

I. Introduction

On December 9, 2020, the Executive Appeals Committee (Committee) of the California Independent System Operator Corporation (ISO) issued a decision on six appeals of Proposed Revision Request (PRR) 1280 to the ISO's Business Practice Manual (BPM) for Reliability Requirements. The December 9 decision held PRR 1280 in abeyance pending further Committee action. The Committee has scheduled a hearing for August 9, 2021, to consider the matter further and has requested parties submit brief written statements on what further action is appropriate.

Based on progress made through the extensive outreach the ISO conducted since the December 9 decision, ISO staff does not find it necessary to hold PRR 1280 in further abeyance. ISO staff recommends the Committee approve PRR 1280 to be effective for the 2022 RA year. Alternatively, if the Committee believes parties need more time to transition to the PRR 1280 paradigm, the Committee should approve PRR 1280 effective for the 2023 RA year.

II. Background

PRR 1280 implemented a "net zero credits" rule in accepting resource adequacy (RA) credits from local regulatory authorities (LRA). These RA credits offset the RA obligations of load serving entities (LSE) under a LRA's jurisdiction. The net zero credits rule states that the ISO only accepts RA credits if the LRA's credits net to zero. The rule ensures that RA crediting only allocates capacity from a RA resource among LSEs and precludes LSEs from meeting their RA requirements from resources not shown on a RA supply plan submitted to the ISO. ISO staff considered this rule essential because it would ensure that all resources used to meet RA requirements would be subject to the ISO tariff's RA requirements, including the RA availability incentive mechanism (RAAIM) and the RA outage substitution rules.

At a high level, appellants' objections to the net zero credits rule were based on jurisdictional/legal and practical concerns.

- The *jurisdictional/legal objections* were: the RA program design grants LRAs the authority to decide what resources can meet RA requirements; PRR 1280 undermines state policy decisions, especially regarding the role demand response (DR) should play in meeting California's needs; and removing RA credits requires a tariff filing approved by both the ISO's Governing Board and the Federal Energy Regulatory Commission (FERC).
- The *practical concerns* were: the RA contracting timeline is too long and complex for LRAs and LSEs to account for the net zero credits rule on the

ISO's proposed timeline;¹ and the contracts for the resources underlying the credits, in particular DR, were not designed to account for exposure to RAAIM.

In response to the appeals, the Committee's December 9 decision held PRR1280 in abeyance until at least August 1, 2021. The Committee's decision noted

the ISO and the California Public Utilities Commission have agreed to work constructively and collaboratively to resolve these issues by August 1, 2021. The ISO anticipates working collaboratively with other LRAs and applicable stakeholders in a similar fashion, and timing, to resolve their individual issues.

Through a June 16, 2021, market notice, the Committee announced it would hold a hearing on August 4, 2021, to consider further action on the PRR1280 appeals. The market notice asked parties to provide written statements "describing whether and how the issues discussed in the earlier hearing have been addressed since December 2020." The hearing was rescheduled for August 9.

III. ISO Staff Position on Next Steps

ISO staff acknowledges that, from the LRA and LSE perspective, PRR 1280 may have been enacted too late in the 2021 annual RA cycle to give parties the necessary time to adjust in terms of both contracting for additional capacity and registering existing resources to participate in the RA program. Per the Committee's direction, the ISO has conducted extensive outreach with those LRAs submitting RA credits. ISO staff reached out to 11 LRAs using any form of non-net zero credits. Through this outreach, the ISO and LRAs have worked through many of the practical barriers to showing formerly credited resources on supply plans. ISO staff believe LRAs fall into three categories regarding PRR 1280 resolution: (1) resolved and no issues with implementing the net zero credits rule; (2) on a pathway for resolution; and (3) likely need to contract for additional RA capacity for the 2022 RA year if PRR 1280 moves forward. Of the 11 LRAs, ISO staff views there to be six in the first category, four in the second category, and one in the third category.

In terms of the *jurisdictional/legal objections* to PRR 1280, ISO staff's position has not changed from its November 23, 2020, appeal brief and the December 1, 2020, appeal hearing. PRR 1280 does not intrude on LRAs' role in setting RA program parameters.² Further, the ISO can implement the net zero credits without a tariff amendment "because it merely effectuates the plain wording of the tariff – ensuring RA

¹ Annual RA showings are due the last business day in October for the following year. The ISO submitted PRR 1280 on August 27, 2020, and it became effective on October 30, 2020.

² CAISO staff appeal brief, at 11 ("PRR 1280 does not improperly intrude on state policies regarding demand response or LRAs' authorized responsibilities regarding the RA program.").

obligations are met by RA Capacity.”³ Under the ISO tariff, only capacity on RA supply plans constitutes RA Capacity.

Given the significant progress and various paths forward outlined, ISO staff’s position is the Committee should direct implementation of PRR 1280 starting for the 2022 RA year. The balance of ISO staff’s comments summarize the ISO’s outreach efforts and the results of such outreach.

IV. Summary of Local Regulatory Authority Outreach

In discussing PRR 1280 with LRAs, ISO staff’s starting point was trying to understand LRAs’ hesitation in ordering the showing of resources supporting the credits on a RA supply plan. In the first category, where issues were resolved, additional education and clarifications allowed the LRA to show capacity on supply plans. The summaries below largely reflect discussions in the second category where ISO staff feels LRAs have a path towards resolution, and only a single LRA’s LSE at this time seems likely to need to contract for additional RA capacity for the 2022 RA year.

Regarding the CPUC and its jurisdictional LSEs, the ISO came to understand a significant concern with PRR 1280 was the impact on CPUC-approved investor-owned utility (IOU) DR programs that supported CPUC-provided RA credits. In particular, CPUC Energy Division staff objected to showing these DR resources on RA supply plans because the design of the programs does not account for exposure to RAIM. Some parties also argued that DR has similar variability and availability limitations to wind and solar resources, which are exempt from RAIM. However, DR resources are valued under a load impact protocol (LIP) counting methodology, rather than a reliability-based counting methodology that considers the resources’ inherent variability. For example, CPUC wind and solar resources are subject to the effective load carrying capability (ELCC) counting methodology, which accounts for their variable-output and limited availability. The ISO has been advocating in the CPUC’s RA proceeding to use the ELCC methodology to determine RA capacity values for credited DR resources, rather than the LIP methodology.⁴ The June 3, 2021, assigned commissioner’s ruling indicated receptivity to moving to the ELCC methodology for the 2022 RA year based on further study results.⁵ In response, the ISO filed the requested refreshed study results jointly with the three large IOUs on July 1, 2021.⁶ At the CPUC, parties will file opening and reply comments on the refresh study on July 19 and 26, respectively, with a final CPUC decision expected by early September. To accompany the CPUC’s potential adoption of an ELCC for DR, the ISO commenced an accelerated stakeholder process to consider granting DR resources subject to ELCC (or similar reliability-based

³ CAISO staff appeal brief, at 17.

⁴ <http://www.caiso.com/Documents/Dec18-2020-FinalTrack3BProposals-ResourceAdequacy-Exhibits-R1911009.pdf>; http://www.caiso.com/Documents/Jan28-2021-Track-3B1_Proposals-ResourceAdequacyProgram-R19-11-009.pdf.

⁵ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M386/K639/386639029.PDF>

⁶ <http://www.caiso.com/Documents/Jul1-2021-ComplianceFilingRefreshedEffectiveLoadCarryingCapabilityStudyResults-ResourceAdequacy-R19-11-009.pdf>

counting methodology) a RAAIM exemption in 2022. The ISO Board approved this proposal on July 15, 2021, and the ISO will submit the tariff amendment filing to FERC shortly. Based on these developments, the ISO sees, at minimum, a procedural pathway to showing CPUC-approved DR resources on RA supply plans. Showing these resources on supply plans would mean they become subject to the ISO tariff requirements for RA capacity. Having more RA capacity, rather than RA credits, is even more critical given the recent joint statement from CPUC President Batjer and California Energy Commission Chair Hochschild requesting the ISO use its capacity procurement backstop authority to procure additional capacity to address the net demand peak and unprecedented climate change-driven heat events.⁷

The Metropolitan Water District of Southern California (MWD) explained that its contractual rights to generation outside the ISO balancing authority area and significant load drop capabilities supported the credits. ISO staff explained that the contractual rights also could support a RA resource on a supply plan. MWD indicated it would explore how to use those contractual rights to support a RA resource. Those rights, however, are insufficient on their own to meet the LSE's total RA obligation. Registering the load drop capabilities as a DR resource bid into the ISO markets was not an option because MWD's board has barred the LSE from bidding those capabilities into the ISO markets. After further consideration, ISO staff suggested the LSE consider registering as a load following metered subsystem. This market participation model, which is available to LSEs operating as a utility before ISO formation, exempts a LSE from many RA tariff requirements in recognition of its capability largely to be self-reliant. MWD is continuing to explore the load following metered subsystem option. ISO staff is optimistic this option will help MWD avoid the need to procure RA capacity on the bilateral market, while ensuring it meets existing RA tariff requirements without using credits rejected under the net zero credits rule.

Pechanga Western Electric (Pechanga) reported that it owns generation in excess of its peak load needs. Pechanga questioned why it was inappropriate to reflect such LSE-owned resources as credits toward meeting the LSE's RA requirements. The ISO staff reiterated its general concerns with crediting but inquired about showing the resources on a supply plan. Pechanga explained that its existing interconnection agreements do not permit the resources to place their output on the grid. However, based on discussions with ISO staff, Pechanga is exploring the updates needed to allow it to bid those resources into the ISO market and export them onto the grid. If that approach is unsuccessful, the ISO also suggested that Pechanga could consider using its resources' capability to serve its own load to support a DR resource. This would allow Pechanga to bid the generation units indirectly into the market through the capability they provide it to disconnect from the grid when the ISO dispatches DR. Under either approach, Pechanga would not need to purchase RA capacity to meet its RA obligations.

⁷ <http://www.caiso.com/Documents/CapacityProcurementMechanismSignificantEvent-JointStatementandLetter.pdf>

The Western Area Power Administration (WAPA), whose jurisdictional LSE relies significantly on hydro resources and imports, expressed concern about how those resource types would fit into the context of the ISO's tariff requirements on RA resources, including the must-offer obligation and RAAIM. ISO staff explained that the existing RA tariff provisions accommodate hydro resources (both storage-backed and run-of-river) and imports and noted that LSEs and suppliers already show such resource types as RA Capacity. ISO staff pledged to work with WAPA to assign the resources resource IDs and facilitate its showing such resources on supply plans.

Finally, Kirkwood Meadows Utility (Kirkwood) reported that due to its low loads in summer and the difficulty in securing RA for small amounts, it should be allowed to credit and/or be exempt from RA obligations. Kirkwood has an emergency backup generator but the resource cannot participate directly in the ISO markets because the interconnection agreement does not permit the resource to place its output on the grid. Kirkwood reported that switching between the grid and self-contained operation is not seamless even if it was comfortable bidding the capacity into the ISO market. For that same reason, ISO understands that Kirkwood cannot use its DR capabilities to support its RA requirements. Also, Kirkwood is ineligible to pursue the load-following metered sub-system option. If PRR 1280 moves forward, Kirkwood's options may be limited to purchasing RA capacity or risking CPM cost allocation if the CAISO must procure backstop capacity to address the LSE RA deficiency.

V. Conclusion

Since the Committee issued its decision in December, the ISO has made significant progress in resolving the practical concerns raised by parties opposing PRR 1280. With those issues on a pathway to resolution, ISO staff does not see any reasonable basis to delay implementing PRR 1280 beyond the start of the 2022 RA year. However, if the Committee believes parties need more time to transition to the PRR 1280 paradigm, the Committee should approve PRR 1280 effective for the 2023 RA year.