

Stakeholder Comments Template

Subject: Regional Resource Adequacy Initiative

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 (ISO) Revised Straw Proposal on Regional Resource Adequacy (RA), issued on May 26, 2016, and the briefing materials presented at the June 2, 2016 stakeholder meeting.

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

ORA supports the proposed outage substitution rules that would allow external resources to qualify for RA outage substitution by meeting the rules proposed in the Second Revised Proposal.¹ The proposal provides reasonable conditions to allow an external resource to substitute for an internal resource that is on forced or planned outage, including the requirement that the external resource has: similar operating characteristics, sufficient Maximum Import Capability (MIC) allocation, and the capability to fulfill the RA must-offer obligation of the outage resource. This proposed expansion of existing RA outage rules is unlikely to result in a negative impact on reliability, and a larger pool of available resources may reduce ratepayer costs.

2. Import Resources that Qualify for RA Purposes

ORA appreciates the inclusion of this new issue in the Second Revised Proposal. The ISO poses the question of “how ‘firm’ must system RA imports be?”² The discussion is necessary to account for differences between the current ISO RA rules and current policies used by PacifiCorp load serving entities (LSEs) related to imported capacity. Under the ISO’s current rules, imported capacity for RA meets specific guidelines, while

¹ California ISO Regional Resource Adequacy Second Revised Straw Proposal, May 26, 2016 (Second Revised Proposal), pp. 8-10.

² Second Revised Proposal, p. 12.

the PacifiCorp rules may allow for resources that do not strictly meet these RA rules, raising the possibility that these contracts may be less firm with their capacity obligations.

In general, ORA supports application of the current ISO RA rules to import capacity. Standard rules for “firm” commitments should apply equally to all LSEs in an expanded ISO. Allowing for differing capacity contract commitments for imports from a subset of LSEs in the ISO creates the potential for adversely impacting system reliability and disadvantaging LSEs that meet higher contract commitments. ORA looks forward to the future ISO proposal on this issue and anticipates providing comments at that time.

3. Load Forecasting

The ISO proposes to allow LSEs the flexibility to independently provide, develop, and submit hourly load forecasts to the ISO. Then, the ISO will determine the overall system-wide peak and each LSE’s respective share of the system’s RA needs. The ISO will conduct reviews to safeguard against unreasonable forecasts and deter manipulation of load forecasts.³

ORA is concerned that allowing each LSE to develop its own load forecasts without a standardized methodology will lead to inconsistent evaluations of capacity need and, subsequently, to capacity leaning. The ISO will establish capacity need based on the load forecasts but if the load forecasts are developed with varying assumptions, LSEs will likely be contributing unevenly to system reliability resulting in capacity leaning occurring in the system. In the first Revised Proposal, ORA supported the ISO’s proposal to utilize 1-in-2 load forecasts for weather normalized peak load using the method adopted by the California Energy Commission (CEC).⁴ However, the Second Revised Proposal simply requires hourly load forecasts and the ISO would only review submitted forecasts if a review is triggered, providing an opportunity for capacity leaning within the bounds of the proposed 4% divergence threshold.⁵ The ISO should work with stakeholders to establish minimum and consistent standards for load forecasting to reduce the potential for capacity leaning.

The Second Revised Straw Proposal allows each LSE to use its own method of incorporating the impacts of behind-the-meter or “load modifying” Demand Response (DR), Energy Efficiency (EE), and Distributed Generation (DG) in its load forecast,⁶ raising concerns of fairness between LSEs. For example, the ISO previously argued that it could not rely on the capacity value of event based DR programs when determining resource adequacy requirements unless the event based DR programs were integrated into

³ Second Revised Proposal, p. 12.

⁴ ORA Comments on First Revised Proposal, p. 1.

⁵ Second Revised Proposal, p. 15.

⁶ Second Revised Proposal, p. 13.

the ISO market.⁷ Consistent with the ISO's arguments, in Rulemaking (R.) 13-09-011, the California Public Utilities Commission (CPUC) determined that capacity value shall be attributed only to a DR resource if the resource is integrated into the wholesale market or is embedded in the CEC's load forecasts.⁸ Allowing non-California LSEs to simply incorporate all DR into their load forecasts, without similar market integration requirements to determine their capacity needs, would create an uneven playing field. California ratepayers should not face more stringent requirements and costs in order to receive similar DR value. Additionally, it is not clear whether the overall ISO forecast review process will aim to achieve consistency between LSE forecasts. Applying load forecast modifiers to inconsistent LSE forecasts could further skew the inequitable treatment of resources.

The Second Revised Straw Proposal requires LSEs to provide the ISO with hourly load forecasts and discusses stakeholder concerns with the ability of smaller LSEs to provide the forecasts.⁹ ORA recommends that the ISO provide an option for smaller LSEs to defer their load forecasting to the Utility Distribution Company (UDC) in whose territory they operate. The UDC would provide the ISO with hourly load forecasts for its territory, including any LSEs, and once the ISO provides the UDC with its RA obligation, it would allocate a portion to any LSEs in its service territory. This proposal is similar to the ISO Transmission Access Charge (TAC) proposal that allows the UDC to collect the retail transmission charge from customers on behalf of the LSE and redistribute any surplus or shortfall to the LSEs as necessary.¹⁰

ORA supports the ISO's proposed working group call to discuss the load forecasting proposal in detail.¹¹ However, with only one more draft of the proposal scheduled to be issued on June 30, 2016 before the final proposal is scheduled for presentation to the ISO Board on August 31, 2016,¹² it is not clear that the details of load forecasting will be resolved. ORA recommends that the ISO proposal adopt a standardized load forecasting methodology to reduce opportunities for capacity leaning and address fair treatment of resources. Toward this end, ORA recommends that the ISO continue the working group process to determine the standard requirements for adoption at a later date.

⁷ March 13, 2014 Opening Comments of the CAISO on Proposed Decision in R.13-09-011: "There is no place for non-ISO integrated, quasi-supply side resources because there is no logical way to account for their load impacts in the IOU's, ISO's and CEC's load forecasting and planning processes. Additionally, this unintended third category of quasi-supply side demand response will only muddle how to treat load-modifying and true ISO integrated supply-side demand response capacity for resource adequacy purposes."

⁸ D.15-11-042, p. 21. Essentially, event based DR must be integrated into the ISO market to have any capacity value.

⁹ Second Revised Proposal, p. 13.

¹⁰ California ISO Review Transmission Access Charge Wholesale Billing Determinant Issue Paper, June 2, 2016 (TAC Proposal), p. 6.

¹¹ Second Revised Proposal, p. 14.

¹² Second Revised Proposal, p. 6.

4. Maximum Import Capability

ORA offers no comments at this time.

5. Monitoring Locational Resource Adequacy Needs and Procurement Levels

The ISO previously introduced a zonal RA concept which called for the creation of RA zonal capacity areas, zonal import limits, and zonal LSE capacity requirements.¹³ The zonal concept was conceived by the ISO to mitigate potential transfer constraints among regions within the new balancing area. In response to stakeholder comments, the ISO now states that it is concerned with “putting onerous requirements or processes in place” and has concluded that the “additional complexity, and administrative burden for LSEs...does not warrant the development of a full zonal process....”¹⁴

The ISO now proposes to monitor the locational RA needs across the new footprint and proposes internal evaluations before zonal RA procedures and requirements are considered in a future stakeholder process. ORA supports delaying zonal RA until further studies are conducted and shared with stakeholders. However, it remains unclear exactly how future stakeholder processes and subsequent governing body approvals will function given the lack of a resolution of the governance process for the new ISO. Of particular concern to ORA is the input of ratepayer advocacy groups in a regional ISO. Currently, RA transfer constraint mitigation, such as Path 26 in the CPUC’s RA program, is developed in proceedings at the CPUC which include robust input from a wide variety of stakeholders.

With a potential for onerous zonal requirements and administrative burdens imposed by the ISO on the LSEs, ORA recommends the adoption of clear and binding rules as well as processes for stakeholder involvement. The stakeholder process and the rules should be adopted prior to adoption of an RA framework.

ORA also notes that the Second Revised Straw Proposal does not clearly state whether or not the current Path 26 rules will remain in place in California and how Path 26 may be impacted in an expanded ISO. Also unclear is whether any such transfer restrictions exist in PacifiCorp, and if so, how those will be addressed.

6. Allocation of RA Requirements to LRAs/LSEs

The ISO notes a need for further clarity on the issue of allocating RA requirements to LRAs/LSEs.¹⁵ The ISO provides two options for jurisdictional LSEs; the LRAs can either allocate requirements to jurisdictional LSEs or elect to have the ISO provide the allocation directly to the jurisdictional LSE. Providing LRAs with the option of allocating to jurisdictional LSEs or deciding to let the ISO provide the allocations is a reasonable proposal.

¹³ California ISO Regional Resource Adequacy Revised Straw Proposal, April 13, 2016, pp. 26-29.

¹⁴ Second Revised Proposal, p. 24.

¹⁵ Second Revised Proposal, p. 25.

As noted by the ISO, the multi-jurisdictional LSEs present a more complicated challenge.¹⁶ The ISO offers the option of allowing for LRA-prescribed proportional allowances or ISO determined allowances. In discussing the options for multi-jurisdictional LSEs, the ISO notes a preference for the process in other regions where the regulating ISO allocates to all LSEs. It is not clear whether the ISO has a similar preference for the ISO to manage allocations for the single jurisdiction LSEs. ORA requests further clarification from the ISO on its preferred approach for single jurisdiction LSEs and if it will seek to alter the current proposal at a later date. The multi-jurisdictional LSE issue is complex and more detailed information is required in order for ORA to offer informed comments at this time.

7. Reliability Assessment

a. Planning Reserve Margin for Reliability Assessment

The ISO proposes to utilize a probabilistic study to determine a system-wide planning reserve margin (PRM) based on a conclusion that probabilistic modeling is a best practice used in many other regions.¹⁷ This effort will be new for the ISO and the proposal notes a need for an associated stakeholder process to establish the modeling inputs, variables, cases, and model development. The ISO calls for transparency and engagement of stakeholders when the study is being conducted, yet it remains unclear how stakeholder involvement will be structured under a redefined ISO with a new governing body. As noted above on the issue of a zonal RA process, ORA requests that details of future and ongoing stakeholder involvement be completed instead of leaving PRM modeling open-ended under a Federal Energy Regulatory Commission (FERC) tariff. In California, the PRM has been determined following multiple proceedings which included hearings before administrative law judges, stakeholder testimony, and legal briefs from a wide variety of stakeholders. Probabilistic modeling for long-term planning at the CPUC last year included a dozen working group meetings, and efforts to arrive at a stakeholder consensus on modeling issues remain ongoing.

At the June 2 stakeholder meeting, the ISO informed participants that the PRM modeling would not consider expected unserved energy (EUE) or other metrics that address the value of load losses. ORA opposes the exclusion of these metrics because the metrics that assess value of load losses are critical for determining the costs and benefits of various reliability levels. The ratepayer costs of a higher than necessary PRM can be significant, and the value of very high reliability levels should be compared with the associated costs of adding resources and transmission.¹⁸

¹⁶ Second Revised Straw Proposal, pp. 26-27.

¹⁷ Second Revised Proposal, pp. 28-30.

¹⁸ Expected unserved energy or EUE is a robust metric that is widely used in evaluating the costs and benefits of reliability. For example, PacifiCorp uses EUE in its modeling. (*PacifiCorp – 2015 IRP Appendix I – Planning Reserve Margin Study*, page 135.) The Brattle Group stated: “Normalized EUE is the most meaningful reliability metric that can be compared across systems of many sizes, load shapes, and other uncertainty factors,” in *Resource Adequacy Requirements: Reliability and Economic*

b. Resource Counting Methodologies for Reliability Assessment

ORA expressed concerns on this issue in previous comments¹⁹ that are not resolved in the latest proposal. The Uniform Counting Proposal²⁰ calls for the ISO to develop and refine uniform counting methodologies in future open and transparent stakeholder initiatives. In the comment section of the Second Revised Straw Proposal, the ISO notes it will consider ORA's previous calls for an independent body composed of LRA/LSE representatives to develop these methodologies.²¹ Unfortunately, the ISO fails to adopt the ORA recommendation and ORA remains hesitant to support uniform counting rules that are imposed by the ISO rather than developed by the LRAs and LSEs. Many unique counting rules have been developed at the CPUC to address and support California's aggressive progress in integrating a large portfolio of renewables as well as other preferred resources. While the ISO proposal allows LRAs to develop individual counting rules, such an effort would leave the LRAs vulnerable to over or under procurement when their resource counting rules differ from the ISO's uniform counting determinations. The ISO recently released its "Proposed Principles for Governance of a Regional ISO" which includes a body of state regulators and stakeholder processes.²² Consistent with ORA's previous proposal, the ISO should defer adoption of uniform counting rules to this independent body with stakeholder involvement instead of imposing its requirements on LRAs.

The ISO seeks to utilize an exceedance methodology for counting the capacity of wind and solar resources. The exceedance methodology will be replaced by an Effective Load Carrying Capability (ELCC) methodology at the CPUC as is mandated by law.²³ The ELCC methodology better calculates the true capacity value of wind and solar resources, especially as these resources increase their penetration. The ISO should commit to utilizing an ELCC methodology for wind and solar to accurately calculate capacity to ensure grid reliability and appropriate capacity value for these resources.

Implications, a September 2013 report prepared for FERC (p. 3). The North American Electric Reliability Corporation (NERC) Reliability Assessment Working Group (RAWG) Meeting September 1, 2015, includes EUE analysis in the scenarios discussed at page 7 of *NERC Probabilistic Assessments Overview & Future Improvements*, Noha Abdel-Karim, PhD.

¹⁹ ORA Comments on First Revised Proposal, pp. 4-5.

²⁰ Second Revised Proposal, pp. 31-39.

²¹ Second Revised Proposal, p. 123.

²² California ISO Proposed Principles for Governance of a Regional ISO, June 9, 2016, pp.4-5.

²³ PU Code 399.26(d).