

**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 21-10-002
(Filed October 19, 2021)

**REPLY COMMENTS ON PROPOSED DECISION ADOPTING LOCAL CAPACITY
OBLIGATIONS FOR 2024-2026, FLEXIBLE CAPACITY OBLIGATIONS FOR 2024, AND
PROGRAM REFINEMENTS**

The Department of Market Monitoring (DMM) of the California Independent System Operator Corporation (CAISO) submits these reply comments to parties' June 14, 2023 comments on the Proposed Decision Adopting Local Capacity Obligations for 2024-2026, Flexible Capacity Obligations for 2024, and Program Refinements.

DMM appreciates the opportunity to comment on the proposals from Energy Division (ED), California Efficiency + Demand Management Council and CPower, California Large Energy Consumers Association, LEAP, and the California Community Choice Association (CalCCA).

I. Demand Response Transmission Loss Factor Adder

DMM supports the removal of the planning reserve margin (PRM) and transmission loss factor (TLF) adders. Some stakeholders have argued there is no evidence to support removing the transmission loss factor and thus it should be retained.¹ DMM continues to

¹ See June 14, 2023 comments in R21-10-002 of California Efficiency + Demand Management Council and CPower, and California Large Energy Consumers Association.

believe that the adder should be removed until and unless a study actually shows the avoided transmission losses from demand response resources, rather than keeping the adder until the study is conducted.² As noted by the CEC in their working group, until a study of avoided transmission losses from demand response is completed, the staff “does not opine on whether to maintain the TLF or at what value, in the interim”.³

As previously noted, DMM reports indicate the PRM and TLF adders have resulted in resource adequacy values that over-estimate the availability of demand response capacity.⁴ During high load days in the summer of 2022, bid-in capacity from CPUC-jurisdictional demand response resources averaged only about 67 percent of their credited resource adequacy value, including the PRM, and transmission and distribution adders.⁵ Removing the PRM and TLF adders is necessary to reduce the extent to which demand response capacity is used to meet resource adequacy requirements but is then not available under critical system conditions.

II. Additional Availability Requirements for Demand Response Resources

DMM continues to support the proposal to require demand response resources to bid in on days during which a CAISO Flex Alert is called or the Governor’s Office has issued an emergency notice.⁶ DMM acknowledges arguments that demand response

² *Reply Comments on Phase 3 of the Implementation Track*, Department of Market Monitoring, R21-10-002, March 3, 2023, p. 2: <http://www.caiso.com/Documents/Reply-Comments-on-R21-10-002-Phase-3-of-Implementation-Track-Mar-3-2023.pdf>

³ *Qualifying Capacity of Supply Side Demand Response Working Group Final Report*, January 23, 2023, p. 46: [California Energy Commission : Docket Log](#)

⁴ DMM Report on Demand Response Issues and Performance 2022, pp. 9-10: <http://www.caiso.com/Documents/Demand-Response-Issues-and-Performance-2022-Report-Feb14-2023.pdf>

⁵ This statistic compares bid-in capacity of credited utility demand response resources to their resource adequacy value, which includes the PRM adder, the transmission loss factor, and the distribution loss factor. The CPUC is maintaining the distribution loss factor adder.

⁶ *Comments on Phase 3 of the Implementation Track*, Department of Market Monitoring, R21-10-002, February 24, 2023, p. 10: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M502/K756/502756539.PDF>

resources are limited in the number of times they can be dispatched.⁷ DMM continues to support this proposal so that on very high load days, demand response resources are incentivized to bid in whatever capacity they have available as opposed to taking the entire resources on outage.

DMM emphasizes the importance of demand response resources being available under the most stressed grid conditions when they are needed most. DMM believes requiring demand response resources to be available during days with Flex Alerts could lead to more capacity bid in from demand response resources who may be fatigued and unable to bid in their full resource adequacy capacity but can still curtail some load. DMM also acknowledges that the \$500/MWh bid-cap for proxy demand response resources could increase the frequency of dispatch, and this could decrease the availability of demand response resources on days with the tightest system conditions because they are fatigued sooner. If this were to occur, DMM suggests that the CPUC could increase the bid cap to balance the goal of increasing demand response dispatch with the need for those resources to be available when needed most.

III. CalCCA's proposal to allow non-specific imports to bid above \$0/MWh

DMM reiterates its support for increasing the bid cap for non-specified import RA above \$0/MWh. DMM believes a requirement for non-source specific import RA resources to bid at or below \$0/MWh can be as effective as a self-schedule requirement for incentivizing the supplier to contract with a physical resource to help ensure delivery during tight system conditions. Furthermore, DMM continues to support the CPUC requiring an import RA bid cap during availability assessment hours that is sufficiently low to incentivize the supplier to contract in advance for supply committed to deliver to CAISO.⁸ These CPUC rules have significantly reduced concerns that import RA

⁷ See June 14, 2023 comments in R21-10-002 of LEAP, and California Efficiency + Demand Management Council and CPower.

⁸ DMM comments on Track 1 Proposals in R.19-11-009, March 6, 2020, pp. 9-11: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M328/K860/328860728.PDF>

capacity can receive capacity payments while providing no real benefits in terms of either system reliability or market competitiveness.

However, DMM believes an appropriately designed import RA bid cap above \$0/MWh, such as that proposed by CalCCA,⁹ could maintain similar incentives for physical resource procurement as a self-schedule or \$0/MWh bid requirement. CalCCA suggests a dynamic import RA bid cap set based on the approximate marginal cost of a typical gas plant each day. With this type of approach, suppliers would still expect to receive a CAISO import schedule except during hours when bilateral electricity spot market prices are relatively low, and would certainly expect to receive a CAISO schedule on days when conditions are so tight that they might not be able to buy power from bilateral electricity markets. Thus, DMM believes an appropriately low import RA bid cap could provide many of the same reliability benefits as the current \$0/MWh bid requirement or self-schedule requirement.

Meanwhile, increasing the import RA bid cap above \$0/MWh as suggested by CalCCA could provide the benefit of increasing the overall efficiency of CAISO market schedules. With this approach, suppliers of RA imports could be expected to bid at the lower of (1) marginal cost of the physical resource backing the import RA, (2) bilateral electricity spot market prices, or (3) the RA import bid cap. These RA imports would not clear the CAISO market in periods when CAISO market prices were less than these bid prices. This would allow more expensive resources that would have produced power outside of CAISO to support the import RA schedule to be displaced by a less expensive resource within CAISO. This increased efficiency could presumably be passed along to load serving entities through lower resource adequacy contract costs.

⁹ See CalCCA's presentation at the R.21-10-002 Workshop on Proposals for Implementation Track Phase 3, February 8, 2023, pp. 104-110: <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/r21-10-002/r2110002-slide-deck-for-implementation-track-phase-3.pdf>

With this approach, it could be important to maintain a real-time must-offer obligation for RA imports, to ensure these imports are available when real-time market conditions are much different than in the day-ahead market.

In conclusion, DMM is not proposing a particular bid cap, and these comments should not be construed as support for any particular bid cap over \$0/MWh proposed by CalCCA. However, we believe there could be value in continuing to consider an import RA bid cap over \$0/MWh that is designed to be sufficiently low so that import RA suppliers can still expect to frequently receive CAISO import schedules.

III. Conclusion

DMM appreciates the opportunity to provide reply comments on Proposed Decision Adopting Local Capacity Obligations for 2024-2026, Flexible Capacity Obligations for 2024, and Program Refinements.

Respectfully submitted,

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