Load Serving Entity Definition Refinement

Issue Paper & Straw Proposal

August 15, 2016
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1. Introduction

As suggested in a July 29, 2016, tariff waiver filing submitted to FERC, the ISO intends to update the tariff definition of Load Serving Entity (LSE) to include entities that have been granted authority pursuant to state or local law, regulation, or franchise to serve their own Load directly through wholesale purchases of electric energy.¹

2. Stakeholder Engagement

The schedule for stakeholder engagement is provided below and targets presentation of the proposal to the Board of Governors’ October 2016 meeting, with a FERC filing requesting the amended tariff language to be effective on January 1, 2017.

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3. Background

The ISO tariff defines a Load Serving Entity as:

Any entity . . . that (a) (i) serves End Users within the CAISO Balancing Authority Area and (ii) has been granted authority or has an obligation pursuant to California state or local law, regulation, or franchise to sell electric energy to End Users located within the CAISO Balancing Authority Area; (b) is a federal power marketing authority that serves End Users; or (c) is the State Water Resources Development System commonly known as the State Water Project of the California Department of Water Resources.

Entities that have been granted authority pursuant to state or local law, regulation, or franchise to serve their own Load directly through wholesale purchases of electric energy are responsible for securing energy and transmission service to serve their own electrical demand and energy requirements. These entities are similarly situated to Load Serving Entities because their load will be subject to the Transmission Access Charges (TAC) and their scheduling coordinator will be exposed to congestion charges associated with locational marginal pricing in the day-ahead market.

While these entities are similarly situated to Load Serving Entities, with one exception, they do not meet the tariff definition of the term because the current definition focuses on an entity serving end-use customers, while these entities are themselves the end-use customer. The one exception, which is stated in the definition of the term, is the State Water Project. Even though it is not a retail electric utility that serves load, the tariff specifically identifies the State Water Project as a LSE. During the tariff approval process associated with the ISO’s transition to its locational marginal price-based market, the ISO explained that the State Water Project should be treated as a Load Serving Entity the same as a retail electric utility and that the term LSE itself should be interpreted broadly.2 The Commission found the then-pending tariff definition ambiguous and ordered the ISO to offer further clarity.3 On compliance, the ISO added the third prong of the current tariff definition, which specifically mentions the State Water Project.4 The CAISO did not at that time offer a broader revision of the definition that would have covered other entities similarly situated to the State Water Project.

Because these entities are not Load Serving Entities under the tariff definition they cannot receive allocated congestion revenue rights.5

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3 Id. at P 1138.
5 "Candidate CRR Holder Load Serving Entity Certifications -- A Candidate CRR Holder applicant that intends to obtain CRRs through the CRR Allocation process must certify that it qualifies as a Load Serving Entity as defined in the CAISO Tariff,” ISO Tariff Section 4.10.1.5.2
Under a new tariff definition for LSE that includes these entities, they will be eligible to receive allocated congestion revenue rights by certifying that they are a Load Serving Entity and they will also take on corresponding resource adequacy obligations associated with their load.

3.1. Allocation of Congestion Revenue Rights to Load Serving Entities

CRRs are an integral component in the ISO markets. CRRs are a financial instrument settled on the difference in the marginal cost of congestion between two points (the source and the sink) on the ISO’s system (as determined in the ISO day-ahead market), multiplied by the MW value of the CRR the party holds between the two points. The quantity of CRRs available is based on a model of the ISO’s electric system. Based on the CRRs requested, the ISO conducts a simultaneous feasibility test to determine which CRRs it will release in each round of the CRR process.

The ISO releases Monthly, Seasonal, and Long Term CRRs, with one month, three month, and ten year terms, respectively. The ISO releases CRRs through both an allocation process, in which parties are awarded CRRs at no cost, and an auction mechanism, in which parties are awarded CRRs based on the market-clearing prices in an auction. The ISO conducts both an annual process, in which it allocates Seasonal and Long Term CRRs and auctions Seasonal CRRs, and a monthly process, in which it both allocates and auctions Monthly CRRs. The allocation is an iterative, multi-tier process in which internal and external Load Serving Entities are entitled to nominate CRRs based on their load-serving obligations. The auction, in contrast, is open to all registered parties wishing to obtain CRRs. Eligibility to participate in the auctions is not based on an entity’s load-serving obligations.

The tariff explicitly states that only Load Serving Entities may participate in the allocation. Section 4.10.1.5.2 states that an entity that “intends to obtain CRRs through the CRR Allocation process must certify that it qualifies as a Load Serving Entity as defined in the CAISO Tariff.” Similarly, section 36.8.2 of the tariff states that an “entity that wishes to participate in the CRR Allocation process must provide information that demonstrates that it has an obligation to serve load.”

The rationale behind limiting allocated CRRs to Load Serving Entities is that they, on behalf of the load they serve, have paid for the embedded costs of the grid by paying transmission access charges and, thus, the ISO should allocate them CRRs to enable them to hedge the volatility in the marginal cost of congestion component of locational marginal prices. The ISO was clear in establishing this system that it was a forward-looking principle because it allocates CRRs for a future CRR term in which the Load Serving Entity will be paying access charges and

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6 The marginal cost of congestion is one of the components of the ISO’s locational marginal prices.
will be exposed to congestion costs to serve its load, as opposed to an entitlement based on past payment of access charges.\textsuperscript{7}

3.2. Resource Adequacy Obligations

Each Load Serving Entity with demand in the ISO balancing authority area must demonstrate that it satisfies the RA provisions outlined in section 40 of the ISO tariff. Under those provisions, Load Serving Entities must procure capacity to meet their forecasted load, plus a reserve margin, local area capacity needs, and flexible resource adequacy requirements.\textsuperscript{8} To demonstrate that procurement, under section 40.2.2.4 Load Serving Entities must submit annual and monthly Resource Adequacy Plans to the ISO.\textsuperscript{9}

4. Issues

Outside of the State Water Project, entities that have been granted authority pursuant to state or local law, regulation, or franchise to serve their own Load directly through wholesale purchases of electric energy do not meet the current definition of LSE in the ISO tariff. This prevents these entities from eligibility to participate in the CRR allocation process and requirement to participate in the resource adequacy processes, even though they are similarly situated to entities that currently meet the ISO tariff definition.


\textsuperscript{8} The specific requirements are developed by the ISO in collaboration with the California Public Utilities Commission and other local regulatory authorities to develop procurement requirements to ensure that the capacity procured by the Load Serving Entities under their respective jurisdictions is adequate to meet the CAISO’s operational needs and maintain grid reliability.

\textsuperscript{9} Section 40.2.2.4 applies to a Non-CPUC Load Serving Entity (which these types of entities would be), while section 40.2.3.4, which contains parallel provisions, applies to “a Load Serving Entity electing Modified Reserve Sharing LSE status . . . .”
5. Proposal

The ISO proposes to update the tariff definition of “Load Serving Entity” to include entities that have been granted authority pursuant to state or local law, regulation, or franchise to serve their own Load directly through wholesale purchases of electric energy. The specific reference to the State Water Project is proposed for deletion because the State Water Project would be covered under the new category of Load Serving Entity. Keeping the current reference would be superfluous and potentially could cause confusion in the future.

The current definition reads:

- **Load Serving Entity (LSE)**
  Any entity (or the duly designated agent of such an entity, including, e.g., a Scheduling Coordinator), including a load aggregator or power marketer, that (a) (i) serves End Users within the CAISO Balancing Authority Area and (ii) has been granted authority or has an obligation pursuant to California state or local law, regulation, or franchise to sell electric energy to End Users located within the CAISO Balancing Authority Area; (b) is a federal power marketing authority that serves End Users; or (c) is the State Water Resources Development System commonly known as the State Water Project of the California Department of Water Resources.

The proposed definition reads:

- **Load Serving Entity (LSE)**
  Any entity (or the duly designated agent of such an entity, including, e.g., a Scheduling Coordinator), including a load aggregator or power marketer, that (a) (i) serves End Users within the CAISO Balancing Authority Area and (ii) has been granted authority or has an obligation pursuant to California state or local law, regulation, or franchise to sell electric energy to End Users located within the CAISO Balancing Authority Area; (b) is an End User and has been granted authority pursuant to California state or local law or regulation to serve its own Load; or (c) is a federal power marketing authority that serves End Users.

For convenience, the following redline shows the difference between the current definition and the proposed definition:

- **Load Serving Entity (LSE)**
  Any entity (or the duly designated agent of such an entity, including, e.g., a Scheduling Coordinator), including a load aggregator or power marketer, that (a) (i) serves End Users within the CAISO Balancing Authority Area and (ii) has been granted authority or has an obligation pursuant to California state or local law, regulation, or franchise to sell electric energy to End Users located within the CAISO Balancing Authority Area; (b) is an End User and has been granted authority pursuant to California state or local law or regulation to serve its own Load; or (c) is a federal power marketing authority that serves End Users.
6. Scope of Initiative

This initiative is focused on required updates to the tariff to allow the CRR and Resource Adequacy provisions to apply to entities that have been granted authority pursuant to state or local law, regulation, or franchise to serve their own Load directly through wholesale purchases of electric energy.

7. Next Steps

The ISO will discuss the issue paper with stakeholders during a teleconference to be held on August 23, 2016. Stakeholders should submit written comments by September 2, 2016 to InitiativeComments@caiso.com.