Submit comment on Straw Proposal

Initiative: Clarifications to reliability must-run designation process

1. 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.

2. 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 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.

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[1] Straw Proposal at 3.

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 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 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.

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.

Timing of System RMR Need

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

3 Straw Proposal at 5.

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. 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.

3. 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.

4. 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 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?

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4 Straw Proposal at 6.