

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

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years

Rulemaking 17-09-020
(Filed September 28, 2017)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON PROPOSED DECISION**

I. Introduction

The California System Operator Corporation (CAISO) hereby provides comments on the Proposed *Decision Refining the Resource Adequacy Program* (Proposed Decision).

II. Discussion

The CAISO appreciates the Commission's efforts to adopt and implement multi-year local capacity procurement requirements in this proceeding. The CAISO strongly supports the Proposed Decision's three-year forward local capacity procurement requirements and the procurement levels. The CAISO also supports the decision to establish and implement central buyer procurement for the 2020 resource adequacy compliance year. These program enhancements represent significant and timely steps in the Commission's efforts to modify the resource adequacy program to ensure that local capacity resources are procured and retained.

Though the CAISO supports the major elements of the Proposed Decision, it continues to believe that additional refinements to the resource adequacy program are necessary. Specifically, regarding forward local capacity procurement requirements, the CAISO recommends that the Commission (1) disaggregate local area and sub-area procurement requirements and (2) adopt an effective mechanism to enforce forward procurement requirements. Failure to address these issues will lead to increased risk of CAISO backstop procurement and continued risk of retirement for units that are necessary to

maintain local reliability. In the subsections below, the CAISO addresses these issues in more detail.

On a system level, the Commission should closely monitor whether to add multi-year-forward procurement requirements for system and flexible resources. The Proposed Decision focuses on local resource adequacy procurement, because recent local resource adequacy deficiencies and prospective local resource retirements have led to increased CAISO backstop procurement in recent years. The Commission should proactively address multi-year system and flexible forward procurement to avoid any future need for CAISO backstop procurement.

A. Disaggregating Procurement Requirements by Local Capacity Area and Sub-Area and Market Power

Throughout this proceeding, the CAISO supported disaggregating local capacity procurement by local area and sub-area. Disaggregation would result in more efficient and effective local capacity procurement; ensure that central buyers procure adequate capacity in each local capacity area and sub-area; and reduce the need for CAISO backstop procurement. The Proposed Decision does not disaggregate local capacity procurement requirements, noting that it does “not consider disaggregation a viable option at this time” because “market power issues may arise for small sub-local areas with capacity constraints.”¹ In its August 8, 2018 comments, the CAISO acknowledged that certain resources may have market power in constrained local areas or sub-areas, but that the existence of such market power is common knowledge and that the Commission should put in place cost-of-service procurement to address market power concerns.² Aggregating local capacity area procurement by transmission access charge (TAC) area does not address market power concerns. Rather, simply masks potential procurement deficiencies and increases the probability that the CAISO will be required to use its backstop procurement authority.

By rejecting disaggregation, the Proposed Decision allows for inefficient procurement and increased CAISO backstop procurement. For example, if the central buyer believes capacity costs in one local area are too high or constitute an exercise of market power, the Proposed Decision permits the central buyer to procure capacity in another local area to meet the aggregated TAC area local capacity requirement. Such procurement will not avoid

¹ Proposed Decision, p. 22.

² http://www.aiso.com/Documents/Aug8_2018_ReplyComments_Track2_RAProgram_R17-09-020.pdf at p.5.

CAISO backstop procurement, thus resulting in a higher overall cost to ratepayers.

The CAISO reiterates that the Proposed Decision’s continued aggregation of local capacity requirements by TAC area is more likely to lead to inefficient and ineffective local procurement. Instead, the Commission should adopt the CAISO proposed cost-of-service concept to address market power concerns in the first instance, and disaggregate the local capacity area and sub-area procurement requirements. If the Commission does not disaggregate local capacity procurement requirements, the CAISO requests additional detail regarding how central buyers will ensure that specific local areas and sub-areas requirements will be met and avoid relying on CAISO backstop procurement.

B. Multi-Year CAISO Backstop Procurement

The Proposed Decision recommends that “CAISO backstop mechanisms should not be expanded beyond an annual process at this point.”³ However, the Proposed Decision does not adopt an enforcement mechanism for forward procurement requirements. The Proposed Decision specifically states that “central buyers should not be assessed fines or penalties for failing to procure resources to meet the local [resource adequacy] requirements, as long as the central buyers exercise reasonable efforts to secure capacity and the [independent evaluator] report contains the reasons for the failures to procure.”⁴

Additionally, the Proposed Decision gives “central buyers discretion to defer procurement of a local resource to the CAISO’s backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high.”⁵ However, the Proposed Decision does not provide guidance regarding what metrics or criteria the central buyer should use in making this determination. Without additional guidance, the central buyers could defer a significant amount of local capacity procurement to CAISO, thereby defeating an important purpose of the multi-year local capacity procurement requirements. The Commission should provide additional clarity and instruction to the central buyers to help guide and inform their decisions about when and why they can defer procurement and how oversight mechanisms will be involved in this procurement assessment, including how market power concerns should be addressed. For example, the Commission should specify whether

³ Proposed Decision, p. 59.

⁴ Proposed Decision, p. 54.

⁵ Proposed Decision, p. 53.

oversight will occur before, during, or after a central buyer's decision to defer procurement, and whether it will inquire into what was done during the procurement process to address market power concerns.

The CAISO is concerned that second and third year procurement targets will be ineffective without a defined enforcement mechanism. In the Proposed Decision's framework, the central buyer's second and third year procurement efforts could fall well below the targets, and the CAISO would not have adequate backstop authority to ensure these procurement targets are satisfied. This result would fail to achieve the purpose of having multi-year procurement in the first instance. By not addressing enforcement, the Proposed Decision inevitably raises the question regarding whether additional multi-year backstop procurement will be necessary.

C. CAISO Local Capacity Requirement Studies and Timeline

The Proposed Decision states that the Commission will use the CAISO's existing one- and five-year local capacity requirement studies, with engineer-managed adjustments for CAISO-approved transmission projects, to inform multi-year local requirements.⁶ The CAISO agrees with this approach and will provide the one- and five-year local capacity requirement studies with engineer-managed adjustments for years two and three for the Commission to establish multi-year local procurement requirements.

The Proposed Decision also provides a tentative timeline for the 2020 resource adequacy compliance year that notes that the CAISO will file draft local capacity studies in April 2019, but does not indicate that the CAISO will file the final studies with the Commission. The CAISO recommends that the Commission correct the timeline to indicate that the CAISO will file the final local capacity requirements studies with the Commission in early May 2019 and that the final studies will be used to establish multi-year procurement requirements.⁷

III. Conclusion

The CAISO appreciates this opportunity to provide comments on the Proposed

⁶ Proposed Decision, p. 27.

⁷ The CAISO notes that this change is consistent with proposed timeline set forth in Administrative Law Judge Chiv's December 4, 2018 e-mail to parties regarding the tentative Track 3 calendar.

Decision and looks forward to working with the Commission to continue to refine and improve the resource adequacy program in Track 3 of this proceeding.

Respectfully submitted,

By: /s/ Jordan Pinjuv

Roger E. Collanton

General Counsel

Anthony Ivancovich

Deputy General Counsel

Jordan Pinjuv

Senior Counsel

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

Tel: (916) 351-4429

Fax: (916) 608-7222

jpinjuv@caiso.com

Attorneys for the California Independent
System Operator Corporation

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