

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

Order Instituting Rulemaking to Consider	)	
Annual Revisions to Local Procurement	)	R.08-01-025
Obligations and Refinements to the	)	
Resource Adequacy Program	)	
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**COMMENTS OF THE  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
ON ORDER INSTITUTING RULEMAKING**

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The California Independent System Operator (“CAISO”) respectfully submits comments on the Order Instituting Rulemaking (“OIR”) adopted by the Commission on January 31, 2008.

**I. Introduction**

The CAISO appreciates the opportunity to provide comments on the OIR, which commences a rulemaking proceeding to succeed R.05-12-013 and thereby continue the Commission’s efforts to refine the implementation and administration of the existing resource adequacy (“RA”) program.

The CAISO supports the phased approach adopted by the OIR and its practical recognition of the need to narrowly focus Phase 1 on issues related to local capacity procurement and to defer other potential programmatic revisions to a subsequent Phase 2. Such an approach should reasonably facilitate the current RA program’s general objective of establishing the local capacity procurement obligations by June of each year. However, as discussed further below, the CAISO believes that the OIR’s description of

the scope of Phase 1 and its interplay with existing CAISO processes requires some additional clarification.

The CAISO also largely supports the proposed scope of Phase 2. In particular, the CAISO believes this proceeding offers an appropriate opportunity to review rules associated with determining the qualifying capacity of various resource types, with coordinating outage counting rules with CAISO Tariff provisions, with defining the schedule for the RA compliance year, and with filing and reporting procedures, among other things.

The CAISO further acknowledges the Commission's desire to further advance the efforts to achieve a standardized RA contract as advanced by Calpine Corporation. However, much of Calpine's proposal implicates, and requires modifications to, the CAISO Tariff. The CAISO is currently not in position to commit to engaging in the processes necessary to effectuate such modifications until policy preferences are expressed through the CAISO's "Market Initiatives Roadmap" prioritization process to be vetted with stakeholders in the first half of 2008. Consequently, the CAISO believes the Calpine proposal should be deferred, at a minimum, until Phase 2 and only after the Commission has clearly delineated the issues that require Commission decision in contrast to those that must be assigned to and vetted through CAISO processes.

## **II. Scope of Phase 1**

The OIR defines the scope of Phase 1 as:

- Reviewing the local capacity requirements (LCRs) determined by the CAISO for the 2009 RA compliance year;
- Establishing local procurement obligations to be met by LSEs based on LCRs reviewed and approved by the Commission; and

- Considering how the LCR study process, parameters, methods, and assumptions might be improved over time.

The CAISO recognizes that the Commission must review and, at its discretion, approve or reject the results of the CAISO’s Local Capacity Technical Study as the basis for the local capacity procurement obligations it will establish for its jurisdictional LSEs. As such, the Commission may engage in evaluating such topics as whether local areas should be aggregated, the extent to which LSE procurement obligations should be adjusted or waived for local areas with CAISO-identified resource deficiencies, and, as noted in the OIR, the reliability criteria targeted through procurement obligations. The CAISO acknowledges that for purposes of establishing procurement obligations, the Commission is free to select desired reliability criteria for its jurisdictional entities.

However, the OIR also notes that through this rulemaking, “the Commission will maintain ongoing oversight of the LCR study and consider means by which the process, parameters, methods, and assumptions might be improved over time.” To the extent the “LCR study” in the OIR refers to the CAISO’s Local Capacity Technical Study, the CAISO notes that it is under an obligation under its FERC approved tariff to work with the Commission and other Local Regulatory Authorities in the context of the Local Capacity Technical Study process to determine local capacity study methods, parameters, and assumptions. As such, it is not clear whether the Commission contemplates utilizing this proceeding to dictate changes to the CAISO Local Capacity Technical Study or to develop positions to advocate through the CAISO’s study process. The CAISO believes this aspect of the rulemaking should be clarified.

Nevertheless, the CAISO emphasizes its commitment to assist the Commission to assess the viability and desirability of applying a probabilistic assessment to determine capacity requirements and believes that the instant rulemaking provides an opportunity to advance such an assessment.

### **III. Scope of Phase 2**

As noted, the CAISO generally supports the scope of Phase 2. The CAISO believes each of the following items listed in the OIR is significantly important to warrant Commission consideration:

- Review of rules for counting the qualifying capacity of various resource types, including, in particular, intermittent and demand response resources.
- Review of outage counting rules to ensure coordination of the RA program with CAISO tariff provisions.
- Review of load forecasting protocols, including possible provision for load migration impacts for local RA.
- Review of compliance issues including changing the schedule of the compliance year (*e.g.* May 1 through April 30).
- Modifying RA filing and reporting procedures to reduce paperwork and the need for corrections to filings.

The CAISO is particularly interested in first and last of the foregoing items. In this regard, the CAISO harbors concerns as to the qualifying capacity rules associated with certain resource types, such as hydro, wind, solar, and demand response products. Now that the Commission has approximately a year and half of experience with the existing qualifying capacity counting provisions, the CAISO believes it is appropriate to revisit the provisions' ability to reasonably anticipate available capacity from these valuable, but highly variable resources. The CAISO appreciates the financial implications that may come from an adjustment (higher or lower) in the quantity of

capacity that may be reflected for any specific resource in the RA showings of LSEs. However, the Commission and the CAISO have common interests to ensure that the capacity that is procured through the RA process is available to be called on when and where needed. As such, the CAISO requests that the Scoping Memo assign a high priority to reviewing the qualifying capacity counting rules, including those relating to hydro resources.

The need to review the counting rules assigned to hydro resources, and their operational implications, is particularly important given the large proportion of California's RA "fleet" is comprised of such resources. As stated in the October 9, 2007 Market Monitoring Report provided to the CAISO Board of Governors, and posted to the CAISO website at: <http://www.caiso.com/1c73/1c73b0135e3a10.pdf>, "In 2007, roughly 4,500 MW of hydroelectric capacity was counted toward RA requirements, which is about 8% of the total system-wide RA requirement. In low hydro years, it is possible that not all of the capacity from hydro resources that is counted toward meeting RA requirements will be available to meet load during peak hours."

The OIR also suggests that consideration of the Calpine standard contract RA proposal will be assigned to Phase 2, but requests comments from parties whether it should be transferred to Phase 1 for consideration. The CAISO recommends that this topic remain in Phase 2 and possibly deferred to a later phase or proceeding. In this regard, the Calpine proposal rests on clearly dividing the obligations of buyers and sellers of RA capacity and defining the suppliers' obligations in the CAISO Tariff. This indicates that two processes will be necessary to fully evaluate Calpine's proposal – one at the Commission and one at the CAISO. As the CAISO has repeatedly stated, the

CAISO's ability to marshal resources to engage in new initiatives at this time is limited.

In order to properly assign its limited resources, the CAISO has developed a Market Initiatives Roadmap to properly prioritize market initiatives. The CAISO anticipates identifying priority future initiatives through this process in the first half of 2008.

Accordingly, the CAISO recommends that the Scoping Memo conditionally assign this item to Phase 2 with the possibility that it be deferred further, if necessary, to better align with the CAISO schedule for addressing supplier performance obligations.

#### **IV. Conclusion**

The CAISO respectfully requests that the assigned Commissioner prepare a Scoping Memo consistent with the foregoing.

Respectfully submitted,

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Date: February 7, 2008

CERTIFICATE OF SERVICE

I hereby certify that on February 7, 2008, I served, by electronic mail and United States Mail, a copy of Comments Of The California Independent System Operator Corporation On Order Instituting Rulemaking on all parties in Docket Number R.08-01-025.

Dated at Folsom, California on February 7, 2008.

/s/ Susan L. Montana

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