

## Subject: Regional Resource Adequacy Initiative

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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 (ISO) Revised Straw Proposal on Regional Resource Adequacy (RA), issued on April 13, 2016, and briefing materials presented at the April 21, 2016 stakeholder meeting.

### 1. Load Forecasting

The ISO proposes to allow load serving entities (LSEs) the flexibility to independently provide, develop, and submit load forecasts, including forecasting modifiers and adjustments, to the ISO. The ISO will conduct reviews to safeguard against unreasonable forecasts and deter manipulation of load forecasts.<sup>1</sup> ORA concurs with the ISO proposal to utilize 1-in-2 load forecasts for weather normalized peak load in the method adopted by the California Energy Commission (CEC).

The ISO seeks feedback on whether to use ISO specific criteria and processes for LSE load forecasting or to allow the flexibility of independent LSE forecasts. ORA supports the use of specific criteria, however, a body that is not mandated to prioritize specific criteria, such as cost or reliability, should develop forecasting criteria and processes with input from the LSEs and the ISO. That body should not be the ISO itself.

In general, ORA favors allowing California's unique policies and programs to continue under the regional RA program. This necessitates forecasting resources in a way that gives full credit to the unique contributions of specific energy efficiency, demand response and other customer programs. Such forecasting may be best achieved with a local authority calculating the forecast for California. However, local forecasting would require strict adherence to rules to mitigate capacity leaning and assure that each LSE contributes fairly to system reliability. This approach could become unwieldy if numerous participants join the regional ISO. Local forecasting also necessitates stricter enforcement than a more standardized approach. ORA

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<sup>1</sup> California ISO Regional Resource Adequacy Revised Straw Proposal, April 13, 2016 (Revised Straw Proposal), p. 12.

therefore supports a standardized approach to simplify forecasting and reduce potential capacity leaning. A standardized approach, however, should be conducted by a body that functions similarly to the CEC to objectively balance both the reliability concerns of the ISO and the cost concerns of local authorities. This body should have authority over forecasting to allow for a variety of stakeholder input and a consensus outcome acceptable to all impacted by forecasts. The current process in California with a body which does not favor either cost concerns or reliability concerns allows for a balanced approach and minimizes conflicts between varied interests and prevents protracted litigation. .

The Revised Straw Proposal presents two potential options for calculating the coincidence factor.<sup>2</sup> The median of five monthly peaks as used by the CEC is compared to the Power Systems coincidence factor methodology. The California Public Utilities Commission (CPUC) RA proceeding is currently examining the CEC methodology in order to promote understanding of the application of that methodology. While the ISO presented the basics of the Power Systems methodology, ORA seeks more information detailing the differences between the CEC's use of five month peaks and the Power Systems coincidence factor methodology, and requests some examples of results using the two methods. Comparing the differences between the CEC's use of five month peaks and the Power Systems coincidence factor methodology in a workshop with the opportunity for the give and take of open stakeholder dialogue could result in a consensus regarding which method is more appropriate for an expanded ISO, or at a minimum, clarify and narrow the disagreements. ORA therefore respectfully recommends that the ISO consider conducting such a workshop ahead of the final draft proposal for regional RA. Given the proposed timeline, the workshop would be best held in mid or late May.

The Revised Straw Proposal indicates that the ISO will perform a reasonableness review of LSE forecasts and have the authority to adjust LSE forecasts that the ISO deems unreasonable.<sup>3</sup> In California the CEC, a body which is not required to value either reliability or costs more highly, performs the reasonableness review and maintains sole authority to adjust LSE forecasts. In addition, a California-specific body such as the CEC understands California's complex programs in great detail, is mandated to support California's policy goals, and must be responsive to California stakeholders. Such a state-specific body is better than a regional one to serve each state with regard to overseeing these functions. State-specific oversight would allow this entity to balance the competing considerations of reliability, cost, and adherence to environmental goals. California stakeholders, as well as those from other states, are vested in individual state goals and programs to address unique concerns.

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<sup>2</sup> Revised Straw Proposal, pp. 15-16.

<sup>3</sup> Revised Straw Proposal, p. 16.

## 2. Maximum Import Capability (MIC)

The Revised Straw Proposal notes that the ISO is currently conducting an analysis to apply the current MIC methodology to the ISO and PacifiCorp combined balancing authority (BA) footprint.<sup>4</sup> ORA recommends expanding the analysis beyond the proposed footprint to best consider adaptations for other possible entrants beyond PacifiCorp in an expanded BA footprint. Changes to the current California structure to accommodate an expanded BA footprint should be designed to create a durable structure that best fits the expansion beyond PacifiCorp as envisioned by the ISO.

## 3. Internal RA Transfer Capability Constraints

The ISO proposes to create a Zonal RA process to address transfer capability constraints. As noted on page 29 of the Revised Straw Proposal, “There are numerous considerations to discuss related to this zonal RA proposal.” ORA agrees and encourages the continued development and refinement of this concept. The ISO states that it will continue to build the new zonal concept in subsequent proposals; however, the current schedule only includes one more revised straw proposal ahead of a final proposal. This timeline does not allow for adequate development and sufficient stakeholder involvement. As noted in the presentation materials on page 63, many stakeholders have requested data and specific results about MIC values under the proposed concept. More information must be provided by the ISO for stakeholders to understand and respond to ISO transfer constraint proposals.

## 4. Allocating RA Requirements to LRAs/LSEs

In Section 5.3, the Revised Proposal introduces the concept of new RA zonal requirements which would allocate a new type of capacity to LSEs.<sup>5</sup> The ISO notes that there are numerous considerations to discuss regarding new LSE zonal requirements and encourages stakeholder input to develop the concept. Creating a new zonal capacity category is a major change in the RA framework and the additional LSE requirements will add to ratepayer costs. A new capacity product involves many complex issues such as counting rules for zonal capacity, annual studies and the approval process for the study results, and allocation of zonal requirements. Even more complex may be the potential need for development of new zonal resources in a multi-state area. Stakeholders will need to know how zonal forecasting will be developed and how the costs of new resources will be assigned. These are important issues and raise significant cost implications. One additional iteration of the straw proposal does not allow adequate time for stakeholders to participate in development of a zonal concept and contemplate the impacts. ORA requests that the potential cost of zonal requirements be included in analysis of this new conceptual requirement

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<sup>4</sup> Revised Straw Proposal, p. 24.

<sup>5</sup> Revised Straw Proposal, pp. 26-29.

## 5. Updating ISO Tariff Language to be More Generic

A regional RA tariff would require revised tariff language that applies to other entities and is not specific to California. The process to revise the current ISO tariff should allow for stakeholder input on the final tariff language in advance of submittal to the Federal Energy Regulatory Commission (FERC), including provisions limiting the operation of the new tariff until the occurrence of the appropriate triggering event (such as PacifiCorp's approval of the Memorandum of Understanding).

## 6. Reliability Assessment

### a. Planning Reserve Margin

The ISO requests stakeholder feedback on two possible methods of determining a planning reserve margin (PRM).<sup>6</sup> ORA favors an approach that balances reliability with ratepayer costs. The CPUC has stated that it does not support reliability at all costs<sup>7</sup> and in the CPUC's Long-term Procurement Planning proceeding<sup>8</sup> probabilistic modeling is being developed to report on Loss of Load Event (LOLE) and Expected Unserved Energy (EUE) which can more accurately assess reliability and allow for consideration of costs. Clearly, the probabilistic approach is far more complex than a deterministic approach and for year-ahead RA procurement, a hybrid or simplified approach may be more practical. Much more discussion and interactions with stakeholders should occur to arrive at a minimal PRM that provides an acceptable level of reliability.

### b. Uniform Counting Methodologies

In Section 5.6.4 of the Revised Straw Proposal, the ISO calls for uniform counting methodologies. The ISO calls for these counting methodologies to be determined in "a transparent and open stakeholder process."<sup>9</sup> ORA recognizes the need for consistent counting methodologies but recommends that counting methodologies be determined by the LRAs in conjunction with the ISO. Rather than an ISO initiative process, a representative body of the LRAs should lead the effort to determine counting methodologies. The CPUC has worked diligently to create counting methodologies that best reflect the contributions of renewable resources, demand response, energy storage, and energy efficiency and support the state's policy goals. LRA leadership in counting methodologies can best support the current successful structure developed in California.

Alternatively, if counting methodologies are developed in ISO stakeholder processes, ORA requests detailed information on the proposed methodologies.

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<sup>6</sup> Revised Straw Proposal, p. 32.

<sup>7</sup> CPUC Decision (D.) 05-10-042, p. 8.

<sup>8</sup> See the CPUC's Long-Term Procurement Planning website: <http://www.cpuc.ca.gov/General.aspx?id=6617>

<sup>9</sup> Revised Straw Proposal, p. 36.

The stakeholder initiative process as utilized by the ISO must be clearly described in written protocols. In addition, ORA recommends that the ISO clearly articulate its policy regarding confidential comments to all stakeholders. ORA recommends that the ISO post redacted versions of confidential comments, similar to the process that the CPUC uses, to allow parties to see the non-confidential portions of otherwise confidential documents.

Stakeholder feedback is requested on page 37 of the Revised Straw Proposal regarding the methodology for calculating wind and solar capacity. ORA supports development of the Effective Load Carrying Capability (ELCC) as mandated by the California Legislature. The ELCC methodology offers the best analysis of the true capacity benefits of wind and solar in support of reliability. These resources are expected to expand rapidly. Their capacity values will change significantly with increased penetration. The current exceedance methodology uses historical values and fails to account for variability. This methodology will become increasingly inaccurate in future years.

The ISO provides two alternative methodologies for counting Demand Response (DR), using historical information or the registered capacity value.<sup>10</sup> The ISO should clarify whether the DR provider gets to choose which option to use, or if the ISO chooses, or if the ISO will automatically use the higher or lower of the two options. It is not clear if the adoption of different RA values in the regional RA framework will override the current CPUC methods of valuation for DR. Additionally, the ISO proposed methods include provisions for tests and audits that will allow for lowering the Net Qualifying Capacity (NQC) value for the following month if the resource doesn't perform. This would need to be reconciled at the CPUC to ensure that the financial consequences apply to the DR providers or investor-owned utilities' shareholders, not ratepayers.

#### c. Backstop Procurement Authority

The Capacity Procurement Mechanism (CPM) grants the ISO authority to procure backstop capacity when reliability becomes an issue. The CPM has rarely been used by the ISO.<sup>11</sup> One of the main reasons for this limited use is that the CPUC strictly enforces RA requirements in California. CPUC jurisdictional LSEs provide over 90% of the RA capacity requirements for the ISO. The CPUC monitors LSEs and if an LSE's procurement fails to meet requirements, the LSE faces fines that are several times greater than the costs of procurement. The CPUC created a penalty structure to ensure success of the RA program. The Revised Straw Proposal calls for assigning backstop procurement costs to LSEs that fail to cure a deficiency. Those costs are based on the CPM auction and are significantly lower than CPUC fines for noncompliance. With grid reliability moving away from a California focus to a multi-state focus, enforcement in support of reliability necessarily changes. Under

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<sup>10</sup> Revised Straw Proposal, p. 40.

<sup>11</sup> Revised Straw Proposal, p. 48.

the Revised Straw Proposal enforcement would essentially move away from LRAs like the CPUC to the regional ISO.

ORA requests that the ISO provide more information on its proposed enforcement under regional RA. What role will LRAs play in enforcement in regional RA? Will enforcement actions be formal actions that are reportable to state and federal agencies? How will the ISO handle appeals of enforcement actions?<sup>12</sup>

The ISO proposes to revise the ISO tariff to include categories for CPM authority based on reliability assessments.<sup>13</sup> The categories proposed are the same as some existing categories in the ISO tariff and it is not clear that current ISO CPM authority wouldn't allow for CPM backstop under regional RA if a shortfall was determined by reliability assessment. ORA therefore questions the need for changes to the current CPM tariff based on the reliability assessment. One authority not mentioned is the authority to correct a deficiency in the newly proposed zonal requirements. If zonal requirements are added to LSE requirements for reliability purposes, then the ISO should have CPM authority to cover deficiencies.

## 7. Other

The ISO notes that stakeholders expressed concern with the pace of this initiative and requested additional time.<sup>14</sup> In response, the ISO added two months to the schedule and an additional iteration of the proposal. The ISO's limited extension does not provide the time necessary for stakeholders to participate sufficiently in the process, and provide well-reasoned responses. This endeavor is too important to rush through under the revised schedule.

ORA recommends that the ISO conduct workshops to provide further understanding and engage stakeholders in complex and controversial issues. Stakeholder workshops or working groups composed of a subset of stakeholders would be a more efficient approach in the long term because it would foster stakeholder consensus and allow stakeholders to play an integral part in creating a regional RA. Furthermore, the Revised Straw Proposal includes many sections that seek stakeholder feedback and other sections in which the ISO must complete more research before developing proposed solutions. This work needs more than one additional revision and stakeholder input opportunity. The ISO should focus on a durable framework that will work for multiple potential entrants and not rush the current process at the risk of creating an inferior product.

The ISO addresses stakeholder concerns, including those of ORA, regarding changes to the RA program in California ahead of, and without guarantees of, other entrants. It is not clear from reading pages 11-12 of the Revised Straw Proposal what changes may take effect in California ahead of implementation of an expanded ISO.

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<sup>12</sup> The CPUC allows for litigation with an Administrative Law Judge.

<sup>13</sup> Revised Straw Proposal, p. 48.

<sup>14</sup> Revised Straw Proposal, p. 10.

Provisions with substantive changes are promised to only occur upon the entry of a new participant such as PacifiCorp. Careful consideration must be given to making substantive or procedural changes to California's RA program prior to the commitment date for entry of a new participant.