Submit comment on final 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 final proposal:

The California Independent System Operator's (CAISO's) final proposal includes a list of principles, incentives, and other issues to consider when evaluating the three alternatives considered within this initiative: local as primary, system as primary, or a hybrid approach. Under a "local as primary" approach, costs for an RMR are allocated to all load-serving entities (LSEs) serving load in the transmission access charge (TAC) area in which the local area is located. Under a "system as primary" approach, RMR costs are allocated to all LSEs in all TAC areas. Under a "hybrid" approach, a portion of RMR costs would be allocated as local and a portion would be allocated as system. In summary, California Community Choice Association (CalCCA) opposes the CAISO's proposal to treat RMRs that meet both local and system needs as local for cost allocation and suggests the CAISO instead adopt either a hybrid or system as primary approach for the following reasons:

- 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;
- The Transmission Planning Process (TPP) is the appropriate venue to guide investment in new transmission including needs to alleviate local area concerns and investment incentives from RMRs alone are likely not strong enough to result in infrastructure upgrades to relieve the local reliability need. Given these factors, RMR cost allocation should follow cost causation as the incentive to build transmission is not sufficient and addressed in other venues; and
- If a hybrid methodology is deemed unimplementable or overly costly, the CAISO should adopt a system as primary methodology to more closely align cost allocation with benefits received with minimal implementation burden.

2. Provide your organization's comments on the primary reliability need topic, as described in section 4.1:

Cost Causation Principles

The CAISO should allocate RMR costs in a manner that reflects benefits received. The current process fails to do this when a resource is needed for both local and system reliability. Under the current process, the costs for local RMR are allocated to all LSEs serving load in the TAC area in which the local area is located. The costs for system RMR are allocated to all LSEs in all TAC areas since the resource serves needs across the entire system. When an RMR meets both a system and local need, it is not appropriate to allocate costs only to LSEs in the local area because all customers will benefit from the reliability to the system afforded by the RMR. Therefore, CalCCA disagrees with the CAISO's classification of which alternative best meets cost-causation principles, which classifies hybrid as best, local as second best, and system as third best. Instead, hybrid should be classified as best, system as second best, and local as third best. This is because local resources inherently meet system needs. When there is a system reliability need for an RMR in addition to a local need, costs and credits should be allocated on a system-wide basis commensurate to those who receive the benefits. While this differs from the CAISO's historical practice of designating resources for local reliability needs only, statewide supply conditions have begun to necessitate RMRs for both system and local needs. As such, the CAISO should modify its allocation methodology so that when an RMR is meeting both reliability needs, costs, and credits are allocated to all customers receiving the benefit of the resource through preferably a "hybrid" or alternatively "system as primary" approach.

The CAISO suggests that the number of hours of expected need for an RMR resource is very high for local, and relatively low for system. However, the number of hours of expected need should not inform how to allocate capacity costs. The final proposal states an RMR contract is a rate based contract for all costs incurred by the resource (including energy) and that the RMR contract is to be used exclusively to meet reliability standards.[1] While this may be true, once a resource is designated as an RMR, it has a must offer obligation to offer into the energy market, just like Resource Adequacy (RA) resources. Once a resource is designated as an RMR and it has an offer obligation into the market, the CAISO will dispatch it according to the resource's energy costs and grid needs, including both local and system needs. The resource will recover energy costs largely through the energy market when the resource is dispatched. 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.

Further, it is unclear why the CAISO is considering modifying existing practices to correctly follow cost causation principles within the Interconnection Process Enhancements Initiative (IPE) initiative but fails to do so here. Within the IPE initiative, the CAISO is considering an alternative cost allocation treatment for network upgrades to local systems where the generation benefits more than, or other than, the customers within the service area of the PTO owning the facilities. The CAISO cites ongoing concerns that "the current practice for local upgrades could unduly impact local ratepayers who are not the sole beneficiaries of the upgrades, but who solely bear their costs." [2] CalCCA submitted comments within IPE supporting the CAISO including this issue within scope as the change the CAISO is considering would ensure costs are allocated to all those who receive benefits.[3] The approach being contemplated in IPE for local upgrades is the correct approach, and the CAISO should be consistent with RMRs.

CalCCA understands that process modifications would be needed to ensure RMR credits are fully useful to those they are allocated to under a hybrid or system as primary approach. CalCCA previously indicated this could be done through the CPE but understands there are LSEs who are not California Public Utilities Commission (CPUC) jurisdictional. To accommodate these LSEs, the CAISO could allocate local credits to the Local Regulatory Authorities (LRA) with LSEs who serve load in the local TAC area and system credits to all LRAs. This way the local credits could be fully allocated to LSEs within the local TAC area and system credits could be allocated to all LSEs. The CAISO should consider this approach under either a hybrid or system as primary approach to ensure credits are fully allocated and useful to those they are allocated to.

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[1] Final Proposal at 7.

[2] *2021 Interconnection Process Enhancements Preliminary Issue Paper*, Sept. 30, 2021 at 9.

[3] CalCCA Comments on IPE Issue Paper, Nov. 2, 2021: https://stakeholdercenter.caiso.com/Comments/AllComments/93e0040c-4e2e-4d37-8b2c-7eb0e7c55aa9#org-402cd7f4-0657-492b-a4b3-42d0250698df.

If separating the local and system RA credits proves to be too difficult, the CAISO should instead use a system as primary approach and simply allocate the RA as a bundled product (both system and local) to all LSEs and LRAs on a load ratio share basis. While this would not recognize the local value for some as a hybrid approach would, it is still preferable to a local as primary approach in which customers in the local area would pay for reliability that is then received by other customers that did not pay.

Transmission Investment Incentives

The CAISO states the responsible utility has an incentive to invest in infrastructure to address local issues that drive local designations, and this incentive is lost if the system need is considered primary. CalCCA previously commented that while this may have been true with a small number of LSEs, the number of LSEs in each TAC area has increased substantially in recent years, diminishing the incentives for the utility to invest in infrastructure to address local reliability needs. [4] The CAISO responded to CalCCA's comments indicating a smaller incentive is still an incentive and better than no incentive.[5] However, if the industry has changed such that the incentives are not large enough to result in any new infrastructure build, these incentives should not be a barrier to changing the cost allocation methodology to appropriately reflect cost causation principles.

CalCCA agrees investments should be made when needed to alleviate local reliability concerns to minimize reliance on RMRs, either through transmission or generation alternatives. The TPP will need to play a larger role in identifying where transmission upgrades need to be built to alleviate local needs and allow resources to retire, given the incentives from RMR costs for a utility to invest in infrastructure upgrades to avoid RMRs are not strong enough to result in infrastructure build that alleviates the local area need.

Given infrastructure investment incentives from RMRs alone are likely not strong enough to result in infrastructure upgrades to relieve the local reliability need, they should not drive the policy on RMR cost allocation, especially given the result is an allocation that is inconsistent with cost allocation principles. Instead, cost allocation should be driven by all reliability benefits provided by the RMR through either a hybrid or system approach.

Timing and Implementation

The CAISO indicates in its final proposal that maintaining local as primary is a simple solution that can be implemented quickly at low cost.[6] While maintaining the status quo is obviously the quickest and cheapest option in terms of implementation time and costs, RMR costs themselves can be substantial and allocating them inappropriately may have a larger impact on customer costs than the implementation costs. The CAISO indicated that the implementation costs of a hybrid methodology would be large but did not compare these costs relative to the costs of RMR contracts. If a hybrid methodology is deemed unimplementable in a timely manner or overly costly, the CAISO should adopt a system as primary methodology to more closely align cost allocation with benefits received with minimal implementation burden.

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4 CalCCA Comments on the Clarifications to the RMR Designation Process Issue Paper, Nov. 31, 2021: https://stakeholdercenter.caiso.com/Comments/AllComments/fe4a33ab-a9f0-4871-92df-4b586d96e3a6.

5 CAISO Responses to Stakeholder Comments at 3: http://www.caiso.com/InitiativeDocuments/ISOResponses-Comments-Clarifications-ReliabilityMustRunDesignationProcessIssuePaper.pdf.

6 Final Proposal at 10.

3. Provide your organization's comments on the proposed initiative schedule and EIM Governing Body role, as described in section 5:

CalCCA supports the CAISO's determination that there is no 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 final proposal:

CalCCA has no other comments at this time.