Corporation, including when forecast in advance by a load-serving entity or local publicly owned electric utility.”¹⁷ The SRR is designed to help maintain grid reliability beyond 1-in-10 events, which the RA program should cover. The Commission should not use the SRR to backfill LSE RA requirements.

Second, the SRR is only called upon to support grid operations during extreme events or grid emergencies. These resources do not regularly submit offers in the CAISO market like RA resources, and are not subject to the same availability rules as RA resources. Therefore, the SRR is not a substitute for RA capacity that is generally available to support grid needs year-round, all hours of the day.

2. The Commission Should not Implement Slice of Day in 2025 if Paired with Several Proposals that will Erode RA Requirements.

The Commission should not implement Slice of Day in 2025 if implementation includes several proposals that soften RA requirements and could erode the ability of the RA program to ensure reliability, such as PG&E’s proposals described above.¹⁸ The CAISO is concerned these concessions could adversely impact the efficacy of Commission RA requirements to ensure reliability. It is not clear that implementing Slice of Day with several features that will soften RA requirements is an enhancement over the status quo RA framework or will ensure reliability in 2025.

¹⁷ AB 205: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB205

¹⁸ PG&E Opening Comments, p. 14.

C. The CAISO Will Continue to Collaborate with the Commission and Parties to Evaluate a UCAP Counting Framework Through Commission and CAISO Processes.

Several parties comment on the need for the Commission and CAISO to coordinate development of a UCAP framework.¹⁹ Several parties also support the development of a resource-specific UCAP approach for thermal resources, and note the need for the Commission and the CAISO to coordinate on data inputs.²⁰ The CAISO agrees with parties that a resource-specific counting methodology has significant benefits over a class average approach to strengthen resource performance incentives. The CAISO also agrees with parties on the need for continued coordination between the Commission and CAISO. The CAISO reiterates its commitment to working with Energy Division and parties to further evaluate a UCAP framework in this proceeding, in coordination with the CAISO's ongoing Resource Adequacy Modeling and Program Design (RAMPD) working groups and stakeholder process.²¹

The CAISO also agrees with parties that it is important to consider a UCAP framework and updates to resource counting rules with other CAISO RA rules and design, including availability incentives, and substitution rules.²² The CAISO continues to evaluate several of these elements in its RAMPD working groups in order to ensure the CAISO's default counting rules keep pace with changes in the RA resource mix and reliability needs. Specifically, the CAISO is exploring updates to the CAISO's default counting rules in RA working groups, which might include UCAP. Any UCAP construct would apply to local regulatory authorities (LRAs) that do not have their own counting rules.

The CAISO will continue to coordinate with the Commission and other LRAs engaged in the CAISO working group process through the Commission's RA proceeding and the CAISO's

¹⁹ Public Advocates Office at the California Public Utilities Commission (Cal Advocates) Opening Comments, p. 7; Microsoft Corporation (Microsoft) Opening Comments, p. 14; San Diego Gas & Electric Company (SDG&E) Opening Comments, p. 8; MRP Opening Comments, p. 10; Terra-Gen, LLC (Terra-Gen) Opening Comments, p. 8; WPTF Opening Comments, p. 7.

²⁰ Department of Market Monitoring of the California Independent System Operator Corporation Opening Comments, p. 2; CalCCA Opening Comments, p. 19; Cal Advocates Opening Comments, p. 6; Microsoft Opening Comments, p. 14; Terra-Gen Opening Comments, p. 7; Calpine Opening Comments, p. 2.

²¹ <https://stakeholdercenter.caiso.com/StakeholderInitiatives/Resource-adequacy-modeling-and-program-design>.

²² PG&E Track 1 Proposals, p. 4; Terra-Gen Opening Comments, p. 8; Microsoft Opening Comments, p. 14; CalCCA Opening Comments, p. 20; SDG&E Opening Comments, p. 6.

RA working groups and stakeholder processes. The CAISO sees benefits in a UCAP design applied consistently by all LRAs within the CAISO Balancing Authority Area.

III. Conclusion

The CAISO appreciates the opportunity to provide reply comments on party proposals.

Respectfully submitted

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