Submit comment on Phase 2 Straw Proposal

Initiative: Resource adequacy enhancements

1. Provide a summary of your organization's comments on the phase 2 straw proposal:

California Community Choice Association (CalCCA) appreciates the opportunity to comment on the Resource Adequacy (RA) Enhancements Phase 2 Straw Proposal. In summary:

- CalCCA supports the California Independent System Operator's (CAISO's) clarification for eligible intermittent resources;
- The CAISO should work with stakeholders to address Investment Tax Credit (ITC) considerations prior to adopting a must offer obligation for the charge portion of storage resources;
- CalCCA recommends the CAISO maintain the real-time must offer obligation and zero-dollar imbalance reserve bidding requirement for RA resources; and
- CalCCA supports the CAISO's proposal to modify the flexible resource adequacy program in three stages and offers a recommendation regarding exemptions to the economic bidding requirement.

2. Provide your organization's feedback on the Must Offer Obligations and Bid Insertion topic as described in section 4.1:

Clarifications to the Eligible Intermittent Resource Must Offer Obligation

CalCCA supports the CAISO's clarification for eligible intermittent resources that any energy above the resources' net qualifying capacity (NQC) cannot be used to support an export from non-RA capacity and that the RA capacity under offer obligation to the CAISO is for all energy necessary to derive the shown RA value. This is appropriate for resources with an NQC value established through an effective load carrying capability methodology.

ITC Considerations

CalCCA is concerned with the CAISO's proposal that storage resources must bid their full charge and discharge capability to fulfill their must offer obligation. The CAISO indicates its expectation that resources manage ITC grid charging restrictions through bidding. However, resources cannot fully capture the costs of losing ITC credits in their bids in all instances. When the next megawatts (MW) of grid charging results in the resource losing their ITC credit, a $1000 bid may not be sufficient to reflect the cost of the lost ITC credit. The CAISO must provide resources a mechanism to maintain their ITC credit because contracts have already been executed by load-serving entities (LSEs) to procure ITC-eligible resources prior to the development of RA rules for those resources.

The CAISO indicated on the stakeholder call that it would further consider how to accommodate ITC requirements in the Energy Storage Enhancements initiative. The CAISO should allow solutions to develop in that stakeholder process prior to modifying the storage must offer obligation to require bidding of the full charge and discharge capability.

Crossover with Day-Ahead Market Enhancements (DAME) Initiative

The CAISO proposes a standard 24 by 7 must offer obligation in day-ahead and real-time through the DAME transitionary period. As stated in CalCCA's comments to the DAME second revised straw proposal, CalCCA does not support the CAISO's proposal to relieve RA resources of their real-time must offer obligation after the day-ahead market if they do not receive a day-ahead award once the DAME transitionary period ends.[1] Instead, CalCCA recommends the CAISO maintain the real-time must offer obligation for RA resources. The CAISO should also require RA resources bid zero dollars and not receive the marginal price for imbalance reserves until the impacts of removing the zero-dollar bidding requirement can be evaluated within the Extended Day-Ahead Market (EDAM) initiative.

As outlined in CalCCA's DAME comments, because RA resources are already paid to be available to provide energy through real-time, the CAISO should not release that capacity already paid for after the day-ahead market. The CAISO proposes the transition period in part to allow time for RA contracts to be updated to account for the removal of the RA real-time must offer obligation and zero-dollar imbalance reserve bidding requirement. However, the ability for LSEs to renegotiate RA contracts already executed to account for this change will be extremely difficult given tight supply conditions in the RA market. The result of implementing this change under current RA market conditions could result in LSEs paying for resources to be available to provide energy twice; first, within the RA market when procuring RA capacity, and second, within the day-ahead market when procuring imbalance reserves and reliability capacity. As such, CalCCA has significant concerns around the feasibility of renegotiating RA contracts at a reasonable price to facilitate this structural change without significant increases in ratepayer costs.

Additionally, if RA resources are relieved of their must offer obligation after the day-ahead, the CAISO market would not receive the full benefit of having all resources and their attributes that have already been paid for available to meet grid needs. Relieving RA resources of their real-time must offer obligation after day ahead could result in the

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[1] CalCCA Comments to the Day-Ahead Market Enhancements Second Revised Straw Proposal: https://stakeholdercenter.caiso.com/Comments/AllComments/0860b0d0-5bc0-48f4-af5e-b63b28fb71b0#org-7da099a9-4c56-4d71-9fb9-2fe8f7c6da05.

CAISO needing to rely on out-of-market actions to access the resource in the event conditions in real-time require additional resources beyond what is procured through the imbalance reserve or reliability capacity products to maintain grid reliability. Given the costs of making resources available through real-time are already covered in RA contracts, the CAISO should not limit its access to resources already procured to maintain grid reliability, and instead, should maintain the real-time must offer obligation for RA resources within this initiative.

Finally, CalCCA supports the CAISO requirement for RA resources to bid zero dollars for imbalance reserves and recommends RA resources be required to bid zero dollars and not receive the marginal price for imbalance reserves until the impacts of removing the zero-dollar bidding requirement can be evaluated within the EDAM initiative. This is consistent with the current RUC process. CalCCA understands the rationale behind removing the zero-dollar bidding requirement under an EDAM where resources in other balancing authority areas would be bidding for the same products without the zero-dollar bidding requirement. However, given the difficulty LSEs will face renegotiating contracts under current RA market conditions, the CAISO should not consider removing the zero-dollar bidding requirement within the DAME initiative. Additionally, the CAISO should not pay RA resources the marginal price for imbalance reserves and reliability capacity since existing RA contracts already compensate resources for being available through real-time. Instead, the CAISO should maintain the zero-dollar bidding requirements and continue not to pay resources for capacity already accounted for in RA contracts indefinitely until this change can be fully evaluated within the EDAM initiative.

3. Provide your organization's feedback on the Flexible RA topic as described in section 4.2:

Staged Approach to Modify the Flexible RA Program

CalCCA supports the CAISO's proposal to modify the flexible resource adequacy program in three stages, in which:

- Stage 1 would maintain the existing flexible RA program and require all resources eligible of providing imbalance reserves to submit economic bids in the day-ahead market and bid zero dollars for imbalance reserves;
- Stage 2 would evaluate whether a separate flexible RA requirement is necessary; and
- Stage 3 would implement new flexible RA program or sunset the existing flexible RA program.

This approach will allow the CAISO to examine whether a separate flexible RA requirement is needed after the modifications to self-schedule rules proposed in this initiative and the imbalance reserve product proposed in DAME are in place. Additionally, broader RA structural changes are being examined in the California Public Utilities Commission's RA reform track. The outcome of that effort may further reduce the need for a separate flexible RA program and should be considered in the CAISO's evaluation in Phase 2.

Further, CalCCA agrees with the CAISO that LSEs will procure with the CAISO's predictable net-load ramps in mind, considering trade-offs among cost, ramp rate, and renewable portfolio obligations and targets.[2] Therefore, CalCCA supports a staged approach that includes an evaluation of whether a separate flexible RA requirement is needed. If the CAISO finds that the system and local RA programs adequately address the CAISO's operational needs following the proposed changes, it would be prudent for the CAISO to eliminate the flexible RA requirements, as it would significantly reduce the complexity of the RA program.

Exemptions to the Economic Bidding Requirement

As described in the must offer obligation comments above, storage resources must have a mechanism to allow them to schedule in such a way that they can meet both the must offer obligation and generate energy that allows them to charge the storage component with the Variable Energy Resource (VER) component when it is economical to do so. The CAISO should not penalize hybrid or co-located resources for self-scheduling storage charging in day-ahead with VER production to displace grid charging.

4. Please provide your organization's feedback on the proposed EIM Governing Body role as described in section 5:

No comments at this time.

5. Please provide your organization's feedback on the Appendix as described in section 7:

No comments at this time.

6. Additional comments on the Resource Adequacy Enhancements phase 2 straw proposal:

The CAISO intends to take Phase 2 elements to the Board of Governors in February 2022. Given the interdependencies between these proposals and the DAME initiative, the CAISO should ensure the timing of board approval is aligned for both initiatives, to ensure proposals in this initiative align with the final DAME design.

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2 Resource Adequacy Enhancements Phase 2 Straw Proposal at 18.