

Stakeholder Comments Template

Subject: Regional Resource Adequacy Initiative

Submitted by	Company	Date Submitted
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The State of California’s Office of Ratepayer Advocates (ORA) provides the following comments on the California Independent System Operator Corporation’s (CAISO) *Third Revised Straw Proposal on Regional Resource Adequacy (RA)*, issued on September 29, 2016, and the briefing materials presented at the October 6, 2016 stakeholder meeting.

ORA recognizes that regional Resource Adequacy (RA) as currently proposed will likely require shifting a significant amount of the current state authority exercised by the California Public Utilities Commission (CPUC) over resource adequacy to a federally regulated regional entity. In the initial straw proposal, the CAISO noted that it “recognizes the states’ traditional role with respect to RA”¹ and included “avoid[ing] changes to the ISO’s RA rules that would misalign the ISO’s rules with the California Public Utility Commission’s and other LRA’s current programs”² as a guiding principle in the Issue Paper. The shift of authority away from the states to the new regional ISO should be carefully thought out to ensure that states retain their ability to plan for resources, and in California’s case, continue to follow the loading order, a cornerstone of California’s move away from reliance on fossil fuels. However, the *Regional Resource Adequacy Third Revised Straw Proposal (Third Proposal)* calls for the Western States Committee (WSC) to have authority on only one specific issue, the Planning Reserve Margin (PRM). ORA continues to recommend broad oversight and authority by the WSC to guarantee that states maintain a strong voice in resource planning and RA regulations. With regionalization, the PacifiCorp states would need to comply with new RA regulations, while California would need to revise Section 380 of the Public Utilities Code, state law which currently delegates broad RA authority to the CPUC. While much of the current work of the CPUC on the California RA program would become redundant or irrelevant under a regionalization paradigm, the WSC can and should become an important organization to ensure that states continue to play an important role in resource planning.

¹ Regional Resource Adequacy Straw Proposal, February 24, 2016, p. 3.

² Regional Resource Adequacy Issue Paper, December 9, 2015, p. 5.

Load Forecasting

ORA generally supports the current load forecasting proposal, but here too recommends a greater role for the WSC. The CAISO's new approach attempts to strike a balance between state flexibility and regional consistency in load-serving entity (LSE) forecasting. Engaging the WSC to a greater degree can help support the balance of flexibility and regional consistency sought in the current proposal.

The current proposal calls for individual LSE forecasts in a “bottom-up, monthly peak load forecasting aggregation approach.”³ This approach would allow the California Energy Commission (CEC) to continue conducting load forecasting for California LSEs. Other LSEs and/or load forecasting agencies would have similar flexibility to develop and conduct their own forecasts. While the CEC may continue its current load forecasting work, some of its current authority would be assumed by the regional ISO. For example, the ISO, rather than the CEC, would run a system-wide load forecasting check and address inconsistencies. Also, the ISO would establish parameters for state agencies on acceptable statistical methodologies. As it explained, the ISO will “develop and publish a document that outlines the various statistical methodologies that are acceptable.”⁴ Additionally, the ISO will exert authority with a load forecasting review process to ensure the use of reasonable forecasting methodologies.⁵ The ISO will use an Alternative Dispute resolution process to address disagreements between LSE forecasts and the ISO review.⁶

The Third Proposal states that the WSC will provide a potential forum for local regulatory agencies (LRAs) to discuss the different approaches to load forecasting, but the CAISO does not recommend that the WSC directly oversee the process.⁷ To ensure active state involvement, ORA recommends granting the WSC specific oversight of load forecasting policy and involvement in dispute resolution. Oversight by the WSC can provide a balance to ensure that load forecasts represent fair assessments for each state taking into account both reliability and cost. Oversight provided only by the ISO may focus exclusively on reliability, without regard to associated ratepayer costs. As noted in the Third Proposal, the Midcontinent Independent System Operator (MISO) has utilized an independent university forecasting group to assist in validating regional forecasts.⁸ The WSC could oversee a similar independent forecasting assessment for the new region created by the proposed multi-state ISO.

³ *Regional Resource Adequacy Third Revised Straw Proposal* (Third Proposal), September 29, 2016, p. 9.

⁴ Third Proposal, p. 15.

⁵ *Ibid.*

⁶ *Ibid.*, p. 16.

⁷ *Ibid.*, p. 12.

⁸ *Ibid.*

Planning Reserve Margin (PRM)

ORA supports the role of the WSC in having primary approval authority for setting the planning reserve margin (PRM).⁹ ORA recommends modifications to ensure the WSC has sufficient authority to determine the appropriate PRM consistent with state policies and potentially competing state interests.

The CAISO states that it envisions the WSC playing a core role in determining the PRM and in the CAISO *Draft Proposal for Potential Topics within the Primary Authority of the WSC* (WSC Proposal), it proposes the following activities for the WSC regarding the PRM:

- Provide direct input to the stakeholder process to develop inputs and assumptions for the ISO Loss of Load Expectation (LOLE) study.
- Review the results of the LOLE study to determine if the resulting PRM target is acceptable or if adjustments are needed. The WSC would either approve the resulting system-wide PRM target or direct the ISO to adjust the system-wide PRM target, as approved by the WSC.
- If the WSC cannot reach a consensus during the study input stage or at the final approval stage, then the ISO would use the default value produced by the LOLE study as the effective system-wide PRM target.

Additionally, the WSC Proposal states that the specific level of reliability the LOLE study should meet is an important input that needs stakeholder and WSC guidance. However, in the Third Proposal, the CAISO proposes to conduct a 1-in-10 LOLE probabilistic study to determine a default system-wide PRM target.¹⁰

ORA supports a significant role of the WSC in determining the PRM target. The PRM is an important matter of state policy. The WSC should be responsible for weighing the costs and benefits of different levels of reliability to reach a consensus on a system-wide PRM target that is in the best interest of ratepayers in the region. For example, the WSC should have a key role in defining the LOLE metric since interpretations of the standard can lead to differences in PRMs.¹¹ Some regions set PRMs based on economic considerations to determine the appropriate PRM. Reliability events may be defined as the involuntary curtailment of firm load or could include less severe reliability events such as operating reserve depletions.¹² The model -- as well as the assumptions, inputs and outputs -- are issues that should be addressed and determined by the WSC as a matter of state policy. The Third Proposal and the WSC Proposal should be revised to simply state that a probabilistic study will be used to determine the PRM; it will be up to the WSC and the future stakeholder process to determine the level of reliability to model.

⁹ WSC Proposal, p. 5

¹⁰ Third Proposal, pp. 18-19.

¹¹ *Resource Adequacy Requirements: Reliability and Economic Implications*, the Brattle Group, September 2013, p. iii.

¹² Ibid.

The CAISO should also clearly state that the WSC “will” have primary approval authority for setting the PRM, as opposed to “could” have primary approval authority.¹³ There should be no ambiguity that the WSC will approve the PRM because it is an issue that requires the WSC to address and resolve matters of state policy and potentially competing state interests.

Uniform Counting Rules

The Third Proposal continues to recommend uniform counting rules without granting any oversight or dispute resolution authority to the WSC.¹⁴ California’s RA program has developed counting rules and continues to do so in areas such as development of modeling for Effective Load Carrying Capability (ELCC) of wind and solar resources. Uniform resource counting rules would displace the CPUC’s and other jurisdictions’ authority over counting rules, but may be necessary to ensure regional grid reliability. Counting rules have a significant impact on capacity procurement and associated ratepayer costs. They have engendered conflicts, including litigation, between states and ISOs around the country.¹⁵ Similar to the PRM, uniform counting rules are a matter of state policy and the WSC should have primary approval authority for setting uniform counting rules in the best interest of all ratepayers.

RA Showings and Validation Process

The CAISO proposes to require that LSEs demonstrate adequate procurement to meet RA requirements.¹⁶ The LSE showings would be validated by the ISO along with rules to address LSEs which fail to meet requirements. These processes are currently performed in California by the CPUC under authority granted by state legislation.

The WSC representing states and stakeholder concerns should be granted oversight over the RA showings and validation as this moves from state to regional ISO authority. States joining a multi-state ISO will want to be assured of adequate LSE procurement to prevent potential capacity leaning by LSEs which fail to meet requirements. The CPUC will see a major change with state authority for validation and enforcement shifting to the new ISO. As current state authority for maintaining reliability shifts to a regional ISO, WSC oversight is essential to ensure that costs are considered along with grid reliability.

ORA appreciates the opportunity to provide comments on the CAISO’s Third Proposal. We look forward to continuing to provide input into this critical area of the regionalization proposal.

¹³ WSC Proposal, p. 6.

¹⁴ Third Proposal, p. 20.

¹⁵ See e.g. *New York Public Service Commission New York Power Authority et al. v. New York Independent System Operator, Inc.*, 154 FERC ¶61,088 at p. 14 (2016) and *ISO New England Inc. and New England Power Pool Participants Committee*, 155 FERC ¶61,023 at p. 2 (2016) (Summarizing litigation regarding whether renewable resources count for purposes of capacity market.).

¹⁶ Third Proposal, p. 24.