

162 FERC ¶ 61,042
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Kevin J. McIntyre, Chairman;
Cheryl A. LaFleur, Neil Chatterjee,
Robert F. Powelson, and Richard Glick.

California Independent System Operator Corporation Docket Nos. ER18-1-000
ER18-1-001

ORDER ACCEPTING TARIFF REVISIONS

(Issued January 18, 2018)

1. On September 29, 2017, pursuant to section 205 of the Federal Power Act (FPA),¹ the California Independent System Operator Corporation (CAISO) filed a set of six tariff revisions intended to enhance its rules governing the resource adequacy program.² In this order the Commission accepts CAISO's proposed tariff revisions, effective February 15, 2018, as requested.

I. Background

2. Since 2006, CAISO and the local regulatory authorities within its balancing authority area, chiefly the California Public Utilities Commission (CPUC), have jointly administered the resource adequacy program. The resource adequacy program requires that load serving entities procure sufficient system capacity to meet their forecasted load plus a reserve margin, as established by their local regulatory authority. In addition, load serving entities are required to procure local area capacity³ and flexible resource adequacy capacity, as determined by CAISO and adopted by their local regulatory

¹ 16 U.S.C. § 824e (2012).

² On October 5, 2017, CAISO submitted an amended filing to correct a clerical error.

³ Local area capacity is capacity which is capable of contributing toward capacity requirements in a transmission-constrained area and also located within that area.

authorities. Capacity procured under the resource adequacy program carries an obligation to bid into the CAISO markets, i.e., it has a must-offer obligation.⁴

3. In addition, load serving entities must submit annual and monthly resource adequacy plans to CAISO demonstrating that they procured the capacity required to meet their forecasted load and reserve margin. Scheduling coordinators for resource adequacy resources must also submit annual and monthly supply plans to CAISO that verify their commitment to provide the listed resource adequacy capacity from specific resources. CAISO cross-validates the resource adequacy plans and supply plans to ensure that load serving entities are meeting their individual resource adequacy requirements. In the event of a discrepancy between plans, CAISO advises the relevant scheduling coordinators and local regulatory authorities to resolve the issue.⁵ To remedy unresolved deficiencies in load serving entities' resource adequacy plans or to meet specified reliability needs,⁶ CAISO relies on backstop capacity procurement authority under the capacity procurement mechanism (CPM) provisions of its tariff. The allocation of CPM cost depends on the reason the CPM was procured. If the CPM backstop capacity is procured to meet a specific reliability need, CPM costs are allocated on a pro-rata basis in the area where the reliability need occurs. If CPM backstop capacity is procured to resolve a deficiency in a resource adequacy plan, costs are allocated based on the proportion of a load serving entity's share in the resource adequacy deficiency for unresolved resource adequacy deficiencies.⁷ To prevent market disruption or reliability issues, CAISO may also use exceptional dispatch, a type of manual dispatch instruction. Costs associated with exceptional dispatch used for this purpose is allocated to scheduling coordinators based on their share of net-negative uninstructed deviations.⁸

⁴ Resource adequacy resources must offer into CAISO's markets in hours for which they were procured. Resources that do not offer into CAISO's markets and are not on outage will have a generated bid submitted on their behalf. *See* CAISO Tariff Section 40.6.

⁵ CAISO Transmittal at 3-4.

⁶ CAISO may require additional capacity for reliability reasons, for example, when load serving entities have met their local regulatory authorities' megawatt capacity requirement but the capacity procured is not in the right locations or when a major transmission or generation outage significantly changes the assumptions that went into determining resource adequacy requirements.

⁷ *See* CAISO Tariff Section 43A.8.

⁸ *See* CAISO Tariff Section 11.5.6.

4. As the resource adequacy program has evolved, CAISO has continued to refine various generator performance incentives to better reflect whether resources are meeting their resource adequacy must-offer obligation. This focus on evaluating resource performance was a major impetus for CAISO beginning the two-phase Reliability Services Initiative stakeholder process. In an order issued in October 2015, the Commission accepted CAISO's Phase 1A filing, which included tariff provisions to: (1) enhance the existing tariff criteria for determining default qualifying capacity values of specified types of resource adequacy resources; (2) enhance the existing tariff provisions regarding the must-offer obligations of specified types of resource adequacy resources; (3) include a methodology for allocating flexible capacity needs to a load-following metered subsystem that is a load serving entity under the resource adequacy program; and (4) implement a new resource adequacy availability incentive mechanism to assess resource availability based on satisfaction of a resource's must-offer obligation.⁹

5. CAISO deferred the remaining Phase 1B Reliability Services Initiative elements for later implementation and has included those proposed revisions, along with revisions related to the Phase 2 elements, as discussed in greater detail below, in the instant filing.

II. Notice and Responsive Pleadings

6. Notice of CAISO's filing was published in the *Federal Register*, 82 Fed. Reg. 46,972 (2017) with interventions and protests due on or before October 23, 2017. Notice of CAISO's amended filing was published in the *Federal Register*, 82 Fed. Reg. 48,071 (2017), with interventions and protests due on or before October 26, 2017. Northern California Power Agency; the City of Santa Clara, California; the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; California Department of Water Resources State Water Project; and Southern California Edison Company filed timely motions to intervene. Timely motions to intervene and comments in support of CAISO's proposal were filed by the NRG Companies (NRG).¹⁰ San Diego Gas & Electric Company (SDG&E) and Pacific Gas and Electric Company (PG&E) filed timely motions to intervene and protests. The CPUC filed a notice of intervention and protest. CAISO filed an answer to the protests. SDG&E filed an answer to CAISO's answer. CAISO filed an answer to SDG&E's answer.

⁹ *Cal. Indep. Sys. Operator Corp.*, 153 FERC ¶ 61,002 (2015).

¹⁰ For purposes of this proceeding the NRG Companies are NRG Power Marketing LLC and GenOn Energy Management LLC.

III. Discussion

A. Procedural Matters

7. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2017), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

8. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2017), prohibits an answer to a protest and/or answer unless otherwise ordered by the decisional authority. We will accept the answers filed by CAISO and SDG&E because they have provided information that assisted us in our decision-making process.

B. Substantive Matters

9. CAISO proposes six tariff revisions, which it characterizes as separate elements of a multi-part filing that are severable from, and independent of, each other. As detailed below, the revisions: (1) provide that capacity in a local area but procured and shown by a load serving entity as system capacity has a system, rather than local, substitution requirement; (2) cap a load serving entity's local resource adequacy requirement at its system requirement during the monthly resource adequacy process; (3) adjust the timeline for the monthly resource adequacy process; (4) create a default method for allocating flexible capacity backstop procurement costs for local regulatory authorities that elect to allocate flexible capacity needs but do not notify CAISO of their method for allocating flexible backstop procurement costs; (5) streamline the outage evaluation process for resource adequacy capacity; and (6) streamline the resource adequacy reporting obligations for small load serving entities.¹¹ We accept the revisions, effective February 15, 2018, as requested.

1. CAISO Proposal to Allow Capacity Located in a Local Capacity Area that is Procured as System Capacity to have a System Capacity Substitution Obligation

a. CAISO Proposal

10. Under the current capacity substitution rules in the CAISO tariff, a resource in a local capacity area providing resource adequacy capacity that takes a forced outage must substitute its capacity with another resource in the same local capacity area regardless of whether the resource's capacity was procured to meet a local reliability requirement or

¹¹ CAISO Transmittal at 8.

system capacity need.¹² CAISO states that suppliers have expressed concern that this requirement produces an inequitable outcome for them because local capacity is generally paid a premium over system capacity.¹³ Specifically, because capacity located in local capacity areas that is contracted as system resource adequacy capacity carries the same substitution obligation (and must provide the same level of service) as if the capacity had been contracted as local capacity, a resource that goes on forced outage is required to pay a premium for substitute local capacity. A 2016 CPUC Resource Adequacy Report confirms that the weighted average price for local resource adequacy capacity is 31 percent higher than the weighted average price for system capacity.¹⁴ Thus, CAISO agrees with suppliers' concerns about the inequitable nature of this requirement.¹⁵

11. To address this issue, CAISO proposes to allow resources in a local capacity area to provide substitute capacity based on how the capacity was procured and shown on the resource adequacy plan. CAISO proposes to define local capacity with a local substitution obligation as "listed local resource adequacy capacity,"¹⁶ and to give load serving entities and suppliers the option, but not the requirement, to identify local capacity on their resource adequacy plans and supply plans as "listed local resource adequacy capacity."¹⁷ CAISO proposes a two-step process for validating resource adequacy and supply plans to evaluate compliance with local capacity procurement requirements. In the first step, CAISO proposes to perform a "physical local check,"¹⁸ under which compliance with local capacity procurement obligations will be made based on where the capacity is physically located and without regard to whether the capacity is

¹² CAISO Tariff; §§ 40.9.3.6.1(b) & 40.9.3.6.2(b).

¹³ According to CAISO, load serving entities first procure local capacity to meet their local capacity obligation and then publish a solicitation for the remaining needed system capacity. Remaining uncontracted local capacity will sometimes successfully respond to system capacity solicitations, but generally will receive a lower price than local capacity.

¹⁴ CAISO Transmittal at 25-26 (citing CPUC 2016 Resource Adequacy Report, <http://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442453942>).

¹⁵ *Id.* at 25-26.

¹⁶ *Id.* at 26.

¹⁷ *Id.*

¹⁸ *Id.* at 27.

listed as local. The second step will consider capacity to be local only if it is listed as local by the load serving entity. CAISO states that, through this second step, it will determine whether the quantity of listed local capacity shown on a load serving entity's resource adequacy plan meets or exceeds its local capacity obligation.¹⁹

12. CAISO states that it is not proposing to change how it determines whether backstop capacity procurement through the CPM is necessary to remedy procurement deficiencies, and confirms that whether a deficiency that necessitates backstop procurement exists will be based on the physical local check as it is under the current tariff provisions. CAISO states that the consequence of a deficiency identified in the second step listed local check will be that CAISO will notify the relevant local regulatory authority of the insufficiency. Thus, CAISO asserts that the proposed revision of the substitution requirements will not result in increased use of CPM to cure deficiencies in annual local resource adequacy plans.²⁰

13. CAISO also contends that this proposed revision will add beneficial transparency and equity to the resource adequacy procurement process by lowering artificial barriers for a local resource to transact with a load serving entity outside of its local area or a load serving entity in its local area that has already met its local capacity obligations. CAISO explains that this is the case because, under the revised provisions, a supplier would only bear the burden of providing more expensive, local substitute capacity if it has expressly transacted with a load serving entity to hold such a responsibility.²¹

b. Comments, Protests, and Answers

14. NRG supports CAISO's local capacity substitution proposal, arguing that it is unreasonable to require a supplier that has sold system capacity within a local area to use substitute capacity from within that same local area because using substitute capacity from anywhere within CAISO's system would reflect the true nature of the product sold to the load serving entity.²²

15. CPUC objects to CAISO's proposal, asserting that the existing local resource substitution requirement has been in place since at least 2007 and works as intended. According to CPUC, although CAISO points to arguments that the current local

¹⁹ *Id.* at 26-27.

²⁰ *Id.* at 27.

²¹ *Id.* at 30-31.

²² NRG Comments at 3.

replacement requirements are inequitable, CAISO has not demonstrated that local resources are procured as system resources, that these resources are systematically paid less than other local resources, or that this is an issue that requires remedy in its tariff. CPUC argues that CAISO's proposed local replacement requirements are unjust and unreasonable, supported by vague justifications, could increase overall costs, and do not enhance efficiency or reliability.²³

16. CPUC and SDG&E assert that CAISO's local capacity substitution proposal could lead to increased use of the CPM, thereby increasing costs because CAISO will continue to evaluate for deficiencies in local capacity procurement based on where the generator is physically located. They argue that operationally, this could lead to a situation where a generator goes on a forced outage, replaces the capacity with a system resource, and a CPM designation could be triggered if local capacity is in fact needed.²⁴ According to CPUC, this would be costly for customers and could lead to cost-shifting from the customers of one load serving entity to another. CPUC claims that in this instance, a load serving entity could lean on others through the CPM designation mechanism, the costs of which are primarily borne by the larger investor owned utilities and their bundled service customers.²⁵

17. CPUC and SDG&E assert that under CAISO's proposal, local replacement for forced outages would depend upon contracts and how capacity is procured or shown on resource adequacy plans rather than the reliability needs of the system generally or the local area in particular.²⁶ SDG&E contends that CAISO's proposal benefits suppliers by permitting system substitute capacity to reduce resources' substitution costs, but in a manner that ignores why resources are characterized as local in the first place. SDG&E argues that divorcing a resource's substitution obligations from its physical location will make it more difficult to ensure that all local resource adequacy capacity that CAISO is counting upon to meet reliability needs is actually maintained.

18. In addition, SDG&E asserts that CAISO's local capacity substitution proposal raises issues with respect to market power and withholding in the market for resource adequacy capacity, particularly in capacity-constrained areas such as SDG&E's local capacity area. According to SDG&E, if a resource located in a local area with no surplus capacity sells its capacity as system capacity to a load serving entity outside the local area, the load serving entity in the local area would be unable to procure sufficient local

²³ CPUC Protest at 2-6.

²⁴ SDG&E Protest at 7; CPUC Protest at 6.

²⁵ CPUC Protest at 6.

²⁶ SDG&E Protest at 6.

capacity and CAISO would need to use its CPM authority to designate the capacity that was sold to the external load serving entity as system capacity as local capacity. SDG&E contends that the costs for the CPM would be allocated to the load serving entity in the local area while the revenues of the CPM would go to the original purchasing load serving entity. Thus, SDG&E argues, a buyer of local capacity from a constrained local capacity area could exert market power by procuring it as system-only capacity and triggering CAISO to make a CPM designation for that capacity by not showing the capacity on its resource adequacy plan.

19. According to SDG&E, sellers of capacity in constrained local capacity areas would also have an incentive to take a lower price on the front end knowing that if they were to experience a forced outage, the substitute capacity could be system capacity and thus selling the resource as system capacity could mitigate a potentially large cost exposure later. Similarly, SDG&E contends, in an unconstrained local capacity area (i.e., where there is surplus local capacity) a single supplier that owns multiple resources in the local area could sell the entire surplus as system capacity knowing that all of its remaining capacity must be purchased by load serving entities located within the local capacity area. In this situation, SDG&E states, the resource would have market power and could command a local capacity price up to the CPM price.²⁷

20. PG&E expresses similar objections to CAISO's local capacity substitution proposal, arguing that, by allowing load serving entities to arrange for all of their local resource adequacy capacity to be deemed system capacity without penalty, CAISO is placing undue reliance on the fear of exposure to CPM costs to ensure that load serving entities procure not only the appropriate resources, but also the appropriate contractual attributes associated with those resources. Further, PG&E argues that this process creates an inappropriate method for load serving entities to avoid paying for the local resource adequacy attribute.²⁸ PG&E also contends that CAISO's proposed two-step evaluation process is confusing and unreasonable. PG&E asserts that using the "listed local" designation for substitution obligations, but not for local reliability studies, belies an unreasonable inconsistency between how CAISO plans to assess reliability needs versus how it will determine substitution obligations.²⁹ PG&E proposes an alternative outage substitution policy, similar in approach to CAISO's current approach to evaluating the need for substitution capacity for planned outages, that would assess whether scheduling coordinators with resources located in a local capacity area that are on outage must

²⁷ *Id.* at 9-12.

²⁸ PG&E Protest at 10-12.

²⁹ *Id.* at 9-10.

provide substitute capacity that is in the same local capacity area or whether the scheduling coordinator can be allowed to provide system capacity. PG&E requests that the Commission ask CAISO to initiate a stakeholder process to consider the PG&E proposal.³⁰

21. In its answer, CAISO argues that SDG&E, CPUC, and PG&E fail to identify any flaw or gap in CAISO's proposal or demonstrate that the proposed tariff revisions are unjust and unreasonable. CAISO states that it need only demonstrate that its local capacity substitution proposal is just and reasonable, not that there is an existing inequity or flaw in the current substitution rules. CAISO nevertheless posits that the current rules are not designed fairly and states that its proposal remedies the existing inequity by better aligning substitution obligations with the type of capacity procured. CAISO also argues that its proposal does not ignore a resource's true characteristics because, for purposes of evaluating local resource adequacy deficiencies, a local resource that is operating will retain its local characteristics. CAISO asserts that its proposal to add the evaluation of "listed local" resources will only affect substitution obligations depending on how capacity is shown on resource adequacy plans. CAISO refutes PG&E's claim that its proposal is unnecessarily complex or confusing because the two-step analysis will fall solely on CAISO and will have no impact on any market participant.³¹

22. CAISO also argues that its local capacity substitution proposal will not harm the bilateral resource adequacy market or create market power issues. CAISO asserts that PG&E's concerns about consequences for bilateral negotiations are vague and unsupported. With regard to SDG&E's hypothetical market power scenarios, CAISO first points out that, while remotely possible, they are highly unlikely and SDG&E has not shown how CAISO's proposal would increase the type of nefarious conduct SDG&E describes. CAISO points out that, under the existing rules, out-of-area load serving entities can procure local capacity as system capacity and can do so with the intention of never showing them on a resource adequacy plan. However, CAISO explains that as long as the capacity is shown on a resource adequacy plan, CAISO would still account for the local attribute, based on the location of a resource, in determining whether or not a collective local deficiency exists that would justify a CPM designation. CAISO also asserts that SDG&E fails to explain how CPM payments would flow from the supplier back to the load serving entity, without which load serving entities would have no incentive to engage in the type of conduct in SDG&E's hypothetical. Finally, CAISO contends that SDG&E's and other parties' other concerns about the withholding of local capacity to increase prices are purely speculative and ignore the CPUC rule that permits

³⁰ *Id.* at 13-16.

³¹ CAISO November 13 Answer at 10-16.

load serving entities to seek waiver of the local capacity obligation if a supplier seeks a capacity price in excess of \$40/kW-year.³²

23. Additionally, CAISO asserts that concerns that the local capacity substitution proposal will reduce reliability, increase use of CPM, or increase costs are misplaced. CAISO contends that these arguments ignore that load serving entities still must procure sufficient capacity in a local area to avoid any local resource adequacy deficiency or collective local deficiency procurement by CAISO, as is the case under the existing tariff provisions. Further, CAISO contends that load serving entities have an incentive to procure sufficient listed local capacity because the cost of any necessary CPM designations would likely exceed the cost of procuring sufficient listed local capacity. CAISO also argues that its proposal defers to local regulatory authorities in enforcing local capacity requirements and that this is consistent with the current approach of the tariff.³³ With regard to concerns about reliability issues arising from the local capacity substitution proposal, CAISO asserts that it has exercised its CPM authority for years, where necessary, to maintain reliability and no reason has been shown why it cannot continue to do so successfully.³⁴

24. Finally, CAISO argues that PG&E's alternative proposal has no bearing on whether CAISO's local capacity substitution proposal is just and reasonable. CAISO asserts that a party filing a proposed rate under section 205 of the FPA need only demonstrate that its proposed rate is just and reasonable, not that its proposed rate is the best choice across a range of possible options.³⁵

25. In response to CAISO's answer, SDG&E argues that CAISO's local capacity substitution proposal will require parties in the bilateral market to make changes to their contracts to identify how each megawatt was contracted. Thus, the proposal will necessarily impact the bilateral resource adequacy market and could result in behavior-altering incentives for suppliers to exert market power over load serving entities. Further, SDG&E contends that CAISO's proposal could depress system capacity prices while ratepayers bear the risk of increased CPM costs. SDG&E argues that CAISO's statement that CPM payments go to the supplier and not the load serving entity reflects a

³² *Id.* at 16-18.

³³ *Id.* at 19-21.

³⁴ *Id.* at 21-22.

³⁵ *Id.* at 22-23.

misunderstanding about typical language in resource adequacy contracts that requires the supplier to send the CPM payments to the procuring load serving entity.³⁶

26. Additionally, SDG&E claims that CAISO's proposal will impose an artificial restriction on resources' ability to resell the local attribute if the capacity was procured as system only, which will increase supplier market power by undermining the fungibility of system and local capacity. SDG&E disputes that the CPUC waiver option discussed by CAISO provides any relief from the obligation to satisfy the local resource adequacy obligation and claims that the CPUC waiver only provides relief from the penalties associated with not meeting the local resource adequacy obligation. SDG&E further asserts that CAISO's proposal does not guarantee that CAISO would not issue CPM designations to meet local resource adequacy needs. SDG&E reiterates its concerns that CAISO's proposal will have profound adverse impacts on the bilateral resource adequacy market.³⁷

27. In response to SDG&E's concerns about changes to bilateral resource adequacy contracts, CAISO answers that similar issues arose, without any systematic problems, when CAISO transitioned to its flexible resource adequacy requirements. CAISO also challenges SDG&E's concerns about possible impacts on system capacity prices, arguing that any such impact must be weighed in conjunction with the existing inequity that will be remedied by the proposal. CAISO also asserts that contractual details about CPM payments are irrelevant because, as CAISO discussed in its November 13 Answer, the hypothesized exercise of market power related to the CPM payments is unfounded, regardless of how CPM revenues might be shared between a supplier and load serving entity. CAISO reiterates that its proposal will not lead to increased use of its CPM authority and asserts that any such concerns were sufficiently addressed in its November 13 Answer.³⁸

c. Commission Determination

28. We accept as just and reasonable CAISO's proposal to allow resources in a local capacity area to provide substitute capacity based on how the capacity is shown on the resource adequacy plan. As CAISO notes, resources currently must accept a local capacity substitution obligation whether or not they are procured and compensated to meet this obligation. This puts resources in a local capacity area at a disadvantage when bidding for system capacity, as they have to take on a more expensive local substitution obligation purely based on the location of their generation and not based on system

³⁶ SDG&E Answer at 2-4.

³⁷ *Id.* at 4-5.

³⁸ CAISO November 30 Answer at 2-4.

needs. We find that allowing resources to provide substitute capacity based on how their capacity is shown on a resource adequacy plan should provide an opportunity for resources with a local capacity substitution obligation to be more appropriately compensated for the more expensive local capacity. We find this to be the case because resources will only have a local substitution obligation if that obligation is expressly contracted for, rather than basing the substitution obligation merely on the resource's physical location. We are not persuaded by protestors' objections that this proposal inappropriately ignores resources' operational characteristics. Rather, we find that CAISO's local capacity substitution proposal better aligns resource adequacy obligations with the service for which the capacity was procured.

29. We also disagree with contentions that CAISO's proposal will increase CPM designations and costs to ratepayers or undermine reliability. As an initial matter, if a resource located in a local capacity area is procured as either system or local capacity, CAISO will count that capacity toward fulfilling local capacity requirements for the purposes of determining whether to issue a CPM designation. Therefore, under CAISO's proposed revisions, any resources procured in a local capacity area would still be counted toward fulfilling local capacity requirements, although there is some possibility that those resources could subsequently be substituted for resources outside the local capacity area. In addition, we note that load serving entities can ensure that a resource substitution does not cause CPM procurement by procuring adequate listed local capacity to cover their local capacity obligation. Further, as CAISO points out, it is not proposing revisions to its existing CPM authority to address deficiencies that necessitate backstop procurement. Thus, CAISO will not be able to issue CPM designations in instances where resource adequacy plans indicate a deficiency in "listed local" capacity. In such cases, CAISO will only notify the relevant local regulatory authority of the deficiency, just as it does under the current tariff. We find that protestors' concerns about reliability risks are also without merit. CAISO has successfully used exceptional dispatch and CPM as tools to maintain reliability and protestors do not make any credible arguments as to why these tools will be insufficient to address reliability needs under the revised substitution rules. Moreover, while protestors make general claims about a threat to reliability, they do not specifically articulate how the proposal would undermine reliability.

30. We agree with CPUC that, in theory, a load serving entity consistently deficient in procuring listed local capacity could lean on the rest of the grid by forcing CAISO to exceptionally dispatch local resources if they are needed to substitute for the non-listed local capacity. However, CAISO proposes to verify each month that the load serving entity has sufficient listed local capacity. While it does not have a tariff-defined penalty for not sufficiently procuring listed local capacity, CAISO does propose to notify the appropriate local regulatory authority of the deficiency. The Commission believes that this verification and notification process will provide sufficient incentive for load serving entities to meet sufficient local capacity requirement in order to avoid penalties by the

local regulatory authority. This process also means that CPUC will be in a position to remedy any such behavior.

31. We disagree with SDG&E that this proposal will lead to suppliers exerting market power on load serving entities. We find that SDG&E's hypothetical examples are speculative and do not make a credible case for how CAISO's proposal would increase the risk of the hypothesized conduct occurring. Moreover, as CAISO explains,³⁹ it is possible under the current rules for load serving entities to procure local capacity with the intention of not showing the capacity as part of its resource adequacy plan. We agree with CAISO that SDG&E has not explained why CAISO's proposal creates incentives for load serving entities to engage in such behavior.

32. Finally, because we find that CAISO's proposal is just and reasonable, we need not address PG&E's alternative proposal.⁴⁰

2. **Proposal to Cap a Load Serving Entity's Monthly Local Resource Adequacy Requirement at its System Requirement**

a. **CAISO Proposal**

33. Under the current CAISO tariff, a load serving entity's system and local capacity requirements are calculated in different ways. System resource adequacy requirements are determined by local regulatory authorities. For load serving entities whose local regulatory authority is the CPUC (e.g., the three investor-owned utilities), each load serving entity's system requirement for each month is based on its load ratio share of the one-in-two-year⁴¹ forecasted coincident peak load for that month, plus a planning reserve margin, as determined by CPUC. Thus, the system requirement can vary month-to-month.

³⁹ *Id.* at 18.

⁴⁰ *E.g., Cities of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) ("FERC has interpreted its authority to review rates under the FPA as limited to an inquiry into whether the rates proposed by a utility are reasonable – and not to extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs."), *cert denied*, 469 U.S. 917 (1984).

⁴¹ The one-in-two peak forecast for a load serving entity represents the level at or below which that load serving entity's load would be expected to peak 50 percent of the time. CAISO Transmittal at 18.

34. The local requirement, in contrast, is based on the one-in-ten peak load forecast⁴² for the peak month of the year in a particular local capacity area. The local capacity requirement is calculated by CAISO using contingency analyses for each local area, and the resulting requirement is static throughout the year.

35. Due to the different calculation methodologies for system and local requirements, situations arise where a load serving entity's static local requirement can exceed its total system requirement. CAISO states that it largely agrees with stakeholder concerns that there is no reliability reason to require load serving entities to procure local capacity beyond the level of their system adequacy requirement, i.e., their peak demand and reserve margin requirements for any given month. Thus, CAISO proposes to revise its tariff to cap the amount of local capacity a load serving entity must show on its monthly resource adequacy plan at its peak demand and reserve margin requirement for that month.⁴³

b. Comments

36. SDG&E expresses support for CAISO's capping proposal, asserting that it should help mitigate the need to over-commit capacity. SDG&E states that it agrees with CAISO that there is no reliability reason why load serving entities should be required to procure local capacity beyond peak demand and reserve margin requirements.⁴⁴

37. PG&E objects to CAISO's proposal to cap local capacity requirements at the system level. PG&E argues that the fundamental problem lies in having a static local capacity requirement across all months of the year and that CAISO's proposal does not address this flaw. PG&E also asserts that the effects of CAISO's proposal are disproportionate and inefficient because only one load serving entity would benefit from the capping proposal. PG&E notes that it has proposed seasonal local resource adequacy requirements in CPUC's Resource Adequacy Proceeding⁴⁵ and requests that the

⁴² The one-in-ten forecast represents the load level at or below which the load serving entity's load would be expected to peak 90 percent of the time. CAISO Transmittal at 18.

⁴³ CAISO Transmittal at 18-19.

⁴⁴ SDG&E Protest at 16.

⁴⁵ Each year, CPUC holds a proceeding to review the resource adequacy program and make any necessary adjustments to the capacity requirements for the following year to ensure that the program continues to support reliability for California's electric needs.

Commission allow CPUC to consider this proposal before accepting CAISO's proposal to cap local requirements at the system level.⁴⁶

38. CAISO argues that nothing in PG&E's protest calls into question the rationale for the capping proposal. CAISO asserts that PG&E ignores the fact that CPUC has already adopted a policy identical to the CAISO proposal and, therefore, rejecting the CAISO proposal would result in a discrepancy between the CAISO and CPUC resource adequacy rules. CAISO notes that PG&E is free to raise these issues in the next CPUC Resource Adequacy Proceeding, but argues that any such potential future change in the CPUC rules provides no basis for the Commission to reject the instant proposal.⁴⁷

c. Commission Determination

39. We accept CAISO's proposal to cap a load serving entity's monthly local capacity requirement at its monthly system level requirement. We find that this revision constitutes a just and reasonable measure to reduce the over-procurement of local capacity. We find that PG&E's objection focuses primarily on the current methodology for determining the annual local capacity requirements, i.e., a static annual requirement across all months of the year. While we recognize that PG&E has proposed an alternative methodology in the CPUC Resource Adequacy Proceeding, we find that any such potential future modifications have no bearing on the justness and reasonableness of CAISO's instant proposal, which appropriately remedies a shortcoming of the current local capacity requirement that for some load serving entities leads to procurement or commitment of local capacity in some months that exceeds their entire system resource adequacy requirement.

3. CAISO Proposal to Streamline the Outage Evaluation Process for Resource Adequacy Capacity

a. CAISO Proposal

40. When a resource providing resource adequacy capacity goes on a maintenance or forced outage, the outage can trigger an obligation for that resource to provide capacity from an alternative source in order to avoid non-availability charges. The current CAISO tariff uses the term "replacement capacity" for alternative capacity to cover maintenance outages and the term "substitute capacity" for alternative capacity to cover forced

⁴⁶ PG&E Protest at 17.

⁴⁷ CAISO November 13 Answer at 8.

outages.⁴⁸ Further, the current tariff assigns responsibility for providing alternative capacity either to the load serving entity or to the supplier on outage based on the timing of a maintenance outage request. CAISO proposes to eliminate this complexity by referring to all alternate capacity needed to cover both maintenance and forced outages as “substitute capacity,” and by requiring the scheduling coordinator for the supplier to provide substitute capacity for maintenance outages regardless of when the outage request is submitted to CAISO.⁴⁹

41. CAISO states that it will study all outage requests submitted 25 days or more before the start of the month at the same time and assign any substitution requirements by 22 days before the start of the month.⁵⁰ CAISO states that the proposed tariff revisions allow suppliers until a deadline established in the business practice manual to provide substitute capacity or cancel/reschedule the outage, to avoid facing non-availability charges under the availability incentive mechanism. CAISO states that it intends to set that deadline at eight days prior to the outage in the relevant business practice manual.⁵¹

b. Comments

42. SDG&E states that it generally supports CAISO’s proposed revisions to the outage evaluation process, but asserts that the proposed revisions are unclear as to when substitute capacity must be provided in the event of a planned outage. SDG&E argues that the proposed process may not permit sufficient time for load serving entities to procure sufficient substitute capacity by the deadline. SDG&E claims that CAISO’s proposal incorporates an internally inconsistent use of “T minus” nomenclature because the new definition of “T-8” does not mean eight days prior to the start of the month whereas other uses of “T minus” key off the start of the month. SDG&E suggests a modification to CAISO’s proposal so that the tariff would specify that the scheduling coordinator for the supplier would be required to provide substitute capacity at eight days prior to the resource adequacy month.⁵²

43. In its answer, CAISO argues that SDG&E’s concerns reflect two fundamental misunderstandings of the proposal. First, CAISO explains that under its proposal, the

⁴⁸ CAISO Transmittal at 9.

⁴⁹ *Id.* at 11-12 (citing CAISO Tariff, proposed § 40.3.2).

⁵⁰ *Id.* at 12.

⁵¹ *Id.* at 14.

⁵² SDG&E Protest at 15.

substitution obligation will fall in all cases on the supplier and not the load serving entity, and no suppliers object to the proposal. Second, CAISO claims that SDG&E's suggested modification would result in the supplier having less time, not more time, to procure substitute capacity. Third, CAISO contends that SDG&E's suggested modification would conflict with other existing tariff provisions. CAISO also denies that its proposed use of nomenclature is confusing. CAISO states that the "T minus"⁵³ nomenclature appears only in two tariff section titles, whereas the actual tariff provisions explicitly define the relevant deadlines without using the allegedly confusing "T minus"⁵⁴ terminology.⁵⁵

44. In its answer, SDG&E takes issue with CAISO's statement that "no supplier" objects to the proposal. SDG&E notes that it owns, operates, and schedules power plants in the CAISO markets and is, therefore, not just a load serving entity but also a supplier. SDG&E states that, in its capacity as a supplier, it does object to CAISO's proposal.⁵⁶

c. Commission Determination

45. We accept CAISO's proposed revisions to its outage evaluation process. We find that CAISO's proposal is just and reasonable because it eliminates the unnecessary distinction between "substitute" and "replacement" capacity and will add clarity regarding the supplier's obligation to provide the substitute capacity. We find that SDG&E's concerns about the proposed deadlines are misplaced. We agree with CAISO that the substitution deadline is appropriately included in the relevant business practice manual because it is not a rate, term, or condition that must be included in the tariff. Further, we find that setting the deadline at eight days before the start of the outage is sufficiently clear regardless of how the "T minus" terminology is used in tariff section titles.

4. Other Proposed Tariff Revisions

a. CAISO Proposal

46. CAISO proposes to adjust the timeline for the monthly resource adequacy process. Under the current resource adequacy process, CAISO conducts the daily outage assessment and replacement/substitution analysis at the same time it validates the

⁵³ CAISO November 13 Answer at 6.

⁵⁴ *Id.*

⁵⁵ *Id.* at 5-6.

⁵⁶ SDG&E Answer at 5.

monthly resource adequacy showings and conducts any needed monthly backstop procurement under its CPM authority. CAISO states that the overlap between these processes under the current timeline creates inefficiencies, unnecessary complexity, and potential over-procurement. To remedy this problem, CAISO proposes to alter the timeline such that resource adequacy plan validation and any potential CPM procurement will happen earlier and will be completed before CAISO performs any outage or substitution assessment pursuant to the process discussed above. Thus, CAISO states that it will be able to evaluate outages knowing whether any resource adequacy deficiencies have been remedied, thereby reducing the potential for over-procurement of substitute capacity in situations where there is no deficiency.⁵⁷

47. CAISO also proposes to create a default method for allocating flexible capacity backstop procurement costs. The existing CAISO tariff permits a local regulatory authority to establish its own method for allocating the CPM backstop procurement costs CAISO incurs to procure backstop flexible capacity if there is a deficiency in flexible resource adequacy capacity procurement.⁵⁸ However, CAISO states that the tariff does not address what happens if a local regulatory authority adopts an allocation methodology but does not timely notify CAISO of such methodology. CAISO states that, under these circumstances, it is unclear whether it may use the default methodology.⁵⁹ To remedy this uncertainty, CAISO proposes to amend its tariff to state that if a local regulatory authority does not notify CAISO of its allocation method by a deadline established in the relevant business practice manual, CAISO will allocate the flexible capacity CPM costs using the default methodology set forth in its tariff.⁶⁰

48. Finally, CAISO proposes to simplify the resource adequacy reporting requirements for small load serving entities. CAISO's existing tariff imposes a generally applicable \$500/day penalty for late submission of all required information, including annual and monthly resource adequacy plans.⁶¹ The tariff also exempts small load

⁵⁷ CAISO Transmittal at 15-18.

⁵⁸ CAISO Tariff; §43A.8.8(c).

⁵⁹ Section 43A.8.8(b)(2) of the CAISO tariff states that if a local regulatory authority “has not established its own methodology for allocating the Flexible Capacity Need to its jurisdictional Load Serving Entities, the CAISO will allocate the Flexible Capacity CPM costs proportionately to the Scheduling Coordinator of each jurisdictional Load Serving Entity that failed to meet its procurement obligation.”

⁶⁰ CAISO Transmittal at 23-24.

⁶¹ CAISO Tariff; § 37.6.1.1.

serving entities from all of the resource adequacy tariff provisions if their monthly metered peak demand did not exceed one MW in the prior year.⁶²

49. CAISO proposes to expand the existing resource adequacy reporting exemptions for small load serving entities. Specifically, CAISO proposes to exempt a load serving entity with a system, local, or flexible resource adequacy below one MW for some months of the year, but above one MW in other months of year, from the reporting requirement and any associated late reporting penalties for any months during which the resource adequacy obligation is below one MW. Further, CAISO proposes to exempt a load serving entity whose flexible or local resource adequacy obligation is less than one MW for all 12 months of the resource adequacy compliance year from the resource adequacy reporting requirement for the entire year for the specific category of resource adequacy capacity that is below one MW. As a result, such load serving entities would also face no exposure to CPM cost allocations, nor would they be obligated to submit an annual resource adequacy plan regarding that resource adequacy product.⁶³

b. Commission Determination

50. We accept CAISO's unopposed proposals to: (1) adjust the timeline for the monthly resource adequacy process; (2) clarify its tariff provisions regarding use of the default method for allocating flexible capacity procurement costs; and (3) streamline the resource adequacy reporting obligations for small load serving entities. We find that these revisions are just and reasonable because they eliminate unnecessary complexity and make compliance with CAISO's resource adequacy rules equitable and efficient for market participants.

The Commission orders:

CAISO's proposed tariff revisions are hereby accepted, effective February 15, 2018, as requested, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.

⁶² *Id.*; § 40.1.

⁶³ CAISO Transmittal at 33-36.