

## CPUC Staff Comments on CAISO’s Business Practice Manual (BPM) Change PRR-1280

Submitted by	Company	Date Submitted
Michele Kito michele.kito@cpuc.ca.gov 415-703-2197	Energy Division, CPUC	September 15, 2020

CPUC Energy Division staff opposes CAISO’s proposed changes to its Business Practice Manual (BPM) which would, in effect, no longer count the investor owned utility (IOU) demand response that the CPUC allocates to load-serving entities. To effectuate this, CAISO proposes to no longer accept the “credits” the CPUC uses to reduce *system* resource adequacy requirements for these Demand Response resources. With this addition to its BPM, CAISO upends the CPUC long-standing practice, which allows CPUC- jurisdictional entities to use Demand Response to meet their *system* resource adequacy (RA) obligations. As discussed further below, CPUC staff believe that the proposed change intrudes upon CPUC jurisdiction, is procedurally improper, is inconsistent with Board approval, and inconsistent with state law and state policy regarding the treatment of Demand Response resources.

### I. CAISO’s Proposed Change to Its BPM Contained in PRR 1280

In its BPM change PRR 1280, issued on August 31, 2020, CAISO proposes to change its treatment of “credits” used for Demand Response and to only allow credits that have a “net neutral impact.” The new language in CAISO’s BPM, in relevant part, is shown below:

In reviewing RA plans for compliance, the CAISO accepts LRA-provided adjustments to the compliance obligations for the LRA’s jurisdictional LSEs provided the adjustments do not create a net reduction of the RA capacity provided and shown to the CAISO or a net reduction in the LSEs’ compliance obligations. For example, the CAISO accepts adjustments to LSEs’ obligations related to the CPUC’s Cost Allocation Mechanism because the adjustments allocate capacity from a known resource to various LSEs but they do not reduce the RA capacity provided and shown to the CAISO. Similarly, the CAISO accepts adjustments related to LRA load migration processes because these processes merely reallocate RA obligations to match shifts of load between two LSEs, both of which fall under the jurisdiction of the same LRA. For the CAISO to validate and process such adjustments, LRAs can provide the CAISO with a demonstration or accounting of the adjustments’ net neutral impact on RA capacity obligations. ***The CAISO will not process adjustments in CIRA without such a demonstration of the net neutral impact.*** (Emphasis added.)

While there is no further explanation in CAISO's BPM, CPUC staff interprets CAISO's proposed language to mean that it will no longer accept the "credits" that the CPUC uses to reduce load serving entities RA obligations. Not only is CAISO's proposed revision opaque, but it upends the CPUC's long-standing practice regarding "credits" for Demand Response programs within its jurisdiction. For the reasons discussed below, CPUC staff oppose this change. In addition, CPUC staff notes that there is not sufficient time to complete the BPM process (with comments, responses, appeals, etc.) before the October 31<sup>st</sup> deadline for RA filings and, therefore, afford parties with sufficient due process for a change of this magnitude.

## **II. CAISO's Proposed Change Intrudes on CPUC Jurisdiction to Determine RA Requirements for CPUC Jurisdictional Entities**

CPUC staff believes that CAISO's BPM change to reject the CPUC's long-standing practice of using Demand Response credits to reduce resource adequacy requirements intrudes on CPUC jurisdiction. California Public Utilities Code, Section 380(a) states that "[t]he commission, in consultation with the Independent System Operator, shall establish resource adequacy requirements for all load-serving entities." Further, Section 380 states that the CPUC shall "[e]stablish new or maintain existing demand response products and tariffs that facilitate the economic dispatch and use of demand response that can either meet or *reduce an electrical corporation's resource adequacy requirements, as determined by the commission.*" (Emphasis added.) In this circumstance, the CPUC has determined that the Demand Response resources reduce the resource adequacy requirements, consistent with statute, and the CAISO is rejecting this determination.

## **III. CAISO's Proposed Change is Procedurally Improper -- Discounting all Demand Response Undertaken by the Investor Owned Utilities, and Authorized by the CPUC, Is Not a Ministerial Change and Will Have a Material Effect on Rates**

The proposed BPM change is not a ministerial issue and is thus inappropriate to institute through the BPM process. FERC conditioned approval of CAISO's BPM process on the finding that BPM changes do not "have a material impact on rates." Therefore, CAISO may not unilaterally impose changes that could have a material impact on rates. The proposed change would have material impacts on rates because it will affect the ability of already contracted-for Demand Response resources to count as system capacity in RA compliance showings by load serving entities for the 2021 RA compliance year. This BPM change imposes new resource requirements and amount to a new de facto requirement imposed on Demand Response resources to qualify as system capacity resources. Therefore, CAISO's refusal to count over 1,500 MW of Demand Response as a system resource for 2021 will likely lead either to load serving entities procuring additional capacity to meet the newly created CAISO requirement or to CAISO procuring excess capacity through the Capacity Procurement Mechanism (CPM), because it identified a "shortfall" that the CPUC did not. To be clear, this can and will have a material impact on rates. As is well known, the CPUC has used this practice for over a decade and the CAISO has a long-standing practice of deferring to the CPUC regarding the counting of Demand Response to meet system requirements. Section

380 of the California Public Utilities Code provides that procurement requirements must be adopted by the CPUC, in consultation with the CAISO. Therefore, both agencies need to work collaboratively to adopt rules through a transparent process.

#### **IV. CAISO's Proposal in PRR 1280 Has Been Approved by CAISO's Board and is Inconsistent with the Stakeholder Processes**

While CAISO may argue that this change was authorized by the CAISO Board, CPUC staff disagrees. In documents prepared for CAISO's July Board meeting, CAISO explained its proposal in the following manner:

- For reliable operation of the grid, the ISO depends on adequate supply from resources *located in local capacity areas* to meet demand all hours of the year. Demand response resources can help support the system *in local capacity areas* by reducing load, thus requiring less electricity supply when the *local area* is supply constrained and would otherwise be in jeopardy should a contingency occur.
- The slow demand response PDR effort was initiated as a result of a 2016 business practice manual (BPM) revision appeals decision in which the ISO committed to initiate a stakeholder process to develop a way to operationalize slow demand response resources. Doing so would allow these resources to remain eligible to provide *local resource adequacy capacity* and be used by the ISO when needed *for local reliability needs*. This resulted in the development of a new process to dispatch slow demand response PDR on a pre-contingency dispatch basis using a post-day-ahead market solution.
- Stakeholders are generally supportive of Management's efforts to integrate "slow" demand response PDR *as a local capacity resource* as a remedy to the ISO 2016 BPM appeals committee decision.

In addition, in its presentation to the Board, CAISO discussed only *local* RA and CAISO management made clear that if these resources were not shown on a supply plan, CAISO would backstop only for *local* requirements, but did not mention that it would not count the resources for system and backstop in this manner (see slides from CAISO's presentation below).

## Tariff revisions are necessary to operationalize slow demand response resources for local needs

- To meet local RA needs, resources must either:
  - Be able to respond within 20 minutes following a contingency event, or
  - Have availability to be dispatched frequently on a pre-contingency basis
- In 2016, proposed BPM revision would require resource availability within 20 minutes to qualify as local RA
  - Impacted demand response resources without the flexibility or capability to respond within 20 minute notification
  - Appeal made by multiple demand response stakeholders was granted by the ISO executive appeals committee

## The pre-contingency dispatch solution will apply starting with the 2021 resource adequacy compliance year

- CPUC “credits” utility demand response programs as resource adequacy and does not require them to be shown on resource adequacy plans
  - Crediting means demand response not subject to ISO RA tariff provisions like all other RA resources
  - Solution can only operationalize demand response resources shown on supply plans
  - After a cure period, the ISO will procure additional resources through its backstop authority if there are insufficient resources shown on RA supply plans to meet local area capacity needs

Further, in its approval, CAISO requested not permission to implement these changes through a BPM change, *but through tariff revisions*, as shown in the figure below (emphasis added):<sup>1</sup>



Board of Governors July 22, 2020 Decision on Slow Demand Response and Proxy Demand Resources Proposal  
General Session

**Motion**

Moved, that the ISO Board of Governors approves the tariff revisions necessary to implement the slow demand response and proxy demand resources proposal as described in the memorandum dated July 15, 2020; and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed deliverability methodology revisions, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.

Moved: Bhagwat Second: Galiteva

Board Action:	<b>Passed</b>	Vote Count:	<b>5-0</b>
Bhagwat	Y		
Borenstein	Y		
Galiteva	Y		
Leslie	Y		
Olsen	Y		

Motion Number: 2020-07-G2

Finally, even if it was authorized by the Board, which we do not believe occurred, it cannot be implemented through a BPM change because it is not a ministerial matter and will have a material impact on rates, as discussed previously.

**V. CAISO’s Proposed Change Is Inconsistent with State Law and State Policy**

Finally, CAISO’s proposal to not allow any Demand Response resources to count for system resource adequacy is inconsistent with state law and state policy regarding the loading order. First, California Public Utilities Codes, Section 380 states the following:

- (a) The commission, in consultation with the Independent System Operator, shall establish resource adequacy requirements for all load-serving entities.
- (b) In establishing resource adequacy requirements, the commission shall ensure the reliability of electrical service in California while advancing, to the extent possible, the state’s goals for clean energy, reducing air pollution, and reducing emissions of greenhouse gases. The resource adequacy program shall achieve all of the following objectives:

\* \* \*

- (2) Establish new or maintain existing demand response products and tariffs that facilitate the economic dispatch and use of demand response that can either *meet or reduce an*

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<sup>1</sup> Available at <http://www.caiso.com/Documents/DecisiononSlowDemandResponseandProxyDemandResourcesProposal-Motion-July2020.pdf>

*electrical corporation's resource adequacy requirements, as determined by the commission.*

In addition, CAISO's proposed BPM change is inconsistent with California's adoption of the loading order, which is codified in part, California Public Utilities Code 454, which states:

- (i) The electrical corporation shall first meet its unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.

The state's loading order is also discussed in the 2008 Energy Action plan and that plan indicates that it was "established that the state, in meeting its energy needs, would invest first in energy efficiency and demand-side resources, followed by renewable resources, and only then in clean conventional electricity supply."<sup>2</sup>

Further, California Public Utilities Code, Section 345.5, requires the following of the CAISO:

- (a) The Independent System Operator, as a nonprofit, public benefit corporation, shall conduct its operations consistent with applicable state and federal laws and ***consistent with the interests of the people of the state.***
- (b) To ensure the reliability of electric service and the health and safety of the public, the Independent System Operator shall manage the transmission grid and related energy markets in a manner that is consistent with all of the following:
  - (1) Making the most efficient use of available energy resources. For purposes of this section, "available energy resources" include energy, capacity, ancillary services, and demand bid into markets administered by the Independent System Operator. "Available energy resources" do not include a schedule submitted to the Independent System Operator by an electrical corporation or a local publicly owned electric utility to meet its own customer load.
  - (2) ***Reducing, to the extent possible, overall economic cost to the state's consumers.***
  - (3) ***Applicable state law intended to protect the public's health and the environment.***
  - (4) Maximizing availability of existing electric generation resources necessary to meet the needs of the state's electricity consumers.
  - (5) ***Conducting internal operations in a manner that minimizes cost impact on ratepayers to the extent practicable and consistent with the provisions of this chapter.***
  - (6) Communicating with all balancing area authorities in California in a manner that supports electrical reliability.
- (c) The Independent System Operator shall do all of the following:

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<sup>2</sup> 2008 Energy Action Plan, available at <https://www.cpuc.ca.gov/eaps/>

*(1) Consult and coordinate with appropriate state and local agencies to ensure that the Independent System Operator operates in furtherance of state law regarding consumer and environmental protection.*

For the foregoing reasons CPUC Energy Division staff respectfully requests that the CAISO withdraw PRR 1280.