

California Community Choice Association

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Contact

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1. Provide a summary of your organization's overall comments on the April 29-30 RAMPD Hybrid Stakeholder Working Group and Updated Discussion Paper & Draft Recommendation Plan:

1. Recommendation Plan:

The California Community Choice Association (CalCCA) appreciates the opportunity to comment on the April 29-30, 2024, Resource Adequacy Modeling and Program Design (RAMPD) Working Group (WG) and the Updated Discussion Paper and Draft Recommendation Plan (Discussion Paper). These comments recommend that the California Independent System Operator Corporation (CAISO) move forward with the policy development phase for track 1, track 2, and track 3. These comments also provide recommendations on the backstop and Extended Day-Ahead Market (EDAM) resource sufficiency evaluation (RSE) issues discussed in the working groups. In summary:

- The process for defining the Capacity Procurement Mechanism (CPM) Soft Offer Cap (SOC) works as intended, covering going-forward fixed costs of the marginal resources on the system and mitigating market power.
- The CAISO should not revise the CPM SOC to be reflective of bi-lateral prices, as bi-lateral prices currently do not reflect cost, they reflect scarcity.
- The CAISO's current cost allocation mechanism generally works well and as intended by allocating costs first to entities that caused the need for backstop before allocating costs broadly to all load-serving entities (LSE).
- Any examination of using a different proxy unit as the basis for the CPM SOC, should consider the following: (1) thermal units are still the most likely units to receive CPMs, (2) the costs of alternative proxy units are likely not higher than the costs of thermal units, and (3) generators have the option to demonstrate higher costs to bid a higher CPM price.
- If the CAISO is going to consider an assessment for energy sufficiency, and if there is a need to procure for lack of energy sufficiency, then the CAISO would also need to examine how to allocate backstop costs in a manner that reflects causation.
- The CAISO should consider if there is a need to develop an EDAM RSE failure cure mechanism that allows for the procurement of capacity that more closely matches the need.
- Any evaluation of allocating RSE failure costs consistent with cost causation must recognize that LSE Resource Adequacy (RA) positions are not the only cause of RSE shortfalls.
- The CAISO should not move forward with stakeholder suggestions to move to 100 percent annual showings or to include planned outages into RA requirements.

2. Provide your organization's feedback on the ISO's April 29th presentation on backstop and the backstop panel discussion:

CalCCA appreciates the opportunity to participate in the robust panel discussion on the CAISO's backstop mechanism and reiterates its responses to the panel questions here:

1. What challenges (if any) have you observed with the CAISO's current backstop processes?

During the WG, the CAISO indicated that one challenge with the current CPM process is that the CAISO only has access to shown RA capacity and competitive solicitation process (CSP)

offers as CPM capacity, and its access to CPM capacity has declined over the last five years due to a decline in CSP offers. This challenge is not a function of the way the CAISO's current backstop processes are designed but rather a function of the current lack of capacity that has RA market prices unprecedentedly high. In a market

with prices going through the roof, it is likely that generators can sell their capacity to LSEs at much higher prices than the CPM SOC because LSEs are competing for scarce supply to meet their compliance obligations. This does not signal a need to change the current CPM process as it relates to the SOC. The process for defining the SOC works as intended, covering going-forward fixed costs of the marginal resources on the system and mitigating market power.^[1] It is not intended to be competitive with bi-lateral market prices, which currently reflect market scarcity rather than resources' costs.

2. Do the current mechanisms (including cost allocation) work well 1. in incenting LSEs to procure sufficient capacity to meet the LRA and CAISO requirements and 2. Allowing the CAISO to obtain needed capacity (in a reasonably efficient manner) when and where needed?

Apart from the issue CalCCA has flagged previously around the treatment of allocated DR credits,^[2] the CAISO's current cost allocation mechanism works well and as intended by allocating costs first to entities that caused the need for backstop before allocating costs broadly to all LSEs. The risk of CPM cost allocation is not the primary incentive for ensuring LSEs procure sufficient capacity to meet RA requirements. It is the Local Regulatory Authority (LRA) requirements, and the penalties associated with missing those requirements that are the primary drivers for LSEs procuring sufficient capacity. The California Public Utilities Commission (CPUC) penalties are extremely stringent, with financial penalties of up to \$26.64 per megawatt-hour and non-financial penalties that prohibit some LSEs from expanding. CPM cost allocation based on causation adds to these incentives but is not, and need not, be the primary driver of LSEs meeting their compliance obligations.

As described in response to question 1, high RA capacity prices mean that resources are unlikely to be available as a CPM. However, if there is insufficient capacity at the current high market prices, it is unlikely the CAISO would have a better chance at obtaining capacity than LSEs would. Resources would generally prefer to sell to LSEs at high market prices than wait for a CPM offer.

3. Some have suggested in past CPM discussions raising the soft offer cap either, 1. to reflect the opportunity costs to sell outside of the CAISO, or 2. to reflect the costs of a different proxy unit (e.g. the all-in cost of combined solar plus storage). What impact would such an increase in the soft offer cap have on the bilateral market?

Any examination of using a different proxy resource to calculate the CPM SOC should consider the following:

- The CPM SOC has generally been set to impact the likely unit to receive the CPM serving to ensure that they can recover expected costs. Historical data and regulatory requirements suggest that CPM capacity is likely to continue to be gas resources. 66 percent of CPMs since 2019 have come from gas units and no CPMs have come from hybrid resources. Because most renewable and hybrid resources are under contract for Integrated Resource Plan and Renewable Portfolio Standard regulatory requirements, and therefore also contracted for RA, it would not be expected for non-thermal resources to be regularly available for CPM.
- The California Energy Commission report establishing the cap includes, (1) insurance; (2) ad valorem taxes; and (3) fixed operations and maintenance (O&M). It is difficult to imagine that those costs for another resource type are much different than the value used for the current SOC. In fact, it seems reasonable to assume that the fixed O&M for a hybrid may very well be lower. Studies on the fixed O&M are split on how they treat battery degradation with some ascribing it to fixed O&M while others ascribe all of it to variable O&M. It is worth noting that the CAISO process for developing default energy bids for battery storage does include battery degradation as part of its calculation supporting that at least some of the cost is variable O&M.
- Finally, the cap is a soft offer cap. Therefore, if a generator has a cost that it can demonstrate is higher than the SOC, that generator can ask the Federal Energy Regulatory Commission (FERC) to allow it to bid into the CSP at a price sufficient to cover its cost. To date, the CAISO has not published information that confirms any generator has made such a request to the FERC.

As discussed in the sections above, the bilateral capacity market is in turmoil. RA market prices currently do not appear to be based on cost but rather on whatever buyers will pay. Under these conditions, sellers will search for any available opportunity cost signal and, therefore, what price they can offer. Changes to the CAISO SOC will provide such a signal. Because markets should function competitively, and the SOC is a market power mitigation mechanism, the CAISO should set the CPM SOC to reflect cost, as it does in energy markets with default energy bids. The soft-offer cap already does this and provides an opportunity to get a higher payment if a higher cost can be proven at the FERC.

4. How should we consider the evolving resource mix (with an increased reliance on storage in particular) impacting our backstop processes? For example, should the CAISO BA's have an assessment for energy sufficiency?

The CPUC's RA program has already taken steps to consider the evolving resource mix through its slice-of-day (SOD) framework. Once implemented, LSEs will need to provide 24 hourly showings for each month. This should ensure CPUC-jurisdictional LSEs bring enough RA capacity to ensure energy sufficiency. If the CAISO is going to consider an assessment for energy sufficiency, and if there is a need to procure for lack of energy sufficiency, then the CAISO would also need to examine how to allocate backstop costs in a manner that reflects causation.

[1] The CAISO lists these as the two objectives of the soft offer cap in the Discussion Paper at 12-13. CalCCA agrees with these objectives.

[2] CalCCA Working Group Comments (Jan. 30, 2024): <https://stakeholdercenter.caiso.com/Comments/AllComments/97779f5e-e0a7-4b0f-ad97-855c6cc08ead#org-fe78f059-eae0-4c19-ad57-f3767aa36546>.

3. Provide your organization's comments on the April 29th Projected EDAM RSE Shortfalls discussion:

The CAISO proposes to use its existing exceptional dispatch authority to address potential EDAM RSE shortfalls. The challenge with using exceptional dispatch CPMs is that the minimum CPM term does not align with the likely term of an RSE failure. The minimum term for an exceptional dispatch CPM is 30 days, while RSE failures may be as short as an hour. Other Balancing Authorities can and will be able to make capacity procurement on shorter intervals to meet RSE failures. While the CAISO would like to cure RSE failures in California, it should not place the LSEs in California at a competitive disadvantage. When the CAISO has the potential to procure CPM capacity for a 30-day term to solve a one-hour RSE shortfall, it is unclear if using CPM is more cost-effective than not curing the RSE shortfall. The CAISO should consider if there is a need to develop a mechanism that allows for the procurement of capacity that more closely matches the need.

Regarding the allocation of RSE failure costs, any evaluation of whether costs can be allocated consistent with cost causation must recognize that LSE RA positions are not the only cause of RSE shortfalls. Many factors can contribute to an RSE failure, some of which may not be related to RA positions. For example, if an RA resource goes on outage and does not provide substitution, it is a resource availability problem rather than an LSE RA position problem. If an RSE failure is caused by short RA positions, the CAISO would need to first evaluate each LRA program before allocating costs to individual LSEs since the types of capacity and their ability to meet hourly needs can differ. Many complex questions must be considered to adopt a cost allocation methodology consistent with cost causation.

4. Provide your organization's feedback on the proposed Track 1: Modeling and Default Standards as reflected in the Updated Discussion Paper & Draft Recommendation Plan:

Do you have suggested recommendations on the scope of the track, problem statement, process, interdependencies or general recommendations on the path forward?

This problem statement is ready to move forward to policy development. The CAISO should consider the issues described in its December 20, 2023, comments,^[1] when it considers this issue in the policy development phase.

[1] <https://stakeholdercenter.caiso.com/Comments/AllComments/1aafa171-55d2-4e71-869e-f2b78a0718c9>.

5. Provide your organization's feedback on the proposed Track 2: Outage and Substitution and RAIM Reform as reflected in the Updated Discussion Paper & Draft Recommendation Plan:

Do you have suggested recommendations on the scope of the track, problem statement, process, interdependencies or general recommendations on the path forward?

This problem statement is ready to move forward to policy development. The CAISO should consider the issues described in its March 27, 2024, comments ^[1] and its February 27, 2024, comments^[2] when it considers this issue in the policy development phase.

[1] <https://stakeholdercenter.caiso.com/Comments/AllComments/a79881e1-374a-4d13-aa17-cbbf7e631b3a#org-6b240e6d-295e-4f19-9bf2-280896d7b4a4>.

[2] <https://stakeholdercenter.caiso.com/Comments/AllComments/1ab40647-72b9-4f6d-9303-961b8e78762c#org-faf0dd08-d824-4f32-894d-b5b510d3f3a8>.

6. Please provide your organization's feedback on the problem statement for Track 3: Backstop Mechanisms, and assessment on if it is ready to move forward to the policy development process. Do you agree that certain parts or all of the problem statement is ready to move forward for policy development? If not, please describe which elements of the problem statement is incomplete or inaccurate, and provide your suggested edits and additional information, changes and/or analysis required to move forward.

Problem statement details: (1) The ISO lacks visibility into the contract and availability status of resources not shown as RA, preventing the ISO from efficiently and reliably running its current CPM processes; (2) Stakeholder feedback is that there is a lack visibility into the ISO's CPM decision making processes; (3) In the current tight RA market, the ISO's Capacity Procurement Mechanism may not be producing all of its intended results particularly given the frequent lack of bids into its Competitive Solicitation Processes; (4) As the reliability needs evolve (e.g. to address changing needs for battery storage) the ISO's CPM process may need to evolve to obtain specific attributes necessary for reliability.

This problem statement is ready to move forward to policy development. The CAISO should consider the comments in section 2 when it considers this issue in the policy development phase.

7. Please provide your organization's feedback on the problem statement for Track 4: Day Ahead Sufficiency in EDAM for the ISO BAA and assessment on if it is ready to move forward to the policy development process. Do you agree that the problem statement is ready to move forward for policy development? If not, please describe why the problem statement is incomplete or inaccurate, and provide your suggested edits and additional information and analysis required to move forward:

Problem statement details: While CAISO proposes to utilize its existing exceptional dispatch authority to resolve reliability concerns highlighted by potential capacity shortages identified by the RSE, stakeholders have expressed concern that: (1) The option to exceptionally dispatch resources might not be available during critical periods; (2) The cost allocation should be reexamined to align better with cost causation, if feasible.

This problem statement is ready to move forward to policy development. The CAISO should consider the issues raised in section 3 when it considers this issue in the policy development phase.

8. Provide your organization's comments on remaining topics for Future Working Groups, including flex RA, energy sufficiency, deliverability, and interoperability with existing and

emerging RA programs:

CalCCA has no comments at this time but will provide comments when the CAISO brings these topics to the working group.

9. Provide your organization's feedback on the Track 5 table of stakeholder suggestions in the Updated Discussion Paper & Draft Recommendation Plan (pgs. 17-18). Are there any that you believe should be incorporated into one of the existing proposed tracks for policy development or that deserves its own policy development process?

For the reasons described in its March 27, 2024, comments,^[1] the CAISO should not move forward with stakeholder suggestions to move to 100 percent annual showings or to include planned outages into RA requirements.

The CAISO should also take caution when evaluating stakeholder suggestions for the CAISO to backstop if it has not met a 0.1 loss of load expectation. LRAs set their RA requirements to meet planning standards. If the CAISO sets a different target than the LRA, LSEs would be subject to two different requirements. Additionally, because each LRA's RA program is different, the CAISO would need to assess each LRA's contribution to reliability before allocating backstop costs to LSEs. LRAs should be responsible for ensuring their programs are set up to meet planning standards.

[1] <https://stakeholdercenter.caiso.com/Comments/AllComments/a79881e1-374a-4d13-aa17-cbbf7e631b3a#org-6b240e6d-295e-4f19-9bf2-280896d7b4a4>.

10. Please provide any additional comments not captured above:

CalCCA has no additional comments at this time.