

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

Order Instituting Rulemaking to Consider Refinements to and Further Development of the Commission's Resource Adequacy Requirements Program.

Rulemaking R.05-12-013
(December 15, 2005)

**REPLY COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR
ON PROPOSED DECISION**

Pursuant Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC") and the Assigned Administrative Law Judge's November 19, 2009 Ruling Extending Time For Comments and Replies, the California Independent System Operator Corporation ("ISO") submits the following reply comments on the Proposed Decision issued on November 3, 2009 in this proceeding.

I. CENTRAL CAPACITY MARKET

The initial comments on the Proposed Decision establish a significant consensus on the key issues in this proceeding. They express almost unanimous support, across a wide diversity of interests, including the ISO, for adopting the multi-year forward Resource Adequacy ("RA") capacity procurement obligation, in conjunction with a central capacity market.¹ The comments recognize that the central capacity market is superior to the bilateral trading approach recommended in the Proposed Decision for

¹ Comments submitted on December 2, 2009 by (i) the California Forward Capacity Market Advocates (NextEra Energy Resources, LLC, NRG Energy, Inc., RRI Energy, Inc., San Diego Gas & Electric Company, and Southern California Edison Company), Alliance for Retail Energy Markets (Sempra Energy Solutions, Constellation Energy Commodities, Direct Energy LLC and RRI Energy, Inc.), Direct Access Customer Coalition (commercial, industrial and governmental end user customers participating in direct access), Safeway, Inc., Sempra Generation, Dynegy (Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, and Dynegy Oakland, LLC), AES Southland, LLC, and the Regents of the University of California; (ii) Southern California Edison Company; (iii) Independent Energy Producers Association; (iv) Alliance for Retail Energy Markets; (v) Direct Access Customer Coalition; (vi) Calpine Corporation; (vii) Dynegy; and (viii) the ISO.

numerous reasons, including transparency of capacity prices, economic efficiency, equitable allocation of RA capacity costs, and the ability to better accommodate direct access programs, all without adversely affecting the CPUC's ability to direct and oversee the capacity procurement of its jurisdictional load serving entities to further the achievement of state environmental policy goals.

In recognition of this broad consensus and the substantive support for the central capacity market contained in the initial comments on the Proposed Decision, the ISO urges the CPUC to revise the Proposed Decision to adopt the central capacity market in conjunction with the multi-year forward RA capacity procurement obligation as the preferred policy alternative. The comments show that the central capacity market will complement and enhance the effectiveness of the multi-year forward RA program better than a purely bilateral approach, for reasons including the following:

- The essential strengths of a central capacity market are far more conducive than the bilateral trading approach to achieving the goals of the RA program.
- The central capacity market will produce transparent capacity prices through a market clearing mechanism, which will lead to the most efficient procurement of RA capacity because it will provide a level and open playing field for competition among existing generation, new generation investment, repowering or retirement decisions, and demand response investment.
- The central capacity market will allow for settlement of charges to load-serving entities and payments to suppliers at the end of each compliance month, which will ensure that each load-serving entity is charged for its RA capacity requirement based on its actual load each month rather than based

on a forecast.

- The central capacity market featuring ex-post settlement for load-serving entities will very effectively resolve the concern raised with respect to the determination of quantitative capacity procurement obligations for each load-serving entity three to five years in advance of each compliance year, given the uncertainty associated with load forecasting and the potential for direct access load migration.
- The central capacity market with a sequence of reconfiguration auctions will provide a natural backstop procurement mechanism that is fully integral to the capacity market design.
- The central capacity market will provide an explicit platform for evaluating whether investment in new supply and demand response resources could substitute for a transmission upgrade into a constrained local load area; and will provide the mechanism both for making the economic decision between transmission and non-wires alternatives and for committing the suppliers to deliver those non-wires resources that clear the market.
- The central capacity market represents the most efficient and equitable means to fulfill the requirements of Public Utilities Code Section 380, which requires the CPUC to adopt the most efficient and equitable means for meeting the objectives of the statute, ensuring that investment is made in new generating capacity, ensuring retention of existing generating capacity that is economic; and ensuring that the cost of generating capacity is allocated equitably.

- The central capacity market structure will provide greater transparency into RA capacity prices and send more meaningful price signals than bilateral contracts whose prices and terms are not public, which will induce greater competition in the supply of RA capacity than a purely bilateral contracting approach would do.
- The cost allocation approach of a central capacity market, which allocates responsibility for RA capacity costs to load-serving entities after the fact based on their actual load in each compliance month, will be the most accurate cost allocation approach, thereby avoiding cost-shifting, which will simplify and minimize enforcement costs.
- The central capacity market will not adversely affect the CPUC's ability to achieve state environmental goals through continued oversight and direction of its jurisdictional load-serving entities' procurement of RA capacity, including environmentally preferable resource types.

In the aggregate, these are compelling reasons why establishing a central capacity market will best enable achievement of the overall goal of the RA program of facilitating efficient competition among infrastructure investments to meet end-use demand at reasonable prices and reliably provide for the operating requirements of the ISO balancing authority area. They clearly support revision of the Proposed Decision to adopt the central capacity market, which will better meet the needs of the RA program and fulfill the requirements of Public Utilities Code Section 380.

II. CONCLUSION

For the foregoing reasons, the CAISO respectfully requests that the Commission

adopt the CAISO's positions and recommendations in this matter, and establish a long-term RA framework consistent with the discussion in these comments.

Respectfully submitted,

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DATED December 11, 2009

CERTIFICATE OF SERVICE

I hereby certify that on December 11, 2009, I served, by electronic and United States mail, a copy of the foregoing Reply Comments of the California Independent System Operator on Proposed Decision to each party in Docket No. R.05-12-013.

Executed on December 11, 2009
at Folsom, California

/s/ Anna Pascuzzo

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An Employee of the California
Independent System Operator