The CAISO received comments on the topics discussed at the September 29, 2021 stakeholder meeting from the following:

1. California Community Choice Association (CalCCA)
2. Pacific Gas & Electric (PG&E)
3. Southern California Edison (SCE)

Copies of the comments submitted are located under “Clarifications to the Reliability-Must-Run designation process – September 29, 2021” at: https://stakeholdercenter.caiso.com/StakeholderInitiatives/Clarifications-to-reliability-must-run-designation-process

The following are the CAISO’s responses to the comments.

1. California Community Choice Association (CalCCA) Submitted by: Shawn-Dai Linderman		
No	**Comment Submitted**	**CAISO Response**
1a	**Provide a summary of your organization's comments on the Clarifications to Reliability Must-Run (RMR) Designation Process straw proposal:** The California Community Choice Association (CalCCA) appreciates the opportunity to comment on the Clarifications to the RMR Designation Process straw proposal. The CAISO's proposal to continue to designate RMRs as only local when there is both a local and system need does not effectively reflect cost causation principles and does not allocate costs in a manner that reflects benefits received. Alternatively, the California Independent System Operator (CAISO) should adopt a hybrid cost allocation methodology to assign RMR capacity costs to those who receive the benefit. The CAISO's existing process of re-evaluating RMR contracts annually will ensure consistency between new and existing RMRs under a new cost allocation methodology. While ideally, system RMRs would not be a typical business practice, current realities necessitate a policy change to ensure costs are allocated appropriately until an adequate system Resource Adequacy (RA) reserve margin can be reestablished.	Thank you for your comments. Your preference has been noted.
1b	**Provide your organization's comments on the primary reliability need topic, as described in section 3.1:** **Principles:** The CAISO's principles for assessing the primary reliability need are 1) cost causation, and 2) allocating costs in a manner that reflects the benefits received. However, the CAISO's proposal to continue to designate RMRs as only local when there is both a local and system need does not effectively meet these principles. By allocating costs only based on the local need, costs are not being allocated based on all the benefits received. This is because all local capacity inherently also provides system capacity. When an RMR meets both a system and local need, it is not appropriate to allocate costs only to load-serving entities (LSEs) in the local area because all customers will benefit from the reliability to the system afforded by the RMR. The CAISO suggests the number of hours of expected need should inform how RMR costs are allocated.[1] CalCCA disagrees. The number of hours of expected	The RMR contracts are not the same as RA contracts and the RMR process it is not a back-stop for the RA process. The CAISO does not

[1] Straw Proposal at 3.

No	Comment Submitted	CAISO Response
	need should not inform how to allocate capacity costs. The costs of RA capacity do not depend on how often they are used to meet grid needs. Once a resource is designated as an RMR, the CAISO will dispatch it according to the resource's energy costs and grid needs, including both local and system needs. Even if the CAISO designates a resource as a local RMR, the market will dispatch it to meet system needs if the resource is economic. When there is a system and local capacity need, all LSEs benefit from capacity the resource provides, regardless of how often the resource is dispatched for each need. Additionally, the CAISO suggests that local RA credits are only useful to LSEs within the transmission access charge (TAC) area where the resource is located. Both local and system RA credits can be allocated such that they are fully utilized. The local RA in the Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) areas are procured through a central procurement entity (CPE). In this case, all local RA credits can be allocated to the CPE, which in turn will reduce the amount of local RA the CPE must procure to meet local needs. In doing so, the LSEs in the local area will experience reduced CPE costs that have already been provided by the RMR for which they pay. The system RA credits can then be easily allocated by the California Public Utilities Commission (Commission) to all Commission jurisdictional LSEs. This leaves only the San Diego Gas & Electric (SDG&E) TAC area for which there is not a CPE. At present, the CAISO has five RMR agreements in place of which two are for local. Neither of these resources are in the SDG&E TAC area.[2] CalCCA believes that mechanisms can be developed to allocate local and system credits in the event that a local RMR in the SDG&E TAC area become necessary. **Hybrid Cost Allocation** Rather than identify a primary reliability need, CalCCA supports a hybrid cost allocation for RMRs that meet both a local and system reliability need. The CAISO should use the publicly available RA costs published by the Commission in their annual RA reports to inform cost allocation. As the CAISO notes, local RA sometimes has a premium. The amount of the premium should be the basis for cost allocation under a hybrid cost allocation. Under a hybrid scenario, cost allocation of the RMR credit could be done proportional to the local RA premium so that those entities who will benefit from the local RA credit	allocate RMR capacity costs but rather all the costs required to run the resource under a FERC approved cost based approach. The biggest benefit of an RMR resource is to prevent loss of load under expected reliability contingencies/shortages and as such the local load will "benefit" hundreds and thousands or hours per year when the risk of loss of load would exist under contingency conditions whereas the system load will "benefit" tens of hours per year. Under a theoretical hybrid approach the cost split would be in the range of 10-100 local for every 1 part system. The CAISO does not agree with the CalCCA assumption. References to CPE and CPUC jurisdictional LSEs has no bearing in the usefulness of local RA credits for all LSEs in the CAISO. About half the LSEs in the CAISO are non-CPUC jurisdictional LSEs. Example: Local RA credit in PG&E local TAC given to the city of Anaheim (under both the system first or hybrid allocation) has no value to them because Anaheim has no load in PG&E TAC. Whereas if local is considered the primary need, Anaheim would not receive either a cost or a local RA credit, those will all go to LSEs with load in the PG&E TAC and they will be useful. Your preference has been noted. The only available CPUC RA reports are two year's old. Currently only year 2019 is available. Conditions in 2021 (and RA prices) are potentially far different then RA year 2019.

[2] http://www.caiso.com/Documents/Decision-Conditional-Approval-Extend-RMR-Contracts-Presentation-Sep-2021.pdf#search=rmr

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	will pay more to account for the local benefits they receive, and entities who do not would pay the system price. As a starting point, if there is no premium for local, then the allocation of cost should be 50 percent for system and 50 percent for local. As an example, suppose the RMR in a local area has a premium of 20 percent, LSEs within the local TAC should pay 70 percent (50 + 20) of the total RMR costs, and LSEs not within the local TAC should pay 30 percent (50 - 20) of the total RMR costs.	A 20% premium would result in a 55% to 45% split (55/45=1.22) not 70-30. A 70-30 split will be the result of a 233% premium.
	A hybrid cost allocation most closely assigns capacity costs to those receiving the benefit. However, if the CAISO determines a hybrid cost allocation is not implementable in a timely manner, the CAISO should allocate RMR costs on a system basis if absent any local need, the CAISO would still need to RMR the resource to meet system needs. This is closer to the appropriate policy outcome by allocating costs to all those who receive the benefits.	For the reasons explained herein above the CAISO disagrees with CalCCA view of RMR "benefits".
	New versus Existing RMRs The CAISO correctly expressed concern with some stakeholders' suggestions that only new RMR contracts be subject to a new type of RMR designation adopted through this process. As the CAISO notes, this inconsistent treatment would not reflect current reliability needs of the system and result in unfair cost and RA credit allocation.[3] This inconsistency can be easily mitigated with the CAISO's existing process of revisiting the need for an RMR every year. The RMR contract is a 12-month contract that is re-evaluated and renewed at the CAISOs discretion each year. In such circumstances, existing RMRs would be evaluated annually and if the need for the RMR changes such that it was now needed for system as well as local (or only needed for system and not for local) the allocation would change at that point. In such a circumstance, the issue of a similarly situated resource being allocated differently would be mitigated.	The CAISO agrees with CalCCA conclusions, designation need to be consistent and re-evaluated every year.
	Timing of System RMR Need The CAISO expressed they expect the system RMR need to be eliminated in a "short time" and that "the ISO has never had a system-wide reliability need before 2021 and does not expect that to happen again after system reliability margin is restored."[4] While the CAISO suggests they expect the system reliability need to be eliminated soon, CalCCA requests clarification from the CAISO on specifically when they believe a sufficient system reliability margin will be restored such that the CAISO no longer needs to rely on system RMRs.	

[3] Straw Proposal at 5.
[4] Straw Proposal at 6.

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	Commission and California Energy Commission (CEC) studies indicate that all existing resources on the system are needed to maintain reliability at this time, and while LSEs are actively procuring to meet procurement orders adopted by the Commission, it will take time for new resources to come online such that a sufficient system reserve margin is reestablished. As stated above, if the CAISO determines a hybrid cost allocation is not implementable in a timely manner, the CAISO should allocate RMR costs on a system basis (if absent the local need, the resource would receive an RMR designation for system needs) to ensure costs are allocated appropriately until a sufficient system reserve margin is reestablished.	The CAISO expects that contracts signed this year under the CPUC order to be operational in two years' time. Most batteries can be built in less than two years. The great majority of new resources are expected to be battery technology and to be installed at existing sites. Your preference has been noted.
1c	**Provide your organization's comments on the proposed initiative schedule and EIM Governing Body role, as described in section 4:** CalCCA supports the EIM Governing body role for this initiative, as RMRs are meant to ensure reliability of the CAISO balancing authority area and only apply to CAISO internal resources.	Thank you for your support.
1d	**Additional comments on the Clarifications to RMR Designation Process straw proposal:** CalCCA appreciates the opportunity to submit comments on the Clarifications to the RMR Designation Process Straw Proposal. CalCCA would like feedback from the CAISO on the following questions related to the comments above: **Hybrid Cost Allocation**: Can the CAISO consider a hybrid cost allocation using the publicly available RA costs and provide input on the feasibility of such an approach? **Timeframe of System RA Need**: Can the CAISO clarify specifically when they believe a sufficient system reliability margin will be restored such that the CAISO no longer needs to rely on system RMRs?	Thank you for your comments. The CAISO does not believe that generic two year old RA prices are a good indicator for a hybrid cost allocation. The CAISO expects that in two years' time system reliability margin will be restored and the CAISO can start releasing some of the resources under system RMR.

2. Pacific Gas & Electric (PG&E)
Submitted by: Pedram Arani

No	Comment Submitted	CAISO Response
2a	**Provide a summary of your organization's comments on the Clarifications to Reliability Must-Run (RMR) Designation Process straw proposal:** Pacific Gas and Electric Company (PG&E)'s comments include questions from the straw proposal and presentation provided on September 22 and 29. PG&E also provides additional comments relating to the Channel Islands RMR and other generating facilities whose RMR designation could change in the future.	Thank you for your comments.
2b	**Provide your organization's comments on the primary reliability need topic, as described in section 3.1:** PG&E has the following questions for the CAISO regarding the primary reliability need topic: 1. When comparing the cost of implementation of the local first, hybrid, and system first approaches, the CAISO describes the implementation of these approaches as high and low cost. Please provide a frame of reference to what those descriptions mean? Would low cost be in the $10k, $100k, $1M? What is high cost? 2. Why does the CAISO assume that system mitigation will take only 2-3 years? Given the large amount of capacity that is needed to be interconnected in the next 2-3 years to address the system need, is there any concern that the transmission infrastructure needed to enable these resources to be fully deliverable will not be completed in 2-3 years? 3. Since an RMR contract is a capacity contract, why does the CAISO utilize the hours of expected need as a proxy for customer benefit? PG&E customers receive the benefit of resource adequacy credits, which are not based on actual hours of use. o Can the CAISO provide greater clarity on why a local RMR need is for thousands of hours when the local RMR need is based on a single transmission constraint that determines the minimum capacity requirement from the LCT studies? 4. Does implementation of the local first or system first options require any software changes? If they do, when would they be available? Why would it take until 2024 to implement the hybrid approach software changes?	All CAISO projects involving changes to market software are complex and expensive. They involve multiple systems and business practices of the CAISO and its market participants. In 2018, the CAISO engaged in a stakeholder initiative to arrive at the current pro forma RMR agreement and related tariff provisions. This initiative required approximately two years, a large group of SMEs and a large budget to implement. The CAISO would expect redesign in RMR to be very expensive, with relative expenses depending on the complexity of design and the number of systems involved. Many batteries are proposed to be installed at existing sites and they can potentially transfer deliverability from other existing resources (like solar, fossil fuel etc.). See response to 1b above. In addition, the RMR contract is not a capacity contract. The RMR contract is a cost of service contract for the entire plant and its cost and value are not based on hours of use. RMR contract cost of service is based on FERC cost of service ratemaking principles and has nothing to do with RA capacity pricing concepts. RA credits are not the most import benefit of the RMR contract, they represent a secondary benefit. See the yearly graph charts for each one of the local areas and sub-areas in the latest LCT study report. Local or system first do not require software changes. RMR cost allocation and credits for RA year 2023 need to be in the CAISO systems before the end of October 2022. The CAISO software

No	Comment Submitted	CAISO Response
		development is already fully committed to other objectives for fall 2022 implementation.
2c	**Provide your organization's comments on the proposed initiative schedule and EIM Governing Body role, as described in section 4:** PG&E supports the proposed schedule and agrees that the initiative will not require EIM Governing Body briefing.	Thank you for your support.
2d	**Additional comments on the Clarifications to RMR Designation Process straw proposal:** In order to eliminate the potential for unfair cost allocation related to extensions of RMR contracts for units that are no longer needed to meet the original need identified to support their initial designation as RMR units, the CAISO should amend its tariff to (1) include as a material term in the pro forma RMR contract language that specifies whether the unit has been designated to meet local or system area reliability needs, and (2) modify Section 2.2(d) of the pro forma RMR contract to allow the CAISO to redesignate the generating unit(s) immediately upon termination or non-extension if the reliability need for the designation changes.	When the CAISO designates are resource for RMR services, the RMR owner files a rate case using the RMR pro forma contract. The RMR owner's cost of services is the same regardless of whether the designation is for local or system. It is true that the costs are allocated differently and representatives of customer groups not faced with an imminent cost allocation may choose not to intervene. This is not inherently unfair. In all cases, ratepayer interests are represented and customers concerned about potential cost allocation would be welcome to intervene if they are concerned and believe their interests need to be represented. Further, representatives of customer groups may choose to participate in the rate setting process out of concern that cost allocation may change for a resource in the future. The CAISO does not agree that the RMR owner should be forced to file a new rate case under such circumstances. That would seem far more unfair to cause a resource fundamentally seeking to retire to repeat these complex and time consuming rate setting processes.

3. Southern California Edison (SCE) **Submitted by: Aditya Chauhan**		
No	**Comment Submitted**	**CAISO Response**
3a	**Provide a summary of your organization's comments on the Clarifications to Reliability Must-Run (RMR) Designation Process straw proposal:** Southern California Edison (SCE) provides these comments on the California Independent System Operator's (CAISO) Straw Proposal and Meeting on Clarifications to Reliability Must-Run designation process (CRMR).[5] SCE continues to support the CAISO's approach of considering local as the primary reason for procurement when multiple reasons exist. SCE also supports the CAISO's proposal on re-powering.	Thank you for your comments. Thank you for your support.
3b	**Provide your organization's comments on the primary reliability need topic, as described in section 3.1:**	
3c	**Provide your organization's comments on the proposed initiative schedule and EIM Governing Body role, as described in section 4:**	
3d	**Additional comments on the Clarifications to RMR Designation Process straw proposal:**	

[5] https://stakeholdercenter.caiso.com/StakeholderInitiatives/Clarifications-to-Reliability-Must-Run-Designation-Process