

ORA Stakeholder Comments

Regional Resource Adequacy Initiative Issue Paper

Submitted by	Company	Date Submitted
<i>Peter Spencer</i> Senior Analyst peter.spencer@cpuc.ca.gov 415 703-2109	<i>Office of Ratepayer Advocates- California Public Utilities Commission</i>	<i>January 7, 2016</i>

The State of California's Office of Ratepayer Advocates (ORA) provides the following comments on the California Independent System Operator Corporation's (ISO) Issue Paper on Regional Resource Adequacy (RA) and briefing materials presented at the December 16, 2015 stakeholder meeting.

The Issue Paper identifies three areas in need of revision for regional RA:

1. Make the ISO's RA tariff language more generic so provisions apply on a regional basis.

ORA recognizes that regional RA would require an update to sections of the ISO's RA tariff language to change references specific to California and update sections of the tariff that do not reflect current RA policies. ORA strongly supports the ISO's stated principles to maintain consistency with the California Public Utilities Commission's (CPUC) RA program and accommodate the CPUC's procurement programs, such as Long Term Procurement Planning (LTPP). At the same time, ORA is concerned that the regional RA initiative would impact CPUC programs out of necessity to satisfy the needs of an expanded ISO Balancing Area Authority (BAA). For example, the CPUC RA program includes complex and evolving modifications to qualifying capacity (QC) rules for resources such as demand response, energy storage, and flexible capacity. In creating a regional RA program, with FERC-approved tariff rules, the degree of variation and flexibility allowed to local authorities such as the CPUC becomes a primary concern.

2. Update the ISO's default tariff provisions to become both current and sufficiently comprehensive for Local Regulatory Authority (LRA) adoption.

Regional RA would require regular updates as needed to keep the ISO tariff and its LRA default program current. The CPUC conducts an annual RA proceeding, which regularly revises the RA program to add improvements and respond to procurement changes and grid impacts. The regional RA effort may require a similar annual process on a multistate basis to keep the ISO tariff current.

The ISO Issue Paper provides an example of outdated tariff language related to the exceedance counting methodology for wind and solar resources.¹ As noted by the ISO, the exceedance methodology is currently in use in the majority of the ISO BAA. However, the CPUC's current RA proceeding will consider changing the current exceedance methodology to a stochastically modeled Effective Load Carrying Capability (ELCC) methodology. The change to an ELCC methodology is mandated by the California State Legislature. The earliest the CPUC may adopt this potential change is in its annual June decision in the 2016 RA proceeding. With the ISO regional RA initiative scheduled to conclude in May, it is not clear how this potential change will be addressed in the regional RA initiative and implemented in the ISO tariff. Moreover, it is unclear that it would be practical to apply a complex modeling ELCC methodology to all LRAs. Mandating a methodology that creates complex modeling efforts could greatly increase the administrative burden of the RA program for such LRAs.

The ISO proposes an ambitious schedule that provides for the conclusion of the regional RA initiative in May 2016.² This schedule may not provide adequate time for stakeholders to consider and arrive at consensus on these and other important issues. Efforts to accommodate a variety of LRA procurement programs and align them with CPUC policy are likely to generate discussion and concern among stakeholders. Therefore, ORA recommends that the ISO expand its proposed timeline. The updated timeline should include stakeholder workshops and comments after the ISO has completed necessary studies and reports. Adequate time should be provided for stakeholder examination of data and allow for additional studies or reports as indicated. The Straw Proposal currently scheduled for release on February 17 should not be finalized ahead of necessary studies called for by the ISO and stakeholders. All dates beyond the January 13 workshop should be removed and only scheduled when the ISO milestones have been met.

3. Determine load forecasting and RA requirements under a regional organization.

The California State Legislature mandated that the CPUC establish RA requirements in consultation with the ISO.³ The California Energy Commission (CEC) works closely with stakeholders, the CPUC, and the ISO to develop load forecasts and reports which are used to determine system RA requirements for California's Load Serving Entities (LSEs). The CEC expends an enormous amount of effort to provide in-depth and dependable supply and demand analysis for California. Analysis and modeling for a potential expanded BAA would require the adoption of standardized assumptions and inputs to provide similar quality forecasts for RA requirements for a broader region.

The ISO's proposal for a larger regional forecasting body may make it difficult for stakeholders like ORA to engage in the important process of forecasting. These issues have a direct impact on ratepayers, whom ORA is legislatively-mandated to represent. A transparent process for regional forecasting and other activities that provides opportunities for participation and representation must be developed. California has many unique and progressive programs related to issues such as climate change, the environment, and ratepayer concerns. The CEC

¹ ISO Regional Resource Adequacy Issue Paper ("Issue Paper"), December 9, 2015, p. 7.

² Issue Paper, p. 4.

³ California Public Utilities Code Section 380.

process for developing load forecasts accounts for California's unique efforts, such as ambitious energy efficiency programs, within California. It is not clear how California's programs, or those of other states, can be properly analyzed and reported in a regional effort to arrive at region-wide LSE system RA requirements or what the process will be for a larger regional forecasting body to incorporate input and address concerns from states' stakeholders. The ISO should address these issues as part of the regional RA initiative.

The ISO notes that a planning reserve margin (PRM) and system RA capacity requirements may need to be standardized to fairly assess RA needs across the region.⁴ Variation in reserve margins amongst LRAs would result in unequal contribution to regional reliability. Currently, PRMs vary between California and other states. The appropriate PRM, which balances reliability and loss of load events, along with associated ratepayer costs and impacts, becomes a key topic for discussion in a potential regional BAA.

The CPUC and the ISO use cost allocation methodologies to share the costs and RA capacity of resources needed to maintain system reliability. A regional BAA would need system resources to maintain reliability, and the costs and capacity allocations of newly constructed resources would require a system to allocate costs and capacity. This issue creates controversy in California and will likely generate similar, and perhaps greater, controversy in a regional BAA. Somewhat similarly, California's growing need for flexible resources to address the intermittency of expanding wind and solar resources drives flexible capacity requirements in the CPUC's RA program. Fairly assessing and apportioning flexible capacity would be challenging to a new regional entity. In order to allocate costs fairly, ORA recommends that the current cost allocation methodologies utilized in the CPUC's LTPP and RA proceedings be considered for adoption, at least initially, into any potential regional RA rules.

The ISO Issue Paper identified the following four issues that may need to be revised for regional RA:

- 1. Revise the methodology to determine maximum megawatt (MW) amount of import capability.**

Currently, the ISO's import methodology counts power flowing from resources outside of the ISO BAA through interties into the ISO BAA. Following the potential integration of the ISO and PacifiCorp, power flowing between the ISO and PacifiCorp would no longer fit the current tariff definition of imports into California. The power flowing within an enlarged BAA, as well as power imported from outside a new BAA, would need to be studied by the ISO. The ISO may need to address potential problems that could hinder RA compliance if the current ISO maximum import capability (MIC) methodology is utilized. For example, will congestion issues within areas of the BAA require changes to import classifications and a new methodology for calculating imports?

⁴ Issue Paper, p. 9.

2. Add tariff provision to account for transfer capability constraints between large electrical locations.

Limited transfer capability along transmission paths should be recognized when procuring system RA capacity. The Path 26 counting constraint in the CPUC's RA program attempts to fairly assess and distribute allocations to LSEs that seek to utilize Path 26. The CPUC's Path 26 methodology was developed and has evolved with stakeholder input. This methodology offers a possible model for other transmission transfer constraints. Similarly, the nature and size of other constraints in a potential regional BAA would need to be assessed before stakeholders can develop an equitable solution to reflect those constraints in order to meet RA requirements.

3. Add new default tariff provisions to determine counting of resource MWs toward RA obligations.

ORA does not endorse a standardized regional approach for counting rules as suggested by the ISO in its Issue Paper.⁵ Currently in California, the LRAs have the ability to determine the QC of resources to meet RA requirements. ORA requests that the ISO provide information on QC methodologies used by entities in the proposed new BAA.

The California State Legislature mandated that the CPUC in consultation with the ISO develop resource adequacy requirements for all LSEs.⁶ Under its RA program, the CPUC determines the QC of resources seeking to provide RA capacity. The QC rules evolve in the annual RA proceedings at the CPUC. To support California's environmental goals and reliability, the CPUC's RA program regularly modifies its QC counting rules to consider new and evolving resources such as energy storage, supply-side demand response, and distributed generation. While ORA shares the ISO's concerns regarding "capacity leaning" if QC rules created by various LRAs fail to provide equivalent levels of reliability, a standardized regional approach may not be an optimal solution given many questions that will need to be addressed. For example, it is unclear how capacity values for solar may vary between LRAs if California adopts an ELCC methodology which will produce lower QCs for solar resources as the penetration increases. Should the QC of solar resources be lowered in all states due to increased solar penetration in California? Is the grid value of an intermittent renewable resource in Wyoming the same as a similar resource built in California? Should the rules for distributed resources in California be the same as those in other states? What will be the QC value of resources whose MWs are moved among states? If regional RA is adopted, ORA recommends allowing each LRA to create its own QC methodology. However, the regional RA initiative would need to address and potentially mitigate any imbalances related to QC calculation variations amongst LRAs.

4. Determine the development and publishing of annual lists of qualifying capacity of resources.

⁵ Issue Paper, p. 13.

⁶ California Public Utilities Code Section 380.

The development and publication of annual lists of the QC of resources work well in California. If the issue of determining QC values is resolved, a regional entity should develop and publish annual lists similar to the current system used by the ISO.

ORA notes other issues related to regional RA which will require stakeholder involvement and consensus decisions. The Issue Paper includes a discussion of the various types of RA capacity, establishing deliverability, deliverability of distributed generation, net qualifying capacity, effective flexible capacity, resource showings and compliance, bidding and scheduling requirements, resource performance incentives, substitution rules for RA resource outages, and backstop provisions. All of these issues, in addition to the specific issues noted for tariff revisions on page 3 of the Issue Paper will need further evaluation and stakeholder input.

Furthermore, the subjects in the Issue Paper do not address changes that may be required to the full gamut of rules within the California RA program. ORA supports the CPUC's current RA program and does not wish to see a regional RA program interfere with California's ability to guide its future on behalf of its ratepayers and its state goals.