

During the July 22, 2020 Board meeting, the CAISO proposed to make tariff changes necessary to address slow demand response (DR) resources. This discussion also noted the CAISO's desire to require all DR resources to be on a supply plan. However, the discussion was focused around slow DR and the impact of that slow DR on local resource adequacy (RA). The CAISO memo to its Board dated July 15, 2020 states:

This memorandum seeks approval for tariff revisions necessary to implement the settlement of slow demand response PDRs, which will be exceptionally dispatched following the day-ahead market as a preventative measure to avoid possible overloads and NERC violations in meeting local capacity area reliability needs. Unlike other resource types that can be committed to start up and maintain a minimum load level, slow demand response PDRs are unique and generally cannot be "started" in a timely manner and held at a minimum load level. Instead they require sufficient notification time prior to when they are needed to respond. As a result, the ISO proposes a process for evaluating needs not resolved by the day-ahead market and issuing an exceptional energy dispatch notice post day-ahead to provide sufficient dispatch notification. To operate and settle slow demand response PDRs, tariff changes are needed to clarify how the exceptional energy dispatch will be treated and settled for these resources. The following outlines the major components of the proposed slow demand response PDR solution methodology:

1. Scheduling coordinators for load-serving entities and for demand response providers show their slow demand response PDR on their resource adequacy plans and supply plans, respectively;
2. Prior to the day-ahead market, the ISO defines constraints and reliability needs in local capacity areas;
3. The day-ahead market runs with local area constraints and reliability needs and assesses whether there are sufficient resources and import capability in a local capacity area to meet reliability requirements without using the shown local area slow demand response PDRs;
4. After the conclusion of the day-ahead market, if there is a shortfall in generation and import capability to meet local capacity area reliability needs after considering all awards and commitments in the day-ahead market (which can include PDRs that were awarded in the day-ahead market), the ISO will exceptionally dispatch any remaining uncommitted slow demand response PDR utilizing current exceptional dispatch tariff authority prior to the operating day;
5. The slow demand response PDR will settle using an exceptional dispatch energy settlement price based on the greater of the resource's day-ahead bid price or the real-time fifteen minute market locational marginal price (LMP).

(Footnote omitted; emphasis added)

However, PRR 1280 goes well beyond this request and approval from the CAISO Board of Governors. The PRR effectively allows the CAISO to ignore any DR (system as well as slow response local DR) in the evaluation of RA showings. PRR 1280 states:

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.

While SCE agrees that a credit for non-supply plan DR will create a net reduction in the RA capacity shown, SCE does not agree that it results in a net reduction in the RA capacity provided consistent with the California Public Utilities Commission (CPUC)-authorized RA program. In addition, this PRR would include not only the Board discussed local slow responding DR but all other DR that is not on a supply plan as well. This expansion of scope is inappropriate as it was not adequately discussed with the CAISO Board; nor was it adequately discussed with stakeholders prior to the Board meeting.

In SCE's assessment, this change is not a clarification but a fundamental change of the CPUC-approved RA program. It is the local regulatory authority that is responsible for establishing the amount of load, counting capacity of resources, local obligations, and the amount of planning reserve margin that each load-serving entity (LSE) under their jurisdiction must carry. In this case, the CPUC has authorized the DR program to be counted toward RA, establishing the qualifying capacity of such resources and allowing those resources to be netted from the LSE's load obligation with CPUC determinations surrounding how such resources will be made available and are expected to perform to meet the CPUC-established reliability needs.

The change proposed in PRR 1280 effectively overrules the CPUC's ability to establish the RA program to meet its desired reliability mechanism and instead allows the CAISO to determine, unilaterally, whether a resource counts toward meeting RA requirements. Effectively, this BPM change places the decision on the qualifying capacity of a resource with the CAISO rather than with the local regulatory authority as originally designed. This puts LSEs in the difficult position of deciding whether to comply with one agency's protocol over another because the CPUC-approved RA program does not require DR to be included in the supply plan, and the CAISO is directing that it should be included in the supply plan to be counted for RA. For the RA program to be workable and effective, the CPUC and the CAISO must be aligned on the expectations of LSEs, work together to establish consistent rules, and not move forward with rule changes that counteract each other. The misalignment causes confusion and ultimately disadvantages customers through higher costs.

Finally, DR programs were not designed to, nor do they work appropriately with non-performance penalties applied to resources on supply plans. DR programs are already derated below their participation levels as part of the current CPUC RA accounting. Based on real-world observations, SCE has seen DR perform higher than their RA capacity value in times of high grid need. However, SCE acknowledges that in mild conditions (e.g., when no air conditioning is running), weather sensitive DR

programs might not be able to perform at their RA levels. However, in mild conditions, the DR programs' load impacts may not even be necessary to maintain grid reliability. By not being able to reflect the actual DR availability on supply plans, DR resources would be subject to unnecessary Resource Adequacy Availability Incentive Mechanism (RAAIM) charges, while not getting any incentive payments for times when they are available beyond their nominal RA level. In summary, requiring existing DR programs to be on a supply plan neither increases program reliability nor increases system reliability, but will instead result in increased customer costs.

To make DR fit within a supply plan framework, the CAISO would need to make changes to accommodate DR. These include:

- Change the must offer obligation (MOO) requirement of DR to recognize that these resources may perform at a higher or lower level than the expected RA value due to the variable nature and availability of each program;
- Recognize that the CPUC uses the average hourly load impacts under a 1-in-2 weather condition during 4 to 9 p.m. to determine DR RA value, which effectively derates their capacity below what is actually observed during high load conditions; and
- Refine CAISO commitment and dispatch instructions to recognize the design and operating characteristics of DR programs and not apply RAAIM penalties when availabilities are limited by valid operating restrictions.

In conclusion, this PRR should be limited only to the slow response local DR resources as approved by the Board.