STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

April 1, 2010

To: CAISO
From: Donald Brooks, Kevin Dudney/Energy Division
Elizabeth Dorman/Legal Division
Re: CPUC Staff Comments On CAISO Standard Capacity Product Alternatives Paper

The CPUC staff wishes to thank the CAISO for posting the Alternatives Paper on March 18, and for convening the stakeholder conference call on March 24. The CPUC staff wishes to submit these limited comments regarding the alternatives proposed in the paper, and to generally support the CAISO's progress towards developing a SCP tariff that is reasonable and able to be efficiently administered. Staff wishes to provide clarification of a term, supports the proposed availability calculation featuring measurement of actual energy generated in a forced outage hour, and reiterates support for the first alternative presented regarding a voluntary replacement obligation instead of a mandatory replacement obligation.

Staff wishes to provide a clarification to the alternatives paper:
In several places such as the middle paragraph of section 2.2, the first full paragraph of section 2.3, and the entire section 2.3.2, there are references to QF resources. These references should be more precise and refer to cogeneration resources instead. QF contracts are a type of contract, not a type of generation technology. Wind and solar resources may or may not have QF contracts. The CPUC staff likewise made comments regarding cogeneration resources, not QF resources in general.

Section 2.3.1:
The CPUC staff supports the CAISO's proposed alternative to the availability metric for intermittent resources discussed in section 2.3.1, because it provides a mechanism for a resource to be deemed available at times when it is able to generate energy even though part of the facility is impacted by a forced outage. The CPUC staff believes that this strikes a good balance between penalties for unavailability and demonstrated availability to produce energy.

Section 3.2.1:
The CPUC staff strongly supports the first alternative refinement of the January 19th proposal to the replacement rule discussed in section 3.2.1. The proposed refinement to the January 19th proposal maintains the voluntary nature of the replacement, and leaves open the option that the CAISO can approve an outage and determine that replacement capacity is not necessary on a case by case basis. By making the capacity replacement voluntary, the CAISO implicitly agrees to manage outages based on its superior knowledge of grid conditions, instead of requiring suppliers and LSEs to anticipate grid

needs. Such a rule allows suppliers to secure replacement when the CAISO determines such replacement is necessary to maintain grid stability during proposed scheduled maintenance, but leaves the CAISO as the primary outage coordinator. A mandatory replacement obligation would tend to result in suppliers hoping to maintain compliance providing replacement capacity more often than is needed, at the expense of ratepayers. Some suppliers may be impacted by public image considerations, and would provide replacement in instances where the CAISO, or even their own operators, knew it was likely to be excessive and ineffective; while other suppliers would never provide replacement and take a gamble on excess capacity filling the gap.

In sum, a voluntary replacement obligation gives suppliers the opportunity to provide replacement only when the CAISO needs it, and to choose the most effective replacement based on CAISO consideration and feedback. A mandatory replacement obligation may still result in dialogue with the CAISO about whether replacement is needed and which particular capacity is most effective to procure, but it is less likely to be optimally administered than a voluntary replacement obligation.

As the major differences between the proposed replacement obligation and the first alternative revision to the January 19th proposal are the difference between mandatory and voluntary replacement, CPUC staff prefers voluntary replacement and thus the first alternative. Both are preferable to the second alternative, in which the CPUC continues its current procedures while the CAISO continues to work on this subject. Parties have noted in recent comments to the Commission that there is uncertainty with regard to what the CPUC's actions will be regarding the current LSE-based replacement obligation should the CAISO fail to file a replacement obligation proposal at FERC. The Commission has not yet had the opportunity to address those questions. The CPUC staff encourages the CAISO to work towards approval of the refined January 19th proposal. If this is not possible until the May CAISO Board meeting, the delay until May is preferable to a delay until the next RA compliance year.

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