

Comments of the Staff of the California Public Utilities Commission
Flexible Resource Adequacy Criteria and Must-Offer Obligation
Draft Tariff Language (May 19, 2014 version)

The staff of the California Public Utilities Commission (CPUC) offers the following comments and proposed revisions to the California Independent System Operator Corporation's (CAISO) proposed draft tariff language for implementing the Revised Draft Final Proposal (RDFP) issued March 7, 2014 for the Flexible Resource Adequacy Criteria and Must-Offer Obligation (FRAC-MOO) initiative.¹ The CPUC's comments appear below in blue text. Suggested revisions to the relevant tariff section appear "tracked changes" to the CAISO's proposed draft language following each comment to which the tariff section relates. The CAISO's proposed text appears in black. Current (existing) CAISO tariff language appears in black with grey highlighting.

- 1. The CAISO should delay and further consider whether or how to allow the CAISO to re-run flexible capacity needs assessment in order to assure that such provisions do not create conflict with the CPUC's Resource Adequacy program or uncertainty for LSEs regarding their allocated share of flexible capacity needs.**

The CPUC staff is concerned that the proposed tariff language in this section is too vague and allows the CAISO too much discretion to re-run the needs assessment without describing parameters or time limits to ensure that a re-assessment of needs would be compatible with the CPUC's timeline for adopting and allocating flexible RA requirements.

The CPUC will issue a decision adopting the flexible resource adequacy requirements for the following year by the end of June each year, taking into account the flexible capacity needs assessment the CAISO will provide by May 1 each year. If

¹ The CPUC staff is submitting these comments late due to the short turnaround provided by the CAISO for responding to the 50+ page draft tariff when it issued. (The CAISO provided one week to submit comments, over a week that spanned the three-day Memorial Day weekend, without advance notice of when it would issue the tariff or require comments be submitted and our staff had prior work commitments and planned days off.) However, staff has expressed our concerns with certain provisions of the draft language to the CAISO staff in one-on-one meetings and during the CAISO's conference call to discuss the draft language.

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the CAISO re-runs the assessment after the CPUC issues its decision, this could create uncertainty for the LSE if the CAISO purports to impose a different flexible capacity allocation on an LSE that conflicts with the CPUC's allocation to the LSE. Further, this proposal fails to acknowledge the CAISO will defer to the LRA (e.g, the CPUC's) allocation methodology. Indeed, if the CAISO were to re-run the flexible needs assessment after the CPUC has adopted the flexibility requirements each year *even using the same data* it may create conflicting procurement obligations for CPUC-jurisdictional LSEs because the CPUC is proposing to use a different allocation methodology than the CAISO. The tariff should not include a provision that creates so much regulatory uncertainty and clear possibility of conflict with the CPUC's Resource Adequacy proceedings.

Further, the CAISO has no similar re-run provisions for revising local capacity requirements. Although the CAISO must rely more on data provided by LSEs to determine the flexible capacity needs assessment than for local capacity requirements technical study, the CAISO should explore whether other methods could provide assurances that LSEs will submit accurate data, or impose penalties if they do not.

Although the Revised Draft Final Proposal included this process, it is now more apparent that allowing the CAISO unfettered discretion to re-run the flexibility needs assessment and to issue new allocations, at any time, is incompatible with the structure of rest of the tariff and the CPUC's timeline for conducting its Resource Adequacy proceedings. Moreover, this provision will have no applicability to the 2015 resource adequacy year (the CAISO could not re-run the data under this provision because the CAISO has not relied on data submitted pursuant to this draft tariff language in

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developing the needs assessment; and the CAISO's proposed language commits the CAISO to not re-run the needs assessment in 2015). Due to the importance of ensuring that the CAISO's tariff does not impose undue regulatory risks on LSEs or create conflicts with the CPUC's jurisdiction to determine the flexible resource adequacy requirements it allocates to CPUC-jurisdictional LSEs, the CPUC staff requests that the CAISO delete this portion of the proposed tariff and revisit whether such provisions are needed at a later time.

SUGGESTED EDITS RELATING TO COMMENT NO. 1:

~~40.10.1.2.1 Incomplete or Inaccurate Information.~~

- ~~(a) **Rerun of Study.** If the CAISO finds that incomplete or inaccurate information was submitted under Section 40.10.1.2(b) and was used in the calculation of the Flexible Capacity Need for the next calendar year, the CAISO may rerun its study to recalculate Flexible Capacity Need for the entire year and quantify the impact of the incorrect information. The CAISO will not recalculate the Flexible Capacity Need for 2015.~~
- ~~(b) **Threshold for Rerun.** The CAISO will not rerun its study to recalculate the Flexible Capacity Need unless it determines, in its discretion, that the magnitude of the error in the incomplete or inaccurate information will have a material impact on the results of the study.~~
- ~~(c) **Decreased Flexible Capacity Need.** If the CAISO reruns its study and determines that use of the incomplete or inaccurate information in the initial study~~

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~~decreased the Flexible Capacity Need allocated to the Scheduling Coordinator for the Load Serving Entity that submitted the incorrect data, the CAISO will —~~

~~(1) — charge that Scheduling Coordinator for the MW difference between the Flexible Capacity Need the Load Serving Entity was allocated and the higher Flexible Capacity Need it should have been allocated using the correct information;~~

~~(2) — calculate the charge by applying the CPM Capacity price to the MW difference in the allocations; and~~

~~(3) — apportion the charge assessed under Section 40.10.2.1.1(c)(1) as payment to the Scheduling Coordinator for each Load Serving Entity that was allocated a higher Flexible Capacity Need than it would have been allocated using the correct information.~~

~~(d) — **Increased Flexible Capacity Need.** If the CAISO reruns its study and determines that use of the incomplete or inaccurate information increased the Flexible Capacity Need allocated to the Scheduling Coordinator for the Load Serving Entity that submitted the incorrect data, the CAISO will take no further action.~~

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2. The CAISO should clarify the reliability criteria it will utilize to determine if an error term or positive forecast adjustment is needed.

The CAISO should revise draft tariff language in proposed sections 40.10.1.3(4) and 40.10.2.1(c) that purports to grant CAISO unbounded and ill-defined discretion to increase (and allocate to LSEs) the amount of flexible capacity needed on the system each year by including a “positive ... forecast adjustment in its study.” This proposed tariff language relates to the “error term” included in the formula used to calculate the flexible capacity need for each month that was adopted by CPUC D.13-06-024 and that is proposed for adoption for the 2015 Resource Adequacy compliance year.² The CPUC staff recommends that the tariff include “error term” because it is more consistent with the policy development and the term utilized throughout the CPUC’s Resource Adequacy proceeding and decisions leading to adoption of the formula to calculate the system flexibility requirement.

Thus, the CAISO should modify the proposed tariff language to indicate that it will (1) specify what specific reliability criteria or other transparent and objective standards the CAISO will utilize to determine if a positive error term / forecast adjustment is needed, and (2) state that it will solicit stakeholder comment before seeking to include a positive error term or forecast adjustment in the flexible capacity needs assessment to be published by May 1 of each year.

The CPUC staff agrees with the comments submitted by SCE and PG&E that a proposal for the CAISO to have unchecked authority to set an error term is inconsistent with policy development and was not proposed in the stakeholder process. Moreover, it is entirely unclear what assumptions, reliability standards or criteria, or other factors the CAISO would (or could) use to impose a positive error term / forecast adjustment when deciding if “the Maximum Three-Hour Net-Load Ramp and the most severe single contingency or forecasted peak load components ***reasonably represent*** the amount of flexible capacity necessary to respond to actual system conditions.”³ Reasonably represent is not defined, and as the CAISO noted there are currently no boundaries on

² See R.11-10-023, Proposed Decision of ALJ Gamson, mailed 5/27/14.

³ FRAC-MOO Revised Draft Final Proposal at 23.

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the error term (the CAISO is seeking further comments on this issue).⁴ Tariff language that grants the CAISO open-ended and unbounded discretion to increase the flexibility needs assessed to LRAs and LSEs is impermissibly vague and likely to be rejected by FERC.

SUGGESTED EDITS RELATING TO COMMENT NO. 2:

40.10.1.3 Methodology

The ISO shall conduct the Flexible Capacity Need Assessment for the system for each month of the next calendar year as follows:

- 1) forecast the minute-to-minute system load and net-load using actual load data, as adjusted for load growth, and load profiles for wind and solar resources that are in-service or expected to be in-service during the study period;
- 2) calculate the Maximum Three-Hour Net-Load Ramp for each month using the forecasted minute-to-minute system net-load;
- 3) determine the most severe single contingency or 3.5 percent of forecasted peak load, whichever is higher, for each month;
- (4) determine whether an error term is necessary to satisfy [the CAISO should state what reliability criteria it would use to measure a potential sufficiency or insufficiency of the other components of the adopted formula to calculate the flexible capacity needs (three-hour ramp plus 3.5% or MSSC)] ~~and consider the extent to which the Maximum Three-Hour Net-Load Ramp and the most severe single contingency or forecasted peak~~

⁴ Id. at 24.

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~~load components reasonably represent the amount of flexible capacity
necessary to respond to actual system conditions, and, in its discretion,
include a positive or negative forecast adjustment, in its study to improve
the accuracy of the calculation; and~~

- (5) compute the resultant Flexible Capacity Need for each month based on the sum of the maximum three-hour net-load ramp, and the greater of the most severe single contingency or 3.5 percent of the forecasted peak load, whichever is higher, and the forecast adjustment, if any.

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3. The CAISO should clarify that it will defer to the CPUC's determination on whether to use an error term in determining the CPUC's (as an LRA) overall allocable share of Flexible Capacity Need.

The CAISO's proposal to claim unilateral discretion to allocate additional flexible capacity needs to an LRA (or LSE) based on the error term / forecast adjustment highlights a critical problem that permeates CAISO's proposed structure for the FRAC-MOO tariff: it lacks requisite deference to the CPUC's statutory authority to determine resource adequacy requirements, which is accomplished through the CPUC's annual resource adequacy proceedings.⁵

As noted in the pending proposed decision in R.11-10-023, the CPUC will consider in the Resource Adequacy proceeding whether a cap on the error term or another method to calculate an annually adjustable error term should be included in the methodology to calculate the flexible capacity need. For 2015 the CPUC set the error term to zero. Thus, while CAISO is free to include a positive error term / forecast adjustment in the flexible needs assessment submitted to the CPUC for its consideration, the CPUC has statutory authority to determine the overall resource adequacy needs including whether to use an adjustment if recommended by CAISO and accordingly the ultimate decision on this issue should be left to the CPUC to determine. The CPUC staff does not believe that the proposed draft tariff reflects deference to the CPUC's resource adequacy program.

Accordingly, the CAISO should revise the draft tariff to specify that the CAISO will not include in the "allocable share of the Flexible Capacity Need for" the CPUC any capacity based on the error term / forecast adjustment unless the Flexible Capacity Requirements adopted annually through the CPUC's Resource Adequacy proceeding include the same error term and associated capacity. The CPUC recommends revisions to Section by suggesting a new section be included (40.10.2.2 Flexible Capacity Needs Allocation to the CPUC) that implements this recommendation.

Further, the CAISO should modify the proposed tariff section 43.2.7(a) and (b) to

⁵ The Commission, in consultation with the Independent System Operator, shall establish resource adequacy requirements for all load-serving entities. Cal. Pub. Utils. Code § 380.

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specify that it will not issue a CPM designation to procure capacity the CAISO estimates is part of the Flexible Capacity Need due solely to an error term / forecast adjustment that exceeds the error term adopted pursuant to the CPUC's annual determination of Flexible Capacity Requirements. The CPUC recommends modifications to the CPM tariff provisions at the end of these comments.

4. The CAISO should clarify that it will defer to the CPUC's adopted allocation methodology for determining each LSE's allocated flexible capacity need and allocating backstop procurement costs.

The proposed tariff lacks necessary language to clearly indicate that the CPUC will determine the Flexible Capacity Requirements for CPUC-jurisdictional LSE's, including how to allocate the requirements among the CPUC-jurisdictional LSEs.

The CAISO's Resource Adequacy tariff provisions must clearly inform market participants as to who sets their procurement obligations. Unlike the structure used on the CAISO's tariff provisions for local and generic resource adequacy tariff provisions, the CAISO's proposed language for the "methodology" section (40.10.1.3) and "allocation" (40.10.2) section ultimately fail to indicate that the CAISO will defer to the CPUC's allocation methodology for flexible capacity procurement requirements for CPUC-jurisdictional LSEs. The tariff should therefore be modified and state that the CAISO will defer to the CPUC's allocation methods in first instance, and use the CAISO's proposed allocation methodology as a default for non-CPUC jurisdictional LSEs. The CPUC recommends additional sub-section (40.10.2.2 Flexible Capacity Needs Allocation to the CPUC) would also address this suggested revision.

SUGGESTED EDITS RELATING TO COMMENT NOS. 3 & 4:

40.10.2. Allocation of Flexible Capacity Need

[TEXT MOVED TO NEXT SECTION]

40.10.2.1 Calculation of LRA Allocations

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In addition to the Flexible Capacity Needs Assessment, the CAISO will Calculate and provide to each Local Regulatory Authority its calculation of the allocable share of the total system Flexible Capacity, and the contribution of each of the Local Regulatory Authority's jurisdictional Load Serving Entities to the Maximum Three-Hour Net-Load Ramp used to calculate its share of the total system Flexible Capacity Need. The CAISO shall provide this information no later than 120 days prior to the date that the annual Flexible RA Capacity Plans must be submitted under Section 40.

- (a) ~~Allocation of~~ **Maximum Three-Hour Net-Load Ramp.** The CAISO will calculate the share of the Flexible Capacity Need for each Local Regulatory Authority in the CAISO's Balancing Authority Area in proportion to the total amount its jurisdictional Load Serving Entities contributed to the Maximum Three-Hour Net-Load Ramp each month. The Local Regulatory Authority's allocable share of the Flexible Capacity Need will be calculated as the average of the sum of its jurisdictional Load Serving Entities' change in load, minus the change in wind output, minus the change in solar PV output, minus the change in solar thermal output during the five highest three-hour net-load changes in a month, as calculated under Section 40.10.2.1.
- (b) ~~Allocation of~~ **MSSC or Forecasted Peak Load.** The CAISO will determine the higher of the most severe single contingency or 3.5 percent of forecasted peak load for each Load Serving Entity based on its peak load ratio share and calculate each Local Regulatory Authority's allocable share based on the sum of its jurisdictional Load Serving Entities' shares.

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- (c) **~~Allocation of~~ Forecast Adjustment.** If the CAISO proposes to includes an error term in the calculation of flexibility needs and therefore has included a positive or negative forecast adjustment in its study, it will include an explanation of the cause and allocation of the changed need in its Flexible Capacity Needs Assessment.

40.10.2.2 Flexible Capacity Needs Allocation to the CPUC

The CAISO will calculate the CPUC's allocable share of Flexible Capacity Needs as the amount of Flexible Capacity Requirements adopted annually for CPUC-jurisdictional load serving entities defined by Public Utilities Code Section 380(j), pursuant to the CPUC's annual Resource Adequacy proceeding. The CAISO will calculate the share of the Flexible Capacity Need for the Scheduling Coordinator for each CPUC-jurisdictional Load Serving Entity based on an allocation methodology, if any, adopted by the CPUC. However, if the allocation methodology adopted by the CPUC does not fully allocate the CPUC's calculated share of Flexible Capacity Needs resulting from the sum of Sections 40.10.2.1(a) and 40.10.2.1(b), the CAISO will allocate the difference to all Scheduling Coordinators for CPUC Load Serving Entities in accordance with the CPUC's allocation methodology or, if the CPUC has not adopted an allocation methodology, according to the allocation methodologies specified in Sections 40.10.2.1(a) and (b).

40.10.2.3 Flexible Capacity Needs Allocation to Non-CPUC Local Regulatory Authority

The CAISO will calculate the allocable share of the Flexible Capacity Need for each non-CPUC Local Regulatory Authority accordance with the provisions in Section 40.10.2.1.

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40.10.2.24 Flexible Capacity Needs Allocation to Load-Following MSS

The CAISO will calculate the allocable share of the Flexible Capacity Need for each

Load-following MSS in accordance with the provisions ~~for Local Regulatory Authorities~~

in Section 40.10.2.1.

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5. The CAISO should clarify that it is not purporting to impose monthly “minimum” or “maximum” limits in the Flexible RA Capacity Plans for CPUC-jurisdictional LSEs.

Sections of the proposed tariff relating to the Flexible Capacity Categories require revisions to indicate that the CAISO is not “setting” a minimum or maximum quantity that must be included in any individual LSE’s Flexible Capacity RA plan. Staff also recommends deleting suggestions that the CAISO may issue notices of deficiency in an LSE’s Flexible RA Capacity Plan based on an assessment of LSE-specific monthly requirements within each Flexible Capacity Category. In the Revised Draft Final Plan the CAISO indicated that it would not seek to impose LSE-specific procurement requirements within each flexible capacity category, but rather that it would use the flexible capacity categories only for the purposes of assessing the need for backstop to meet a collective deficiency in the overall Flexible RA Capacity Plans. In many sections the proposed tariff language does not match the “backstop only” function of the flexible capacity categories and instead purports to impose LSE-specific minimum and maximum requirements within each Flexible Capacity Categories. The CPUC staff has proposed revisions to achieve these modifications.

Further, the CAISO proposes that the Flexible Capacity Categories will be “used” to determine cost allocation in the event of a CPM Flexible Capacity designation in tariff section 43.3. This is not necessary and should be deleted from this section 40.10.3. The CPUC requests that the CAISO delete the cost allocation language from this section and instead place All tariff language addressing cost allocation issues for a CPM designation within the CPM tariff section.

SUGGESTED EDITS RELATING TO COMMENT NO. 5:

40.10.3 Flexible Capacity Categories

40.10.3.1 Flexible Capacity Category Use — CPUC jurisdictional LSEs.

The CAISO shall use the Flexible Capacity Categories to –

(a) establish the must-offer obligation for the Flexible RA Capacity Resources

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- included in each Flexible Capacity Category in each Flexible RA Capacity Plan submitted by the Scheduling Coordinator for each CPUC-jurisdictional LSE, as provided in Section 40.10.6; and
- (b) determine if a collective deficiency exists in the total resources submitted with must offer obligations under Section 40.10.6 for all LSE's within the CAISO's Balancing Area Authority, in accordance with the terms of Section 43.

40.10.3.2 Flexible Capacity Category Use – non-CPUC Local Regulatory Authorities

The CAISO shall use the Flexible Capacity Categories to –

- (a1) set the minimum or maximum quantity (as applicable) of Flexible RA Capacity to be included in LSE Flexible RA Capacity Plans for each Flexible Capacity Category for each month of the next Resource Adequacy Compliance Year, as provided in Section 40.10.3.32;
- (2b) validate the monthly LSE Flexible RA Capacity Plans, as provided in Section 40.10.5.3;
- (3c) establish the must-offer obligation for the Flexible RA Capacity Resources included in each Flexible Capacity Category in each Flexible RA Capacity Plan submitted by the Scheduling Coordinator for each LSE, as provided in Section 40.10.6; and
- (4d) determine if a collective deficiency exists in the total resources submitted with must offer obligations under Section 40.10.6 for all LSE's within the CAISO's Balancing Area Authority, in accordance with the terms of Section 43~~and allocate the costs of a CPM Flexible Capacity designation~~

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~~to the Scheduling Coordinator of each Load Serving Entity that failed to meet its total monthly Flexible RA Capacity Requirement or its procurement obligation for a Flexible Capacity Category and that is also jurisdictional to a Local Regulatory Authority where the Flexible RA Capacity included in all of the jurisdictional LSE Flexible RA Capacity Plans was less than the Local Regulatory Authority's allocable share of the Flexible Capacity Need for that month as provided in Section 43.8.8(b).~~

40.10.3.23 Flexible Capacity Category-- Base Ramping Resources

- (a) **Minimum Quantity of Capacity Allowed.** The ISO will ~~set~~identify the minimum quantity of Flexible Capacity needed in this category on a seasonal basis in the CAISO's Balancing Area Authority to meet forecasted system operational needs, based on the system ramping characteristics identified in the Flexible Capacity Needs Assessments and the change in MWs of the Secondary Three-Hour Net-Load Ramp for the season.
- (b) **Resource Criteria.** Base Ramping Resources must meet all of the following criteria --
 - (1) The resource must be capable of providing Flexible RA Capacity to the CAISO Markets through Energy Bids and Ancillary Service Bids, if and to the extent the resource is certified to provide Ancillary Services, submitted daily for the 17-hour period from 5:00 a.m. through 10:00 p.m.;
 - (2) The resource must be capable of providing Energy for six hours at its full Effective Flexible Capacity value;

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- (3) The resource must be capable of being available seven days a week;
 - (4) The resource must be able to provide the minimum of two Start-Ups per day or the number of Start-Ups allowed by its operational limits, including minimum up and minimum down time; and
 - (5) The resource must not have annual or monthly limitations on the number of Start-Ups or the amount of energy produced that, on a daily basis, are lower than the requirements in Section 40.10.3.2(b).
- (c) **Use-Limited Resource**
- (1) A Use-Limited Resource may be included in this category if it meets the criteria in Section 40.10.3.2(b).
 - (2) A Load Serving Entity may include in this category a combined resource consisting of two Use-Limited Resources that do not individually meet the minimum operational and availability requirements but in combination meet the criteria in Section 40.10.3.2(b).
 - (3) The Flexible RA Capacity amount for the combined resource will be the lowest Effective Flexible Capacity value of a resource in the combination.
 - (4) Both resources in the combination shall be subject to the must-offer obligation up to the Flexible RA Capacity amount.
- (d) **Non-Generator Resource.** A Non-Generator Resource that elects to provide Flexible RA Capacity may be included in this category if it meets the criteria in Section 40.10.3.2(b). A Non-Generator Resource that elects to provide Flexible RA Capacity and Regulation Energy Management is not eligible to be included in this category.

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40.10.3.43 Flexible Capacity Category -- Peak Ramping Resources

- (a) **Maximum Quantity of Capacity Allowed.** The ISO will ~~set~~identify the maximum quantity of Flexible Capacity allowed seasonally in this category within the CAISO's Balancing Area Authority that will enable to CAISO to meet address operational needs, calculated as the difference between the total system-wide a ~~Local Regulatory Authority's~~ base Flexible Capacity Need and the ~~Local Regulatory Authority's~~ total system-wide Flexible Capacity Need.
- (b) **Resource Criteria.** Peak Ramping Resources must meet all of the following criteria --
- (1) The resource must be capable of providing Flexible RA Capacity to the CAISO Markets through Energy Bids, and Ancillary Service Bids if and to the extent the resource is certified to provide Ancillary Services, which must be submitted daily for a five-hour period to be determined by the CAISO on a seasonal basis;
 - (2) The resource must be capable of providing Energy for three hours at its full Effective Flexible Capacity value;
 - (3) The resource must be capable of being available seven days a week.
 - (4) The resource must be capable of one Start-Up per day; and
 - (5) The resource must not have annual or monthly limitations on the number of unit Start-Ups or the amount of energy produced that, on a daily basis, are lower than the requirements in Section 40.10.3.3(b).
- (c) **Use-Limited Resource.** A Use-Limited Resource may be included in this category if it meets the criteria in Section 40.10.3.3(b).

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- (d) **Non-Generator Resource.** A Non-Generator Resource that elects to provide Flexible RA Capacity may be included in this category if it meets the criteria in Section 40.10.3.3(b). A Non-Generator Resource that elects to provide Flexible RA Capacity and Regulation Energy Management is not eligible to be included in this category.
- (e) **Base Ramping Resource.** A resource that meets the qualifications of the Flexible Capacity Category for Base Ramping Resources also qualifies to be included in this category as a Peak Ramping Resource; however, a resource that meets the qualifications of this category as a Peak Ramping Resource does not qualify to be included in the Flexible Capacity Category for Base Ramping Resources.

40.10.3.45 Flexible Capacity Category -- Super-Peak Ramping Resources.

- (a) **Maximum Quantity of Capacity Allowed.** The CAISO ~~will set the~~ identifies the maximum quantity of Flexible Capacity allowed system-wide in CAISO's Balancing Area Authority ~~this~~ category as five percent of the total Flexible Capacity Need for the month.
- (b) ...

40.10.5 Flexible RA Capacity Plans

40.10.5.1 LSE Flexible RA Capacity Plans

- (a) **Submission Requirement.** A Scheduling Coordinator must submit annual and monthly LSE Flexible RA Capacity Plans for each Load Serving Entity it represents; except that an annual plan for 2015 is not required. A Load-

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Following MSS is not required to submit annual or monthly LSE Flexible RA Capacity Plans.

(b) **Annual Plan.** Each annual LSE Flexible RA Capacity Plan must –

- (1) demonstrate that the Load Serving Entity has procured for each month at least 90 percent of the annual Flexible RA Capacity requirement determined by the CAISO; or the amount of Flexible RA Capacity required by the Load Serving Entity's Local Regulatory Authority, if the Local Regulatory Authority has set such requirement;
- (2) identify the resources the Load Serving Entity intends to rely on to provide the Flexible RA Capacity; and(3) include the information and be submitted no later than the last Business Day in October, in accordance with the reporting requirements and schedule set forth in the Business Practice Manual.

(c) **Monthly Plan.** The monthly LSE Flexible RA Capacity Plan must --

- (1) demonstrate that the Load Serving Entity procured 100 percent of the total monthly Flexible RA Capacity requirement determined by the CAISO; or the monthly amount of Flexible RA Capacity required by the Local Regulatory Authority, if the Local Regulatory Authority has set such requirement;

~~_(2) demonstrate that the Load Serving Entity met the total monthly requirement determined by the CAISO within the minimum or maximum quantity, as applicable, for each Flexible Capacity Category; or within the categories required by the Local Regulatory Authority, if the Local~~

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~~Regulatory Authority has established such requirement;~~

- (32) identify all resources the Load Serving Entity will rely on to provide the Flexible RA Capacity and indicate the corresponding must-offer obligation for the resource's EFC, or portions thereof, by Flexible Capacity Category;
- and
- (4) include the information and be submitted to the CAISO at least 45 days in advance of the first day of the month covered by the plan, in accordance with the reporting requirements and schedule set forth in the Business Practice Manual.

...

40.10.5.3 Validation of Flexible RA Capacity Plans

- (a) **Validation.** The CAISO will validate the annual and monthly LSE Flexible RA Capacity Plans and determine whether each Load Serving Entity met its annual or monthly total allocable share of Flexible RA Capacity Needs pursuant to Section 40.10.2.2 or 40.10.2.3, Requirement, and determine the amount of whether it met the total monthly Flexible Capacity submitted within requirement within the minimum or maximum quantity, as applicable, for each Flexible Capacity Category for the purposes of assessing if a collective deficiency exists.

[Alternatively, the CAISO could utilize this sub-section to state that it will verify the Flexible RA capacity plans to determine if collectively the LSEs for each LRA collectively submitted sufficient flexible capacity to meet the allocated share of the Flexible Capacity Need for the LRA determined pursuant to Section 40.10.2.2

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or 40.10.2.3 and to determine if a collective deficiency exists in the Flexible Capacity designated in the Base Ramping Flexible Capacity Category.]

- (b) **Calculation of Flexible RA Capacity.** If a Local Regulatory Authority has not established and provided to the CAISO criteria for calculating the Effective Flexible Capacity value for a resource, The then the CAISO will calculate the amount of Flexible RA Capacity included in the annual and monthly Flexible RA Capacity Plans using the Effective Flexible Capacity values calculated under Section 40.10.4 for each resource designated in a plan as a Flexible RA Capacity Resource.
- (c) **Allocated Flexible RA Capacity Requirement.** The CAISO will calculate the Load Serving Entity's allocated annual and monthly Flexible RA Capacity Requirement based on the ~~CAISO's allocation methodology criteria~~ set forth in Section 40.10.2 for CPUC LSEs and 40.10.3 for non-CPUC LSEs.

40.10.5.4 Deficiency in LSE Flexible RA Capacity Plan

- (a) **Finding and Notification.** If the CAISO's validation under Section 40.10.5.3 finds that the total amount of Flexible RA Capacity included in an annual or monthly LSE Flexible RA Capacity Plan is not sufficient to satisfy the Load Serving Entity's allocated Flexible RA Capacity Requirement, ~~or that the total monthly requirement was not met within the minimum or maximum quantity, as applicable, for each Flexible Capacity Category,~~ the CAISO will
- (1) notify the relevant Scheduling Coordinator, and the CPUC, Local Regulatory Authority, or federal agency with jurisdiction over the relevant Load Serving Entity, in an attempt to resolve any deficiency in accordance

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- with the procedures set forth in the Business Practice Manual; and
- (2) provide the notice at least 25 days in advance of the first day of the month covered by the plan and include the reasons the CAISO believes a deficiency exists.
- (b) **Resolved Deficiency.** If the CAISO issues a notice of deficiency under Section 40.10.5.4(a), and the deficiency is resolved, the Scheduling Coordinator for the Load Serving Entity shall demonstrate, no less than 11 days prior the first day of the month covered by the LSE Flexible RA Capacity Plan, that the identified deficiency is cured by submitting a revised LSE Flexible RA Capacity Plan, or advise the CAISO that the Load Serving Entity's Local Regulatory Authority, or federal agency, as appropriate, has determined that no deficiency exists.
- (c) **Unresolved Deficiency.** If the CAISO issues a notice of deficiency under Section 40.10.5.4(a) and is not advised that the deficiency is resolved, the CAISO will use the information contained in the Resource Flexible RA Capacity Plan to set the obligations of resources under Section 40.10 and/or to assign any costs incurred under this Section 40 and Section 43.

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6. The CAISO should revise proposed tariff provisions on Effective Flexible Capacity by clarifying the two limited purposes for which the EFC may be used.

The section relating to the “Effective Flexible Capacity” should be revised to clearly indicate that CAISO proposes to use its EFC criteria only for two purposes, pursuant to the agreement and Revised Draft Final Proposal.⁶ It is important for the ISO to clearly identify the limits on the applicability of the EFC in this tariff section rather than assuming readers will glean this important limitation by cross-referencing other sections.

Furthermore, with the exception of 40.10.4.1(3), the language in the remaining sub-sections is unnecessary, confusing, and exceeds the authority approved by the Board in the Revised Draft Final Proposals. For CPUC-jurisdictional LSEs Section 40.10.4.1(1) is unnecessary - there is no need for the CAISO to validate the annual or monthly plans using the CAISO's versions of the EFCs; the CPUC will validate the plans. Section 40.10.4.1(2) is nonsensical, because must offer obligations should be established based on the contractual agreements between the LSE and the resource (as indicated in the Flexible Capacity RA supply plans), not determined by reference to the EFC of the resource. Further, it is not necessary for the CAISO to state in Section 40.10.4.1(4) how it would propose to allocate costs to LSEs in the event of a CPM designation. Cost allocation issues should be contained within the CPM provisions of the tariff and including unnecessary language regarding cost allocation is confusing. The CPUC requests the following changes below, as well as the modification to Section 40.10.5.3(b) above:

SUGGESTED EDITS RELATING TO COMMENT NO. 6:

40.10.4 Effective Flexible Capacity

The CAISO shall calculate the Effective Flexible Capacity value for each resource that submitted at least one Economic Bid for Energy in the Real-Time Market on at least 10

⁶ See Revised Draft Final Proposal at 36.

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days in the previous calendar year, or in the most recent 12-month period for which data is available. The CAISO shall publish the draft list of the Effective Flexible Capacity values for such resources on the CAISO Website by September 1 each year, and the final list of the Effective Flexible Capacity values by October 1 each year for use in the next calendar year.

40.10.4.1 Effective Flexible Capacity Use. ~~The CAISO shall use the Effective Flexible Capacity to—~~

~~(1) validate the annual and monthly LSE Flexible RA Capacity Plans, as provided in Section 40.10.5.3;~~

~~(2) establish the must-offer obligation for the Flexible RA Capacity Resources included in each Flexible Capacity Category, as provided in Section 40.10.6;~~

The criteria in this Section 40.10 shall apply only:

(1) if the CPUC or Local Regulatory Authority has not established and provided to the CAISO criteria for calculating the Effective Flexible Capacity value for a resource, then the CAISO shall use the criteria in this section to determine the default Effective Flexible Capacity value to use to validate the annual and monthly LSE Flexible RA Capacity Plans, as provided in Section 40.10.5.3; and

(3) to determine whether there is a need for backstop procurement due to a collective deficiency in the annual or monthly LSE Flexible RA Capacity Plans, as provided in 43.2.7(a) and (b); ~~and~~

~~(4) allocate the costs of a CPM Flexible Capacity designation to the Scheduling Coordinator of each Load Serving Entity that failed to meet its total monthly Flexible RA Capacity Requirement or its procurement obligation for a Flexible RA Capacity~~

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~~Category, that is also jurisdictional to a Local Regulatory Authority where the Flexible RA Capacity included in all of the jurisdictional LSE Flexible RA Capacity Plans was less than the Local Regulatory Authority's allocable share of the Flexible Capacity Need for that month, as provided in Section 43.8.8(b).~~

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7. Revisions to specify that a resource that receives a Flexible Capacity CPM designation is subject to the availability obligations applicable to flexible, not generic or local, capacity resources.

The CAISO's proposed revisions to tariff section 43.5 seem to state that the availability obligations of a resource designated as a Flexible Capacity CPM is the same availability requirements as resource receiving a *system* capacity CPM. Specifically, the proposal states that the availability obligations for both "CPM Capacity and CPM Flexible Capacity designated under the CPM" are the availability requirements specified in Sections 40.6.1 and 40.6.2 for system capacity, rather than the *flexible* must offer requirements developed through the CAISO's FRAC-MOO stakeholder process. The CPUC staff requests that the CAISO modify the proposal to specify that CPM Flexible Capacity designated under the CPM must meet the proposed must-offer obligations for Flexible Capacity resources in the draft tariff section 40.10.6.

8. Revisions to the proposed CPM tariff sections consistent with the forgoing comments.

Consistent with the concerns the CPUC staff has expressed regarding proposed language that appears to overstep the CAISO's statutory authority to determine Resource Adequacy requirements, fails to indicate deference to the CPUC's method for allocating Flexible Capacity Needs among LSEs, and fails to recognize critical limitations on the use of the Flexible Capacity Categories, the CPUC staff request the following additional changes to the proposed CPM tariff sections:

SUGGESTED EDITS RELATING TO COMMENT NOS. 7 & 8:

43. Capacity Procurement Mechanism

43.2.7 Collective Deficiency in Flexible RA Capacity

- (a) **Annual Plans.** A collective deficiency will exist in the annual LSE Flexible RA Capacity Plans if the total amount of Flexible RA Capacity shown in the plans of

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all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than 90 percent of the sum of the annual Flexible Capacity Need Allocated to all LRAs as determined by the CAISO pursuant to Section 40.10.2.2 and 40.10.2.34.

(b) **Monthly Plans.** A collective deficiency will exist in the monthly Flexible RA Capacity Plans --

(1) if the total amount of Flexible RA Capacity shown in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resource, is less than the sum of the applicable-monthly Flexible Capacity Need determined by the CAISO pursuant to Section 40.10.2.2 and 40.10.2.34; or

(2) if the total amount of Flexible RA Capacity collectively shown in a Flexible Capacity Category in the plans of all Load Serving Entities, based on the Effective Flexible Capacity value determined by the CAISO for each resources, is less than the minimum monthly requirement for that category or exceeds the maximum monthly requirement for that category determined by the CAISO pursuant to Section 40.10.34.**[Section 40.10.1 does not include any discussion or proposed methodology for Flexible Capacity Categories]**.

43.2.7.1 Final Opportunity to Resolve Deficiency

If the processes set forth in Section 40.10.5.4 and 40.10.5.5 do not fully resolve a deficiency or discrepancy in the annual or monthly Flexible RA Capacity Plans, and if the CAISO determines that a collective deficiency exists under Section 43.2.7 and that

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there is a need for CPM Flexible Capacity, but prior to issuing a CPM designation for the collective deficiency –

- (1) the CAISO shall issue a Market Notice that describes the collective deficiency, identifies the Load Serving Entities that the CAISO identifies are deficient according to the criteria set forth in 40.10.2.2 for CPUC-jurisdictional LSEs and 40.10.2.3 for non-CPUC LSEs, and specifies the quantity of Flexible RA Capacity necessary to meet the applicable Flexible Capacity Need;
- (2) a Scheduling Coordinator for a Load Serving Entity that is deficient may submit a revised annual or monthly Flexible RA Capacity Plan demonstrating procurement of additional Flexible RA Capacity consistent with the Market Notice issued under this Section. A revised annual Flexible RA Capacity Plan must be submitted no later than December 31. A revised monthly Flexible RA Capacity Plan must be submitted no less than five days prior to the first day of the applicable month.

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43.8 Allocation Of CPM Capacity Payment Costs

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43.6 as follows:

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43.8.8 Allocation of CPM Flexible Capacity Costs

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(a) **Calculation of Deficiency by LRA.**

- (1) The CAISO will determine whether each Local Regulatory Authority met its allocable share of the Flexible Capacity Need under Sections 40.10.2.2 for the CPUC and 40.10.2.3 for non-CPUC LRAs based on the amount of Flexible RA Capacity that Local Regulatory Authority's jurisdictional Load Serving Entities included in their annual and monthly Flexible RA Capacity Plans in total and for each Flexible Capacity Category.
- (2) The CAISO will calculate the total amount of Flexible RA Capacity included in the annual and monthly Flexible RA Capacity Plans, and the total amount included in the monthly Flexible RA Capacity Plans specific in ~~for~~ each Flexible Capacity Category, ~~using the minimum or maximum quantity, as applicable, for each category, and~~ using the Effective Flexible Capacity value calculated under Section 40.10.4 for each resource designated in a plan as a Flexible RA Capacity Resource.

(b) **Allocation ~~By CAISO~~ Method.**

- (1) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual and monthly Flexible RA Capacity Plans, in total and in each Flexible Capacity Category, meets or exceeds the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, the CAISO will not allocate any of the CPM Flexible Capacity costs to the Scheduling Coordinators for those Load Serving Entities .
- (2) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their annual and monthly Flexible RA Capacity Plans;

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~~either in total or for a Flexible Capacity Category,~~ is less than the applicable Flexible Capacity Need allocated to their Local Regulatory Authority, the CAISO will allocate the CPM Flexible Capacity costs ~~proportionately~~ to the Scheduling Coordinator of each jurisdictional Load Serving Entity according to the methodology adopted by the Local Regulatory Authority, or if none has been adopted by the LRA in the CAISO will allocate the costs proportionately to each jurisdictional Load Serving Entity that failed to meet its procurement obligation ~~according to the allocation method in Section 40.10.2.2. or 40.10.2.3.~~

(3) If the amount of Flexible RA Capacity the jurisdictional Load Serving Entities included in their monthly Flexible RA Capacity Plans for each Flexible Capacity Category is less than the Local Regulatory Authority's proportionate seasonal share the of the minimum quantity of Flexible Capacity needed in the Base Ramping Resources identified in Section 40.10.3.2, the CAISO will allocate the CPM Flexible Capacity costs to the Scheduling Coordinator of each jurisdictional Load Serving Entity according to the methodology adopted by the Local Regulatory Authority, or if none has been adopted by the LRA in the CAISO will allocate the costs proportionately to each jurisdictional Load Serving Entity.

~~(c) — Allocation by Local Regulatory Authority Method. If Load Serving Entities jurisdictional to a Local Regulatory Authority have a collective deficiency under Section 43.8.8(a) and the Local Regulatory Authority has established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load~~

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~~Serving Entities, the CAISO will use that methodology to allocate the CPM Flexible Capacity costs to the Scheduling Coordinator of each Load Serving Entity that is jurisdictional to that Local Regulatory Authority and that filed to meet its procurement obligation.~~

- (d) **Reduction of Cost Allocation.** If the CAISO issues a Flexible Capacity CPM designation, a Scheduling Coordinator for a Load Serving Entity that was deficient, but provided additional Flexible RA Capacity in a revised annual or monthly Flexible RA Capacity Plan consistent with the Market Notice under Section 43.2.7(d)(1) –

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