

Stakeholder Comments Template

Reliability Services Initiative - Phase 2

Second Revised Draft Final Proposal

Submitted by	Company	Date Submitted
<i>Michele Kito, (415) 703-2197 Jaime Gannon, (415) 703-2818</i>	<i>Energy Division California Public Utilities Commission</i>	<i>September 30, 2016</i>

This template has been created for submission of stakeholder comments on the second revised draft final proposal for the Reliability Services Initiative - Phase 2 that was posted on September 16, 2016. The revised draft final proposal and other information related to this initiative may be found at: <http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityServices.aspx>.

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **September 30, 2016**.

If you are interested in providing written comments, please organize your comments into one or more of the categories listed below as well as state if you support, oppose, or have no comment on the proposal.

1. Forced outage substitute capacity for RA resources capacity in local capacity areas. *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

Energy Division staff oppose the CAISO’s proposed changes to its forced outage substitution rules for local capacity. Over the past year, this proposal has changed considerably in each of the six iterations subsequent to the issue paper released on August 19, 2015. As explained in further detail below, Energy Division staff is concerned that the most recent changes in the “2nd Revised Draft Final Proposal,” could adversely affect reliability, increase costs, create confusion, and result in inconsistencies with the CPUC’s RA showing requirements.

First, the CAISO made an important, and problematic, change in its proposal regarding forced outage rules for local resources between the “Revised Draft Final,” issued on July 7, 2016 and the “2nd Revised Draft Final Proposal,” issued on September 16, 2016. In its “Revised Draft Final,” CAISO indicated that “The ISO will only use the designated local capacity, not the total capacity of the resource, to determine whether an LSE has shown sufficient local capacity to meet its local requirements.” (Revised Draft Final, p. 13.) In the “2nd Revised Draft Final” (i.e., the most recent proposal that CAISO has indicated it will take to the Board), however, the CAISO appears to have changed its position, stating that, “The ISO is not proposing to change its local RA assessment methodology and will continue to assess whether an LSE is *individually* sufficient in meeting its local RA obligation using all of its capacity on its RA showings that is physically located in a local capacity area, exactly as is done today.” (Emphasis added.) As explained below, Energy Division staff believes

that the CAISO's current position could lead to free-ridership, fewer resources willing to provide local replacement, and additional CPM designations.

The primary problem with the CAISO's current proposal is that it does not recognize that generators and LSEs could withhold the local "replacement" attribute, which could lead to CPM designations and additional costs for other LSEs. For example, a generator could offer and an LSE could buy a resource in a local area, but they could agree that the generator would not provide local substitution. In this instance, the LSE could "show" only system resources, but from the CAISO's perspective, the LSE would have no individual local deficiency because the CAISO will "assess whether an LSE is individually sufficient in meeting its local RA obligation using all of its capacity on its RA showings that is physically located in a local capacity area." In the operational space, this generator could go on outage, replace with a system resource and a CPM designation could be triggered if local capacity is indeed needed. This would be costly for customers, and could lead to cost-shifting from the customers of one LSE to another. In this instance, this LSE could lean on others through the CPM designation mechanism, the costs of which are primarily borne by the larger IOUs and their bundled service customers.

In addition to possibly degrading reliability and increasing costs for the ratepayers of California, Energy Division staff believes that the CAISO's proposed changes to its current policy could create and perpetuate confusion. Many parties, including the CAISO, continue to discuss local resources that are "sold" or "procured" as system RA capacity. In its latest staff proposal, for example, CAISO states that "The ISO proposes to modify the template for RA showings and supply plans for both the annual and month-ahead RA submissions and require entities to specify the MWs of capacity that have been *procured* to meet local and system RA capacity requirements. (2nd Revised Draft Final, p. 6, emphasis added.) Energy Division staff believe that this misconception that local resources are sold solely as system capacity (even if located in a local area) is largely incorrect. In most cases of which we are aware, LSEs have acquired all capacity attributes, including the local attribute. The CAISO's contention that we should treat these resources differently because they were contracted for differently perpetuates this confusion. Moreover, because LSEs typically retain the capacity attributes, they could choose to designate a particular local resource as "local," "partially local," or "system" and this designation could change from year to year. While this provides flexibility for LSEs, it appears that it would create additional confusion within the CAISO's currently proposed construct (e.g., How will the scheduling coordinator for the resource (if it is not the LSE), know how the LSE has "designated" its capacity? What if there is a discrepancy between the SC and the generator about this "designation"? Will contracts need to be modified or become more complex as a result of these uncertainties?)

Energy Division staff also believe that the CAISO's proposal would create inconsistencies with the CPUC's RA showing process and these additional requirements will complicate an already overly complex web of resource adequacy requirements and increase costs and administrative burden. In an earlier version of its proposal, the CAISO indicated that fully unbundling local and system capacity could have some benefits, but noted that "it is not clear that such a structure is compatible with LRA capacity programs," and that "the CPUC's RA program currently considers all local capacity as system capacity." CAISO concluded that "Making a fully separate local capacity product must be done in conjunction with LRAs to avoid double procurement of capacity." Since the CPUC has not yet considered or changed its position regarding unbundling system or local capacity, we agree with CAISO's earlier assessment that this must be done in conjunction with LRAs. Energy Division staff believe that moving forward with its proposal at this point, without resolving the inconsistencies with

the CPUC program will increase administrative burden, create confusion, and potentially adversely affect contracting and reliability.

Finally, Energy Division staff note that at the beginning of this process, CAISO indicated that it would not adopt changes “absent a compelling alternative that ensures local reliability is not degraded by replacing a resource in a local capacity area going on a forced outage with a system resource.” (Straw Proposal, p. 13.) Energy Division staff do not believe that CAISO has affirmatively demonstrated that its proposal will not degrade reliability and, therefore, we believe that the CAISO should not move forward with its current proposal at this point in time.

2. Process to update Effective Flexible Capacity (EFC) list during the year. *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

Energy Division staff supports this proposal

3. RA showing tracking and notification. *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

Energy Division staff has no comment on the proposal

4. RA showing requirements for small LSEs. *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

Energy Division staff has no comment on this proposal.

APPENDI X B

Energy Division staff is concerned about the timeline in the graphic presented in Appendix B, given that T-45 supply plans are not consistently provided in a timely fashion. Consequently, this timeline should be dependent and change if T-45 supply plans are not provided at T-42.