

December 29, 2017

Via U.S. Mail and Electronic Mail

Energy Division
Attn: Tariff Unit
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Email: edtariffunit@cpuc.ca.gov

**Re: California Independent System Operator Corporation Comments on
Draft Resolution E-4909**

Dear Energy Division:

The California Independent System Operator Corporation (CAISO) submits these comments in response to the California Public Utilities Commission's (Commission) Draft Resolution E-4909 (Draft Resolution). The Draft Resolution orders Pacific Gas and Electric Company (PG&E) to hold a competitive solicitation for energy storage and preferred resources to meet specific local area needs in three specified sub-areas: the Pease sub-area of the Sierra local capacity area (LCA); the Bogue sub-area of the Sierra LCA; and the South Bay-Moss Landing sub-area of the Bay Area LCA. The CAISO offers these comments to clarify certain facts surrounding the reliability must run (RMR) designation process and identify the potential benefits of a less restrictive implementation schedule than that contemplated in the Draft Resolution.

I. Discussion

The Draft Resolution addresses reliability deficiencies that led to the designation of three Calpine-owned resources – Feather River Energy Center (Feather River), Yuba City Energy Center (Yuba City), and Metcalf Energy Center (MEC) – as RMR Units under the CAISO Tariff.¹ The CAISO designated each of these as RMR Units in accordance with section 41.2 of its Federal Energy Regulatory Commission (FERC)-approved Tariff.

The CAISO welcomes the introduction of additional energy storage solutions and preferred resources into the market. However, the CAISO is concerned that the solicitation envisioned by the Draft Resolution sets an overly aggressive schedule, in part because the CAISO must make its decision whether to renew the RMR Contracts by October 1, 2018. By limiting the alternatives considered only to energy storage and preferred resources, and only to the extent those resources can be available by 2019, the resolution precludes identifying and

¹ Reliability Must-Run Unit is a defined term in the CAISO Tariff among other related capitalized terms used herein.

considering alternatives that might be part of a more efficient and effective overall solution but cannot meet the aggressive schedule.

The proposed schedule also precludes effective coordination with other processes, particularly the CAISO's annual transmission planning process (TPP). The planning process can consider previously approved transmission projects that are not yet in service and potential future transmission solutions as components of a more comprehensive solution to reduce or eliminate the need for RMR Contracts. As discussed in more detail below, the CAISO has already identified and approved infrastructure enhancements in the Feather River and Yuba City areas that would, in whole or in part, meet the local reliability needs at issue, but PG&E has not yet built them. Further, the needs in the South Bay-Moss Landing sub-area are complex and significant, and could require consideration of other potential resource retirements in the near future.

As discussed below, the CAISO recommends that if the Commission proceeds with the resolution, the resolution should be less prescriptive regarding schedule and allow for consideration of potentially more efficient, effective, and comprehensive solutions.

A. The Draft Resolution and associated timeline does not take into account past actions in the CAISO's transmission planning process or allow for future coordination with that process

The CAISO conducts an annual TPP to consider cost effective infrastructure enhancements to, among other things, address mandatory reliability standards, including local reliability needs. Transmission solutions, whether new or previously approved, can reduce or eliminate sub-area needs within local reliability areas. The TPP is designed to identify the most cost effective means to achieve these reliability goals. As described in greater detail in the following sections, the CAISO has already identified and approved infrastructure projects that could eliminate the need for two of the RMR designations, but they are not scheduled for completion in the near term.

1. MEC

MEC is required to meet the local capacity sub-area requirement in the South Bay-Moss Landing sub-area of the Greater Bay Area. In considering alternatives for this sub-area, consideration must be given to the magnitude of the potential deficiency without MEC; the potential for other retirements in the area; the impact on changes in Path 15 flows on transmission line loading in the sub-area; and the requirements for serving the high density load in the sub-area.

A comprehensive long-term solution to meet all of these needs requires comprehensive, detailed study so that current and future procurement plans can be integrated effectively into the overall solution. As noted above, the CAISO TPP is designed to identify the most cost effective solutions for such a situation, and these may include new capacity. The CAISO is committed to a comprehensive review of the sub-area needs and mitigating alternatives during the upcoming

2018-2019 TPP cycle.

2. Feather River

Feather River is needed to mitigate a high voltage issue in the Bogue sub-area. The reliability need is not a capacity need, but rather a voltage support issue. The voltage issue arises during periods of low demand. Although using the voltage control capabilities of the Feather River generator is currently the only available means to address this situation, demand response or energy efficiency solutions potentially could make the voltage issue worse, and an energy storage solution would not address the specific need; although, the associated inverters would provide some voltage relief. PG&E is also exploring better management of the source of the high voltage issues on the distribution system, and the CAISO has already approved two transmission projects that are expected to eliminate the need for the RMR Contract for Feather River in the spring of 2021: the Rio Oso 230/115 kV Transformer project, approved in the CAISO 2007 Transmission Plan; and the Rio Oso 230 kV Voltage Support project approved in the 2011-2012 Transmission Plan.

3. Yuba City

Yuba City is needed to meet local capacity requirements in the Pease sub-area.

Certain transmission upgrades to PG&E's system are expected to reduce the sub-area need. Specifically, the South of Palermo 115 kV reinforcement project, which the CAISO approved in 2011, is expected to reduce the MW capacity needs to a level that eliminates the need for the Yuba City Energy Center. PG&E's latest quarterly AB 970 project status report indicates that the scheduled in-service date for that project is December 2021.

In the 2018-2019 transmission planning cycle, the CAISO will address the remaining needs in this sub-area and potential solutions, which may include additional preferred resources or energy storage. However, in the near-term, Yuba City is the only available alternative to meet the local capacity need.

B. The CAISO requires certainty regarding the availability of alternative solutions earlier than the date contemplated in the Draft Resolution to decide not to extend the RMR contracts

The Draft Resolution requires PG&E to hold a competitive solicitation for energy storage and preferred resources within 30 days of the effective date, which is tentatively set for January 11, 2018. The Draft Resolution provides that the resources procured pursuant to the Draft Resolution process must be "on-line and operational by a date sufficient to ensure that the RMR Contracts for the three plants . . . will not be renewed for 2019."² The CAISO requires certainty regarding the availability of alternative solutions well before 2019 to decide not to extend the RMR contracts.

² Draft Resolution, p. 6.

Under Article 2.2 of the RMR Contract, if the CAISO does not extend the term of the agreement by October 1 of the current contract year, the CAISO may not re-designate the unit or any other unit at the same facility as an RMR Unit for a one year period following the expiration of the agreement.³ The exception to this prohibition on re-designation is narrow: if the need for the unit is due to “an extended outage of a generation or transmission facility not known to CAISO at the time of the termination or expiration.”⁴ This means that, if the CAISO were to terminate the RMR Contracts at the end of 2018, none of these units could be called upon to provide RMR service until 2020 absent some new reliability concern. If there is any uncertainty that the new resources might not be available in a timely manner or able to resolve the reliability problems, the CAISO would likely have to extend the contracts to avoid the risk.

C. Several statements in the Draft Resolution should be corrected.

The Draft Resolution contains some inaccurate descriptions that should be removed or corrected for the sake of clarity and an accurate record.

First, in describing the CAISO’s procurement process, the Draft Resolution suggests that the RMR Contracts at issue here are “the first time that the use of RMR has increased since 2006.”⁵ In fact, the CAISO issued new RMR designations for two units of the Huntington Beach Generating Station in September 2012.⁶ The CAISO report that the Commission cites in the Draft Resolution discusses the Huntington Beach synchronous condensers that were designated as RMR Units in 2012.⁷ The CAISO’s RMR authority is an important tool to enable the CAISO to comply with its statutory mandate to maintain the reliability of the CAISO grid. It is particularly useful when other mechanisms are not available or practicable, in which case RMR may be the only option.⁸

Second, the Draft Resolution’s description of the resource procurement process to meet reliability needs as proceeding in a set, step-by-step manner – beginning with resource adequacy (RA) competitive solicitations; then using the Capacity Procurement Mechanism (CPM) to cure RA shortfalls; and only considering RMR designations after these two option have been exhausted – does not present a complete or accurate picture. It does not describe the process the

³ CAISO Tariff, Appendix G, Article 2.2(d).

⁴ CAISO Tariff, Appendix G, Article 2.2(d).

⁵ Draft Resolution, p. 3.

⁶ CAISO Board of Governors, “Decision on Conditional Approval to Extend Certain Reliability Must-Run Contracts for 2013 and New Reliability Must-Run Designation for Huntington Beach Units 3 and 4 for Voltage Support” (Issued Sept. 13-14, 2012).

⁷ Draft Resolution, p. 3 (citing CAISO’s Decision on Conditional Approval to Extend Existing Reliability Must-Run Contracts for 2018, http://www.caiso.com/Documents/Decision_ConditionalApproval_ExtendRMRContracts_2018-Memo-Sep2017.pdf).

⁸ California Public Utilities Code §§ 345 and 345.5.

CAISO must follow in designating RMR Units and ignores that it would be both impractical and imprudent for the CAISO to rigidly proceed in the manner the Draft Resolution lays out.

The Draft Resolution cites to the CAISO staff memoranda that recommended RMR designations for Feather River, Yuba City, and MEC to support its description of the “normal process for procurement.”⁹ Those memoranda do not definitively establish a set procurement process, and they do not -- and cannot -- prescribe the specific steps described in the Draft Resolution. The CAISO is charged with maintaining reliable operation of the electric grid. In designating Feather River, Yuba City, and MEC for RMR service, the CAISO followed its FERC-approved Tariff, which gives the CAISO “the right at any time based upon CAISO Controlled Grid technical analyses and studies to designate a Generating Unit as a Reliability Must-Run Unit.”¹⁰ The CAISO performed the requisite studies and properly made the designations that are the subject of the Draft Resolution.¹¹

The flexibility to designate RMR Units as needed for reliability is critical in responding to changing market conditions, and it has served the CAISO well in the past. For example, the CAISO made the Huntington Beach RMR designation in response to the unexpected loss of the San Onofre Nuclear Generating Station Units 2 and 3 at the September 13, 2012 CAISO Board of Governors meeting. At the same Board meeting, the CAISO extended the term of RMR Contract with Dynegy Oakland for the 2013 calendar year, a decision the CAISO is required to make by October 1. This timing allows existing RMR Unit owners one month to prepare their annual RMR filings and make their FERC filings in sufficient time to meet the 60 days’ notice requirement under section 205 of the Federal Power Act. Importantly, however, significantly more lead time is needed to study the need for and designate a new RMR resource and to negotiate an RMR Contract.

Although the CAISO tariff allows the CAISO to designate RMR Units at any time, it is prudent to designate the resources as soon as the CAISO identifies a need and lack of practicable alternatives so there is sufficient time to negotiate the resource-specific rates, terms, and conditions. Also, RMR designation does not preclude a load serving entity (LSE) from subsequently procuring resources designated for RMR service. The designation by the CAISO Governing Board merely authorizes CAISO Management to negotiate RMR terms and conditions; it does not require the CAISO to enter into an RMR Contract. If the RMR designated resource is procured as an RA resource, an RMR Contract may not be needed, or the resource may operate under contract as both an RA and RMR resource.

In this case, the CAISO memorandum proposing RMR designations for the Calpine units noted the possibility LSEs could still procure the units as RA units. However, that possibility seemed remote because PG&E did not conduct an RA solicitation for capacity for 2018 and did not enter into any new RA contracts for 2018. Thus, it was clear early on that the RA

⁹ Draft Resolution, p. 3 FN 6.

¹⁰ CAISO Tariff, § 41.2.

¹¹ The Commission may have in mind the timing the CAISO follows in deciding whether to extend existing RMR Contracts, but those procedures do not control new designations of RMR Units.

mechanism was not an available means to satisfy the local reliability needs at issue here. It is also important to note that RA program is not designed to ensure that the CAISO's sub-area requirements are met, nor does the RA program ensure that all types of local reliability needs, including voltage support, are met.

Also, it is important to recognize that CPM is voluntary. Calpine apprised the CAISO that it would not accept a CPM designation. Even if the CAISO was required to use the step-by-step process described in the Draft Resolution, the CAISO would need sufficient flexibility to avoid the requirement that it proceed through steps that would serve no purpose – such as making a CPM offer that it knew in advance would be rejected.

Finally, the CAISO notes that broader reforms are likely needed for the underlying issues the Draft Resolution seeks to address. The CAISO has committed to conducting a stakeholder process to review RMR and CPM, and we look forward to the Commission's participation in that forum. Likewise, the CAISO encourages the Commission to consider addressing the fundamental structure of the RA program in light of a rapidly transforming grid.

III. Conclusion

Based on the foregoing, the CAISO respectfully requests that the Commission consider these comments carefully before taking action on Draft Resolution E-4909.

Respectfully submitted,

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Service Lists R.15-03-011 and R.17-09-020