

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee)	
the Resource Adequacy Program, Consider)	Rulemaking 11-10-023
Program Refinements, and Establish Annual)	(Filed October 27, 2011)
Local Procurement Obligations.)	
_____)	

**INITIAL COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON THE ORDER INSTITUTING RULEMAKING**

In accordance with the Order Instituting Rulemaking (“OIR”) issued on October 27, 2011 by the California Public Utilities Commission (“CPUC” or “Commission”), the California Independent System Operator Corporation (“ISO”) respectfully submits its initial comments on the preliminary matters pertaining to the scope, schedule, and administration of this proceeding, as described in the OIR and Appendix A, Candidate Issues and Topics Identified by the Energy Division.

I. INTRODUCTION

On October 27, 2011, the CPUC initiated this rulemaking as a successor rulemaking proceeding to R.09-10-032 for the purpose of overseeing the resource adequacy (“RA”) program and establishing local procurement obligations for 2013 and 2014. The schedule outlined in the OIR provides the parties the opportunity to submit their input on the scope and priority of the candidate issues to be addressed in this proceeding as possible RA program refinements for the 2013 and 2014 RA compliance

years. The ISO submits these initial comments on the preliminary matters in accordance with the OIR.¹

II. EXECUTIVE SUMMARY

The ISO strongly supports the CPUC's continued efforts through this rulemaking to refine the RA program and enhance its ability to ensure sufficient resources are available where and when needed. In these comments, the ISO makes the following recommendations with regard to the OIR for this RA proceeding:

- OIR Appendix A, candidate issue #1, should be slightly revised to read that: "This proceeding will establish the LCR for 2013 in Phase 1 and for 2014 in Phase 2.
- OIR Appendix A, candidate issue #2 should be retained in scope in Phase 1 in order to prepare for the integration of demand response that qualifies as RA into the wholesale electricity market. It is essential that demand response that qualifies as RA capacity be available and dispatchable through a scheduling coordinator in the ISO market where and when needed and for a given megawatt quantity.
- OIR Appendix A, candidate issue #5 is a high priority issue that should include a requirement for procurement of flexible capacity in the 2013 year-ahead RA showings.
- In order to allow sufficient time for the ISO to conduct its stakeholder process and develop its proposal for identifying the flexible capacity need, and collaborate with the Commission to incorporate an intermediate

¹ The ISO reserves the right to address the issues listed in the OIR and any new matters the CPUC adds to the scope of this proceeding, as well as to respond to the comments and proposals submitted by other parties during the course of this proceeding.

flexible capacity requirement into the RA program, this aspect of candidate issue #5 should be considered in a separate rulemaking proceeding, or on a different track in this proceeding, that culminates in a decision in June 2012.

- OIR, Appendix A, candidate issue #7, regarding the qualifying capacity rules applicable to dynamically scheduled and pseudo tie resources, should be framed to take into account that ISO Tariff Section 40.8.1.12.1 provides that deliverability assessments do not apply to imports and that the ISO proposes to apply the same exceedance methodology used for establishing qualifying capacity for variable resources within the ISO balancing authority area to imports, including dynamic transfers of variable energy resources.
- OIR, Appendix A, candidate issue #8, should address how distributed generation qualifies for RA depending upon its configuration.
- OIR Appendix A, candidate issue #10, should be considered in Phase 2 of this proceeding because additional time will be necessary to develop RA rules for energy storage systems over the next few months.
- The ISO requests that the RA treatment of dynamic rates be added to the scope of Phase 1 of this proceeding.
- The ISO requests that the replacement rule and potential modifications to the RA program necessitated by its removal from the CPUC RA program be included in the scope of this proceeding.

III. DISCUSSION OF OIR CANDIDATE ISSUES

A. Local Capacity Requirements For 2013 OIR Candidate Issue #1

OIR Appendix A, candidate issue #1 states that: “This proceeding will establish the LCR for 2013 and 2014.”² Because the LCR study the ISO performs is for a single RA compliance year, not for two subsequent years as may be inferred from the language in candidate issue #1, the ISO suggests a slight revision to that language to avoid confusion. The revision should read that: “This proceeding will establish the LCR for 2013 in Phase 1 and for 2014 in Phase 2.”

B. Standard Capacity Product OIR Candidate Issue #2

An important and complementary component of the CPUC’s RA program is the ISO’s application of the standard capacity product to all RA resource types. Under the ISO Tariff, the standard capacity product measures and provides financial incentives for the availability of RA resources. This availability incentive mechanism aligns with the purpose of the CPUC’s RA program of ensuring adequate resources are available when and where needed to serve load, meet appropriate reserve requirements, and support the reliable operation of the ISO controlled grid. In early 2012, the ISO will commence a stakeholder initiative to extend its standard capacity product to demand response that qualifies as RA capacity. The ISO’s goal is to complete this final phase of the standard capacity product initiative in time for application in the 2014 RA program year.

Given the timing of the ISO’s intended extension of the standard capacity product to demand response, the ISO urges the CPUC to retain OIR Appendix A, candidate issue #2 in scope in Phase 1 in order to prepare for the integration of demand response

² OIR Appendix A at p. 1.

that qualifies as RA into the wholesale electricity market. It is essential that demand response that qualifies as RA capacity be available and dispatchable through a scheduling coordinator in the ISO market where and when needed and for a given megawatt quantity.

**C. Flexible Capacity Need
OIR Candidate Issue #5**

With the RPS bringing more renewable generation into the resource fleet, California will see growing intermittency and diminishing predictability of that fleet. ISO grid reliability relies on having sufficient flexible capacity to help balance supply and demand on a second-to-second basis. Candidate issue #5 in Appendix A is framed to address the non-generic capacity procurement issues raised by the ISO in the predecessor RA proceeding. The ISO continues to believe that procurement of flexible operational characteristics³ should be incorporated into the RA program.⁴

1. The CPUC Should Include Procurement Of Flexible Capacity In The 2013 Year-Ahead Showings.

On November 30, 2010, the ISO filed a motion with the Commission to expand the scope of Phase 2 of the prior RA proceeding, R.09-10-032, to include a proposal for the non-generic capacity to be procured through the CPUC's RA program.⁵ The ISO believes the procurement of flexible capacity remains a high priority issue. As such, the ISO requests that the Commission in Phase 1 of this proceeding consider adopting the

³ As more intermittent resources are supplying power to the grid, ensuring that sufficient flexible resources that have attributes such as load following, up and down ramping flexibility, and fast start capabilities, are available becomes increasingly important.

⁴ Rather than referring to the procurement of non-generic capacity, which is an imprecise term, the ISO now describes its proposal as procurement of capacity having flexible operational characteristics, which the ISO believes is a more accurate description of the targeted capacity.

⁵ Motion Of The ISO For Expansion Of The Phase 2 Scope To Include A Proposal For Procurement Of Non-Generic Capacity Through The Resource Adequacy Program, CPUC Rulemaking 09-10-32 (November 30, 2010).

requirement that flexible capacity be procured and incorporated into the load-serving entities' 2013 year-ahead RA showings. This new procurement requirement would be based on a flexible capacity needs assessment performed by the ISO.

Incorporating year-ahead flexible capacity procurement requirement into the CPUC's RA program will help ensure that the resource adequacy fleet will have sufficient operational flexibility for the upcoming RA year. This will allow the ISO to integrate increasing volumes of intermittent resources and comply with all applicable reliability criteria as the state of California progresses toward the 33 percent renewables portfolio standard by 2020.

2. The ISO Will Establish A Backstop Procurement Mechanism For Flexible Resources That Risk Retirement.

Although including flexible capacity procurement requirements in the year-ahead showings will help to ensure that the ISO can maintain grid reliability, simply modifying the CPUC's RA program may not be enough to ensure that sufficient flexible capacity will be available for that procurement. ISO studies of renewable integration under a 20 percent and a 33 percent renewables portfolio standard show an increased need for resources that can provide regulation and load following by responding to ISO dispatch instructions. These studies also indicate that thermal units can expect to see lower energy revenues and more frequent start-up and shut-down instructions. The result might be increased retirements from the existing fleet of flexible resources over the next several years as more renewable resources come on line. This period is also when new state rules for once-through-cooling could cause 12,000 megawatts of flexible resources to either retire or repower.

Under the CPUC's current capacity procurement mechanisms, a significant time difference exists between the annual resource adequacy program, which is a one-year

outlook, and its long-term procurement proceeding (“LTPP”), which is a 10-year outlook. During the time difference between the RA and LTPP procurement windows, there is no mechanism to secure flexible capacity resources at risk of retirement that will be needed in future years to maintain reliability.

The ISO believes it is prudent to address this concern and take action to ensure that there will be sufficient flexible resources available in future years to maintain the reliability of the grid. The ISO and CPUC must work actively and collaboratively to address this concern. To resolve part of this challenge, the ISO plans to launch a stakeholder initiative in November 2011, to be concluded by spring 2012, to establish a new, one-year-at-a-time backstop procurement mechanism that will be designed to retain flexible resources needed in future years that are at risk of retiring during the current or next RA program cycle. The ISO is not proposing to expand its existing capacity procurement mechanism, but believes it is reasonable to consider a new, one-year capacity procurement mechanism that derives its procurement target from a needs assessment that looks across the intermediate years between the RA program and LTPP procurement windows.

In order to allow sufficient time for the ISO to conduct its stakeholder process and develop its proposal for identifying the flexible capacity need, and collaborate with the Commission to incorporate an intermediate flexible capacity requirement into the RA program, the ISO requests that the CPUC consider this aspect of candidate issue #5 in a separate track within Phase 1 in this proceeding. The ISO stakeholder activities and CPUC consideration of the issue would be better aligned if the CPUC were to take up this issue in a separate rulemaking proceeding, or on a different track in this proceeding, that culminates in a decision in June 2012. A separate track from the other possible refinements to the RA program will provide additional time to consider the

complexity of this topic. For these reasons, the ISO recommends that the Commission move this portion of candidate issue #5 to a separate rulemaking proceeding or place it on a different track in this matter.

**D. QC Rules for Dynamically Scheduled and Pseudo Tie Resources
Candidate Issue #7**

The Energy Division has proposed as candidate issue #7 considering the qualifying capacity rules applicable to dynamically scheduled and pseudo tie resources. As the ISO developed its dynamic transfer policy, stakeholders discussed whether the status of a resource affects a market participant's RA portfolio, and whether pseudo-ties might be eligible for being deemed deliverable into the ISO balancing authority area for qualification as RA resources. To help the Commission further frame this issue, the ISO notes that, while the qualification of generation resources within the ISO's balancing area includes assessing deliverability and establishing a net qualifying capacity value, ISO Tariff Section 40.8.1.12.1 provides that deliverability assessments do not apply to imports. Rather, RA resource eligibility for imports is contingent upon the scheduling coordinator showing that the dynamic system resource has secured transmission through an intervening balancing area authority for the applicable operating hours that cannot be curtailed for economic reasons or bumped by higher priority transmission. Additionally, the load-serving entity must have an allocation of import capacity at the import scheduling point under ISO Tariff Section 40.4.6.2 that cannot be less than the RA capacity provided by the dynamic system resource.

The ISO also notes that variable energy resources within the ISO balancing authority area have an additional protocol for establishing qualifying capacity. CPUC decision D.09-06-028 established an exceedance methodology to determine qualifying capacity for wind and solar resources. The ISO proposes to apply the same

exceedance methodology used for establishing qualifying capacity for variable resources within the ISO balancing authority area to imports, including dynamic transfers of variable energy resources.⁶

**E. Qualifying Capacity Rules for Distributed Generation Resources
Candidate Issue #8**

The ISO supports candidate issue #8 as in-scope. The Commission should address how distributed generation qualifies for RA depending upon its configuration. In other words, should distributed generation that is behind-the-meter with no import capability be treated exactly the same as distributed generation that is expressly participating in the market? The first configuration is a load modifier while the latter operates like a supply-side resource. The Commission's RA program must ensure that distributed generation is not double counted by both reducing peak load, which is the basis for establishing the RA requirement, and counting as a RA supply resource. These issues need to be resolved definitively, especially as the projected number of distributed generators will increase substantially over the next few years.

**F. Resource Adequacy Rules for Energy Storage Systems
Candidate Issue #10**

With regard to OIR Appendix A, candidate issue #10, the ISO believes energy storage resources have the potential to enhance grid reliability and help with the integration of intermittent renewable resources. Establishing clear RA counting rules for energy storage applications is an important element to enable the growth of energy storage resources. Although it is important to take up this issue, additional time will be necessary to develop RA rules for energy storage systems over the next few months. The CPUC's storage proceeding (R.10-12-007) is still underway and the CPUC has not

⁶ Concerning resource adequacy and dynamic transfers is discussed in the ISO's Dynamic Transfers Final Proposal found on page 10 at <http://www.caiso.com/Documents/FinalProposal-DynamicTransfers.pdf>

made a determination as to what constitutes a viable and cost-effective energy storage application. The ISO understands that there are legislated milestones associated with AB 2514 and that further policy development is required before detailed consideration can be given to new or amended RA counting rules. This is an important discussion, but the Commission should consider rules for energy storage applications in Phase 2 of this proceeding.

IV. ISSUES THAT SHOULD BE ADDED TO THE SCOPE OF THE PROCEEDING

A. The RA Treatment of Dynamic Rates

Commission decision D.11-10-003, issued October 6, 2011, refined the resource adequacy program regarding demand response resources. Specifically, the decision determined that “[r]etail demand response resources are required to be dispatchable locally in order to receive local Resource Adequacy credits starting in the 2013 resource adequacy year, except for dynamic pricing programs.”⁷ The Commission deferred discussion of the resource adequacy treatment of dynamic rates to a future resource adequacy proceeding because more time was needed to build the record on this issue.⁸

The ISO agrees with the Commission’s resource adequacy decision D.11-10-003 that the resource adequacy treatment of dynamic rates should be taken up in a RA proceeding. This is not an issue that should be addressed case-by-case in a utility’s general rate case proceeding. This is an issue that crosses the boundaries of the investor owned utilities and is steeped in the nexus of issues between demand response and resource adequacy; this is not a rate design issue. Rather, the issue is whether or not a retail rate should qualify either as a supply-side capacity resource or as a load modifier that reduces the overall resource adequacy requirement. Under the

⁷ D.11-10-003 at p. 11.

⁸ D.11-10-003 at p. 12.

current RA program, dynamic rates are treated as if they are supply-side capacity resources. The ISO believes this is an incorrect and inappropriate characterization and RA treatment of retail rates. Retail dynamic rates should be treated as a load modifier, reducing the overall RA requirement and extracting their value in this manner. Accordingly, the ISO requests that the RA treatment of dynamic rates should be added to the scope of Phase 1 of this proceeding.

B. Replacement Rule

Commission Decision 11-06-022 in the RA proceeding for 2012 stated that the existing replacement rule administered by the CPUC would be eliminated from the RA program beginning with the 2013 RA year.⁹ In its comments in that proceeding, the ISO indicated that in order for grid reliability to continue in the absence of the replacement rule, the ISO would need to develop and implement various changes to the policy, procedures, and systems through which the ISO manages planned outages.¹⁰ The ISO has been working on the necessary changes for the past several months, and will in the near future institute a stakeholder process to determine the needed changes. However, because some of these proposed changes may involve changes as to how outages are handled for RA resources, the ISO requests that the replacement rule and potential modifications to the RA program necessitated by its removal from the CPUC RA program be included in the scope of this proceeding. The ISO will inform the CPUC during the course of this RA proceeding on its efforts in the ISO stakeholder process and its progress in effectively addressing this topic.

⁹ Decision 11-06-22, Decision Adopting Local Procurement Obligations for 2012 and Further Refining the Resource Adequacy Program, Rulemaking 09-10-032 (July 1, 2011).

¹⁰ ISO Comments on Phase 1 Workshop Issues, Rulemaking 09-10-032 (March 12, 2010), pp. 8-10.

V. CONCLUSION

The ISO respectfully requests that the CPUC issue a scoping memo in this OIR consistent with the ISO's recommendations.

Respectfully submitted,

By: /s/ Beth Ann Burns

Nancy Saracino
General Counsel
Anthony Ivancovich
Assistant General Counsel
Beth Ann Burns
Senior Counsel
151 Blue Ravine Road
Folsom California 95630
Tel: (916) 351-4400
Fax: (916) 608-7296
aivancovich@caiso.com
bburns@caiso.com

Attorneys for
California Independent System
Operator Corporation

Date: November 7, 2011

CERTIFICATE OF SERVICE

I hereby certify that on November 7, 2011, I served, by electronic and United States mail, a copy of the foregoing Initial Comments of the California Independent System Operator Corporation on the Order Instituting Rulemaking in Docket No. R.11-10-023.

Executed on November 7, 2011
at Folsom, California

Anna M. Pascuzzo
Anna M. Pascuzzo
An Employee of the California
Independent System Operator