California ISO

Stakeholder Comments Template

RA Enhancements

This template has been created for submission of stakeholder comments on the straw proposal part two that was published on February 28. The paper, Stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at:
http://www.caiso.com/informed/Pages/StakeholderProcesses/ResourceAdequacyEnhancements.aspx

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on March 20.

Submitted by	Organization	Date Submitted
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Please provide your organization's comments on the following issues and questions.

A critical concern for CLECA[1] is how the State's goals regarding greenhouse gas emissions and renewable portfolio are balanced against concerns about ratepayer costs and reliability of the electric grid. CLECA supports California's climate goals, but we are concerned about reliability because an unreliable electric grid will increase production costs. Since industrial customers compete in out-of-state and international markets, they cannot just pass higher electricity and production costs along to their customers. Thus, reliability and the level of electricity rates is extremely important to the viability of industrial businesses in California. The cost of electricity impacts the State's climate goals, because keeping the production of cement, steel, minerals, industrial gases, and

[1] CLECA is an organization of large industrial electric customers of Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (SCE); the member companies are in the steel, cement, industrial gas, mining, pipeline, cold storage, and beverage industries and share the fact that electricity costs comprise a significant portion of their costs of production. Some members are bundled customers, others are Direct Access (DA) customers, and some are served by Community Choice Aggregators (CCAs). CLECA has been active in CPUC proceedings since the early-to-mid 1980s and in CAISO proceedings since its inception.

beverages in California enables their manufacture where energy is cleaner and avoids additional emissions associated with transportation from out-of-state facilities. Since California seeks to avoid greenhouse gas leakage in the electric energy sector as part of its climate change policy, it should also be concerned about leakage from critical industries moving outside California. A key issue in this initiative is how the State's broader goals for a cleaner electric grid per SB 100 are achieved while meeting the reliability needs of the electric grid in a least cost manner.

CLECA appreciates the effort by the CAISO to examine the current Resource Adequacy rules and examine what changes are necessary to maintain reliability. This is important because the grid is transitioning from numerous resources that are available almost in all hours to many resources that are dependent on wind and sun. The pending retirement of coastal once through cooling thermal generation will accelerate this transition.

1. Review of counting rules in other ISO/RTO's

Please provide your organization's feedback on this topic, described in Section 4.1. Please explain your rationale and include examples if applicable.

The report includes a summary and comparison of how the different ISOs perform resource accounting using various measures such as Qualified Capacity or Unforced Capacity Requirement (UCAP).[2] The UCAP includes a reduction to account for a forced outage rate. However, the report does not include a discussion of how the other ISOs determine their Planning Reserve Margins (PRMs). Do the other ISOs' PRMs have an embedded forced outage rate or is the forced outage rate excluded because of the UCAP calculation? How does the planning target metrics align with the annual or monthly reporting by participants? This is a central issue in evaluating the counting rules. The Draft Final Proposal should address these questions.

[2] In general, UCAP = Capacity * (1 – Forced Outage Rate).

2. Capacity counting and availability best practices

Please provide your organization's feedback on this topic, described in section 4.2. Please explain your rationale and include examples if applicable.

CLECA supports reviewing the Resource Adequacy Availability Incentive Mechanism (RA AIM), as it has been problematic in achieving its objective. It can result in load serving entities being reluctant to show additional capacity above the minimum requirements due to the resulting replacement obligations; the replacement obligations may not always be necessary for reliability purposes, such as during cool periods during the summer. RA AIM is also problematic for weather-sensitive demand response programs which can deliver their maximum potential during heat waves for the forecasted monthly peak, but cannot use that value in a supply plan because they cannot perform at the same level during cooler periods in the month. If the higher value was listed on supply plans it would require costly replacement which is not needed during cooler periods. This increases procurement costs because other capacity must be acquired to meet the target capacity, when the weather-sensitive program is still providing value to meet the peak. The CAISO's proposal to use UCAP appears to resolve some of these issues but creates other problems due the existing PRM construct.

The 15% PRM established by the California Public Utilities Commission (CPUC) includes an amount to cover forced outages that occur in the fleet, as well as reserve requirements and load uncertainty. Therefore, using UCAP in the accounting to meet the capacity target will lead to over-procurement because it will double count the forced outages. For example, assume the fleet forced outage rate is 5%; then, to meet 50,000 MW of load, the additional capacity required just for outages would be 2,500 MW. With a 15% PRM, the total target capacity need would be 57,500 MW. (The other 5,000 MW is for reserves and load forecast uncertainty.) However, using the UCAP with a 5% forced outage rate in the resource accounting to meet the target capacity would require 60,526 MW[3] of capacity, which is an excess of 3,026 MW over the target. This would result in an

[3] Capacity Target = (50,000 MW Load * (1 + 15% PRM)) = 57,500 MW
Capacity Required = (57,500 MW Capacity Target / (1 – 5% forced outage)) = 60,526 MW

unnecessary $229 million of annual cost based upon CAISO's capacity procurement mechanism soft-offer cap of $75.68/kw-year.

This results in conflicting resource target requirements for load serving entities between the CPUC and CAISO accounting rules. Using the above example, to meet CPUC requirements, only 57,500 MW would be required. However, this would be insufficient under the UCAP accounting resulting in another 3,026 MW of procurement. This would lead to an unneeded level of increased of CAISO backstop procurement, contrary to the universal goal of minimizing CAISO backstop procurement.

The CAISO is also seeking input on the inclusion of an adjustment for load forecast uncertainty to the 1 in 2 load forecast.[4] Weather variation's impact on load is already embedded into the PRM required to achieve a result of 1 outage in 10 years. The stochastic modeling to determine the PRM already includes load variation that is above a normal weather year. Similar to the UCAP issue, this would result in double counting of load variation and lead to excess procurement.

Changes to the definition of capacity procurement requirements will require a coordinated effort between the CAISO and the CPUC to prevent unnecessary costly procurement. The Draft Final Proposal should detail how this needed coordination will occur to ensure needless backstop procurement is avoided.

3. RA counting rules and assessment enhancements

Please provide your organization's feedback on the following sub-section topics, described in section 4.3.

Please indicate any analysis and data review that your organization believes would be helpful to review on the this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

a. Calculating NQC, UCAP, and EFC values topic, described in section 4.3.1.

Please see the response to question 2.

[4] CAISO Straw Proposal at 21.

b. Determining System, Local, and Flexible RA requirements topic, described in section 4.3.2. Please explain your rationale and include examples if applicable.

Please see the response to question 2.

c. RA showings, supply plans, and assessments topic, described in section 4.3.3. Please explain your rationale and include examples if applicable.

CAISO proposes to allocate the cost to resolve any collective deficiency of system or flexible capacity based upon load ratio share to all load serving entities. Given that load serving entities have different load shapes and varied penetration of behind the meter solar resources, in addition to varied amounts of intermittent renewable resources in their portfolios, the contribution to *flexibility* need is likely to differ among these entities. For example, a load serving entity with a flat net-load shape which does not contribute to flexibility need, would get an unfair allocation of the cost of relieving a collective deficiency under the load ratio share approach.

In the past, CLECA has supported allocation of flexible RA responsibility of the basis of the contribution to flexibility need; CLECA continues to support this rational approach as it is more aligned with a guiding principle of cost-causation. If each load serving entity has met its obligation and there is still a collective deficiency, the load ratio share is <u>not</u> an appropriate allocator. In this instance, as with responsibility for flexible capacity procurement, we see merit in allocating the cost of relieving a collective flexible capacity deficiency based upon each load serving entity's contribution to flexibility requirements instead of load ratio share. The Draft Final Proposal should reject a load ratio share allocation of the costs of any collective flexible deficiency and instead use an allocation based on the actual contributions to flexible need.

d. Backstop capacity procurement topic, described in section 4.3.4. Please explain your rationale and include examples if applicable.

CLECA supports the CAISO's proposal not to engage in any backstop procurement for local RA for more than 1 year. This will allow a load serving entity to resolve its shortfall in the next RA cycle.[5]

4. Review of RA import capability provisions

Please provide your organization's feedback on the following sub-section topics, described in section 4.4.

Please indicate any analysis and data review that your organization believes would be helpful to review on the this topic. Please provide details and explain your rationale for the type of data and analysis that you suggest.

a. Maximum Import Capability Calculation review, described in section 4.4.1. Please explain your rationale and include examples if applicable.

CLECA does not have any specific comments at this time.

b. Available Import Capability Allocation ~~R~~[P]rocess review, described in section 4.4.2. Please explain your rationale and include examples if applicable.

CLECA does not have any specific comments at this time.

Additional comments

Please offer any other feedback your organization would like to provide on the RA Enhancements straw proposal – part two.

The Draft Final Proposal should verify that bid insertion rules would not be used for Proxy Demand Resources and Reliability Demand Response Resources.

[5] CAISO Straw Proposal at 27.