

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local and Flexible Procurement Obligations
for the 2019 and 2020 Compliance Years

Rulemaking 17-09-020
(Filed September 28, 2017)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON PROPOSED DECISION**

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I. Introduction

Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure, the California System Operator Corporation (CAISO) hereby provides comments on the *Proposed Decision on Central Procurement of the Resource Adequacy Program* (Proposed Decision). In addition to these comments, the CAISO provides proposed changes to the Proposed Decision in Appendix A.

II. Discussion

The CAISO appreciates the Commission’s efforts to adopt and implement effective multi-year local capacity procurement requirements in this proceeding. The CAISO has previously supported,¹ and continues to support, the Commission’s efforts to establish and implement central buyer procurement for resource adequacy capacity. The Proposed Decision outlines a central procurement framework that relies on Southern California Edison Company (SCE) and Pacific Gas & Electric Company (PG&E) to act as central procurement entities (CPEs) for local resource adequacy capacity in their respective transmission access charge (TAC) areas. From the CAISO’s perspective, the Proposed Decision presents a workable, albeit imperfect, central procurement framework. The Commission and CAISO staff should coordinate closely to ensure its smooth implementation.

The Proposed Decision is deficient because it fails to adopt multi-year forward

¹ See CAISO’s December 11, 2018 Comments on Proposed Decision in this proceeding.

procurement requirements for system and flexible resource adequacy capacity, despite the fact the Commission recently identified significant short-term resource adequacy capacity shortfalls in its integrated resource plan proceeding. The Commission should not delay adopting robust multi-year system and flexible resource adequacy procurement requirements to ensure the state maintains sufficient capacity to maintain reliability in this rapidly changing operational environment, while providing a path to meet the goals of Senate Bill (SB) 100.

A. Central Procurement Framework

The Proposed Decision provides for a “hybrid” central procurement framework with SCE and PG&E acting as CPEs for their respective TAC areas beginning in 2023. The hybrid central procurement framework allows “individual [load-serving entities] to voluntarily procure local resources to meet their system and flexible RA requirements and count them towards the collective local RA requirements, providing LSEs flexibility and autonomy to procure local resources.”² The hybrid procurement framework provides certain benefits, especially regarding implementation and cost allocation, and the CAISO can work with the Commission and stakeholders to accommodate the hybrid central procurement framework.

1. Consistency with Current CAISO Tariff Requirements

The CAISO recommends that Commission Energy Division staff and CAISO staff work together to implement the hybrid central procurement framework in a manner consistent with the existing CAISO tariff. The Proposed Decision states that “LSEs in [the SCE and PG&E] TAC areas will no longer receive a local requirement for the 2023 RA compliance year but will have the ability to procure resources to meet system and flexible RA needs.”³ The CAISO tariff currently provides that the Commission may allocate local capacity area resource obligations to its load-serving entities.⁴ However, if the Commission’s allocation methodology does not fully allocate the sum assigned to its load-serving entities, the CAISO will allocate the difference to Commission load-serving entities in accordance with their proportionate share.⁵

Similarly, the CAISO’s capacity procurement mechanism (CPM) allows the CAISO to

² Proposed Decision, p. 24.

³ Proposed Decision, p. 24.

⁴ CAISO Tariff Section 40.3.2.

⁵ *Id.*

exercise backstop procurement for local resource adequacy deficiencies “[w]here a Scheduling Coordinator fails to demonstrate in an annual Resource Adequacy Plan, submitted separately for each represented LSE, procurement of each LSE’s share of Local Capacity Area Resources.”⁶ The CPM cost allocation provisions for local capacity area resources similarly authorize the CAISO to allocate costs to individually deficient load-serving entities rather than a single CPE.⁷

The hybrid central procurement structure may eliminate Commission-directed individual LSE obligations, but this will not necessarily modify individual LSE obligations under the CAISO tariff. Notwithstanding this potential disconnect, the CAISO believes that these issues can be addressed in a manner that is similar to current treatment of resources procured under the Commission’s Cost Allocation Mechanism (CAM). For CAM resources, the Commission allocates credits to its jurisdictional LSEs based on its own methodology. These CAM-related credits reduce the resource adequacy obligations for Commission-jurisdictional LSEs. A similar process may be necessary to allocate CPE-procured resources to individual LSEs, but the CAISO and Commission Energy Division staff should work together to ensure proper validation and avoid unnecessary complexity.. Energy Division staff and the CAISO will need to coordinate to ensure that Commission-jurisdictional LSE local requirements, showings, and credits properly reflect central procurement efforts.

2. Maximum Cumulative Capacity Bucket Limitations

The CAISO recommends that the Commission clarify how CPE procurement will align with maximum cumulative capacity (MCC) bucket requirements. The MCC categorization currently limits the amount of use-limited resources that can count toward resource adequacy requirements. In the successor resource adequacy proceeding, the Energy Division staff proposed refining the MCC categories to further clarify the extent to which LSEs can rely on demand response and other use-limited resources to meet resource adequacy requirements. The CAISO recommends that the Commission clarify whether and how the CPEs should consider MCC bucket limitations in their procurement processes. In particular, the CAISO notes that CPE procurement of significant quantities of use-limited resources

⁶ CAISO Tariff Section 43A.2.1.1.

⁷ CAISO Tariff Section 43A.8.1 and 43A.8.2.

could limit individual LSEs' opportunities to procure use-limited resources to meet their own system or flexible resource adequacy requirements. Specifically, the Commission should clarify whether MCC procurement limitations apply to CPE procurement.

3. Availability Limited Resource Procurement

The Commission should direct CPEs to consider the impact of availability limited resource procurement in each local capacity area. The Proposed Decision provides that CPEs should use the least-cost best-fit methodology with specific selection criteria to evaluate resources. The least-cost best-fit criteria specifically include "operational characteristics of the resources," which are defined as "efficiency, age, flexibility, facility type."⁸ The CAISO recommends that the Commission direct CPEs to also consider availability limits in its resource evaluation. Specifically, the CPEs should seek to ensure that selected local capacity area resources will meet the energy and capacity requirements for each local capacity area given any availability limitations due to output duration, frequency of dispatch, or charging requirements. The CAISO notes that its most recent Local Capacity Technical Studies include detailed peak day forecast profiles for each local capacity area that CPEs can use to guide availability limited resource procurement.⁹

4. Treatment of Demand Response

The CAISO recommends the Commission not adopt the Conclusion of Law that states, "IOU local DR resources should be counted based on the three-year period of the applicable load impact protocol studies after any Energy Division adjustments."¹⁰ In the ongoing resource adequacy proceeding, significant discussion is taking place regarding the counting of demand response, including the merit of the load impact protocols. The CAISO and other stakeholders have clearly highlighted the variable and use-limited nature of demand response, namely, its variable nature is not properly reflected through the load impact protocols.¹¹ The load impact protocols inappropriately assume demand response is a fixed capacity resource, like a gas-fired resource, capable of delivering a fixed megawatt quantity

⁸ Proposed Decision, p. 40-41.

⁹ As an example, see the CAISO's recent draft 2021 Local Capacity Technical Study submitted in R.19-11-009: <http://www.aiso.com/Documents/Draft2021LocalCapacityTechnicalReport.pdf>.

¹⁰ Proposed Decision, p. 62.

¹¹ See CAISO's March 23, 2020 Track 2 Comments pp. 6-9 in R.19-11-009.

whenever dispatched. This is not the case, as demand response output can vary by day and hour based on temperature, weather, production schedules, occupancy, day of week, or other factors. Thus, giving a fixed resource adequacy capacity quantity to demand response is not appropriate and requires further vetting.

Given the extensive and ongoing discussion regarding demand response counting and application of the load impact protocols, it is premature for the Commission to adopt the load impact protocols for the purposes of multi-year local resource adequacy procurement through the CPE. Deciding this issue is not critical to the CPE decision and should be deferred until final vetting of this issue in the successor proceeding.

B. Multi-Year System and Flexible Resource Adequacy Obligations

The Proposed Decision fails to adopt multi-year system and flexible resource adequacy obligations on the basis “there has been no further record development on this issue” since the Commission’s issuance of D.19-02-022.¹² The CAISO disagrees strongly with this conclusion. To the contrary, developments since D.19-02-022 demonstrate the consequences of the lack of multi-year system and flexible resource adequacy requirements. In the Commission’s recently completed Integrated Resource Planning proceeding, the Commission expressly recognized tightening supply conditions and directed 3,300 MW of capacity procurement to meet short-term resource adequacy needs. The Commission’s procurement decision fast tracks these resources, requiring at least 50 percent to come online by August 1, 2021 and the full 3,300 MW to come online by August 1, 2023.

The Commission should take prudent and proactive steps to avoid potential future capacity shortfalls of this nature. Specifically, the CAISO recommends that the Commission establish robust, multi-year system and flexible capacity requirements. This will eliminate the need for last-minute or catch-up procurement to meet short- to mid-term system capacity needs, which could unnecessarily place reliability at risk. The CAISO requests the Commission revise its Proposed Decision to indicate it will act promptly to pursue expanding its resource adequacy program to include multi-year system and flexible resource adequacy requirements. Such action should consider how the hybrid procurement framework for local resource adequacy can be used for multi-year system and flexible procurement, or if not a

¹² Proposed Decision, p. 18.

best-fit, how a residual central procurement framework could be incorporated to meet system and flexible capacity needs.

III. Conclusion

The CAISO appreciates this opportunity to provide comments on the Proposed Decision and looks forward to working with the Commission to continue to refine and improve the resource adequacy program.

Respectfully submitted,

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APPENDIX A

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CAISO Recommended Modifications to the Proposed Decision

Revisions to Findings of Fact:

XX. Resource adequacy-based capacity analysis in the Commission's Integrated Resource Planning proceeding demonstrates the need for prompt action to expand the resource adequacy program to include multi-year system and flexible resource adequacy requirements.

Revisions to Conclusions of Law:

XX. The Commission will pursue prompt action to expand the resource adequacy program to include multi-year system and flexible resource adequacy requirements.

13. To guide the selection of local resources, the central buyers should evaluate resources using the least-cost best-fit methodology and including the following criteria: (1) future needs in local and sub-local areas, (2) local effectiveness factors, (3) resource costs, (4) operational characteristics of the resources *including availability limitations*, (5) location of the facility, (6) costs of potential alternatives, and (7) greenhouse gas adders.

~~*16. It is reasonable to treat local DR resources as is currently done in the year-ahead timeframe, based on the applicable three-year period of the most recent load impact protocol studies after any Energy Division adjustments.*~~

Revisions to Ordering Paragraphs:

~~*8. Local Demand Response (DR) resources shall be counted based on the applicable three-year period of the most recent load impact protocol studies after any Energy Division adjustments, as is the current practice for determining the qualifying capacity value of DR resources on a one-year ahead timeframe.*~~