

**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) R.09-10-032
Local Procurement Obligations.)
_____)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON PHASE 2 PROPOSALS**

In accordance with the Order Instituting Rulemaking (October 29, 2009) and the “Revised Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge Determining the Scope, Schedule, and Need for Hearing in this Proceeding” (February 3, 2011) issued by the California Public Utilities Commission (“CPUC”), the California Independent System Operator Corporation (“ISO”) respectfully submits its comments on the proposals filed in this proceeding on November 30, 2010 and discussed at the workshops conducted on January 18 and 25, 2011.¹

I. SUMMARY

The ISO continues to support the CPUC’s on-going efforts through these rulemaking proceedings to refine the resource adequacy (“RA”) program and enhance its ability to fulfill its fundamental purpose of ensuring that sufficient resources are available where and when needed. The ISO depends on the capacity of RA resources to be available in the areas and during the time periods it is needed to serve load, meet

¹ The ISO reserves the right to address the other issues listed in the Revised Scoping Memo, and any new matters, in response to the comments submitted by other parties.

appropriate reserve requirements, and support reliable operation of the ISO controlled grid. In order to maintain an effective RA program, it is important throughout this series of rulemaking proceedings that the CPUC, ISO, and stakeholders consider issues and proposals that will refine or enhance the RA program so that it better serves to facilitate open and efficient competition that will produce the optimal, cost-effective mix of existing resources and new infrastructure investments sufficient to meet end-use demand at stable and reasonable prices and reliably provide for the operating requirements of the ISO balancing authority area.

The ISO's proposals in this proceeding offer enhancements to the RA program to address how to incorporate the recent extension of the ISO's Standard Capacity Product ("SCP") to RA resources with historical Qualifying Capacity ("QC") and the planned extension to demand response resources into the RA framework. Specifically, the ISO proposes that:

- Demand Response. The CPUC should take steps in several key areas to ensure that retail demand response programs are making the transition necessary to fully integrate into the ISO's wholesale electricity markets -- (i) demand response resources seeking to count as RA resources should satisfactorily complete some form of certification, registration, or actual testing of their performance characteristics; (ii) demand response programs should be available for events at a minimum of four hours per event and three days in a row in order to count as RA resources; (iii) only those demand response resources that are capable of being dispatched by the ISO in the local area in which the need occurs should count as local

RA; and (iv) demand response programs should fit, to the extent they qualify, into the existing Maximum Cumulative Capacity (“MCC”) buckets as supply-side resources.

- RA Resources with Historical QC. The CPUC should mandate compliance with the SCP by the RA resources with Historical QC.
- Seasonal LCR Requirement. The proposal of San Diego Gas & Electric Company (“SDG&E”) to switch to a monthly or seasonal local RA requirement should be rejected because it incorrectly assumes that the change in methodology will reduce the local RA obligation in non-summer months, result in lower costs than the current year-ahead obligation, and not place a significant burden on the ISO.
- Peak-Day Pricing Program. The ISO encourages Pacific Gas and Electric Company (“PG&E”) to align the operating hours of its Peak-Day Pricing Program with the SCP availability assessment hours that will apply to demand response RA resources and should set up these programs as a resource that can participate in the wholesale market.
- Partial Year Counting of New Generation. The ISO supports the proposal of Southern California Edison Company (“SCE”) that the CPUC give load serving entities the option to count toward their RA requirement the capacity of new generation resources that come on-line during a compliance year for the months those resources supply capacity.
- Elimination of Preliminary Local Filing. The ISO does not object to the proposal of Energy Division staff to eliminate the Preliminary Local RAR

compliance showing by each load serving entity that lists all local RA units procured.

- Elimination of Portfolio Resources as RA Capacity. ISO does not object to the Energy Division's proposal to eliminate the rule allowing the use of portfolio resources and the corresponding portfolio resources tab in the RA System Template.

II. ISO PROPOSALS

A. Background

On January 1, 2010, the ISO implemented the Standard Capacity Product and an ancillary services must-offer obligation for RA resources, except for demand response resources and RA resources with historical QC.² Under SCP, each resource's RA capacity is tracked by the ISO for availability during specified availability assessment hours of each month (*i.e.*, the extent to which the total amount of a resource's RA capacity is available and not on a forced equipment outage or derate). The resource's calculated availability is subject to non-availability charges or availability incentive payments depending on direction and number of MWs by which the resource deviates from the monthly SCP availability standard.

The ISO temporarily deferred applying the SCP availability standards to demand response because initiatives were underway at both the CPUC and ISO to change the manner in which demand response resources participate in the California market. The ISO opted to defer applying SCP to RA resources with QC determined by historical

² RA Resources with historical QC refers to those resources whose QC for RA purposes is based on historical actual hourly output data from the CPUC or a local regulatory authority without removing or otherwise adjusting for forced outage hours that occur during the period when actual output is measured. The specific resources types that have historical QC are wind, solar, non-dispatchable cogeneration, non-dispatchable biomass and non-dispatchable geothermal facilities.

output in order to avoid “double counting” the impact of a resource’s forced outages -- once by an SCP non-availability charge for poor availability in the month in which the forced outage or de-rate occurred, and once by the CPUC counting rules that would account for the forced outage or de-rate through a reduction to the resource’s eligible QC for the next RA compliance year.

In its June 26, 2009 Order approving SCP, including the temporary exemptions for demand response resources and the variable energy resources, FERC emphasized that the exemptions were only temporary and directed the ISO to work diligently with stakeholders, the CPUC, and local regulatory authorities to end the exemptions in a timely manner.³ The ISO has since worked collaboratively with the CPUC and stakeholders to develop demand response products that enable the integration of retail demand response programs in the ISO market and to extend SCP to the deferred RA resources with historical QC.

B. Demand Response

Significant progress is occurring at the CPUC and the ISO to facilitate increased participation by demand response in the ISO market and grid operations. On June 25, 2010, the CPUC issued Decision 10-06-034 in Rulemaking R.07-01-041 regarding policies and protocols for aligning demand response with ISO market design. That decision adopted a settlement agreement reached by the parties, including the ISO, that resolved issues regarding emergency triggered demand response. This settlement led to development of the ISO’s reliability demand response product or RDRP that will enable retail emergency-triggered demand response programs to integrate into ISO markets and operations. RDRP is scheduled to be implemented by spring 2012.

³ *Cal. Indep. Sys. Operator Corp.*, 127 FERC ¶ 61,268 (2009)(“June 26 Order”).

On August 10, 2010, the ISO implemented a new product designed to reduce barriers to the participation of demand response in the ISO's markets – the proxy demand resource product or PDR. The proxy demand resources participate in the markets as a load or an aggregation of loads capable of measurably and verifiably reducing their electric demand in response to ISO dispatch instructions.

In early 2011, the ISO will undertake an initiative to extend SCP to RA demand response resources. The goal is to complete this initiative in time for these new SCP requirements to be in place on January 1, 2013.

As these measures increase participation by demand response in the ISO markets and grid operations, the actual availability of these resources as RA capacity will be essential to fulfilling the objective of the RA program to ensure that adequate resources are available when and where needed. Their availability will be subject to incentives contained in the applicable SCP provisions. Thus, in order to prepare for the application of SCP to demand response, the ISO proposes that the CPUC in this proceeding should take steps to ensure that retail demand response programs are making the transition necessary to fully integrate into the wholesale electricity market. Retail demand response programs will need to be configured to operate in the ISO market under the SCP availability provisions. Retail demand response programs that cannot be configured to operate under the SCP provisions will not meet the requirements to be RA capacity under the ISO tariff since the ISO tariff does not extend jurisdiction beyond wholesale products to retail demand response programs.

In its decision in this matter, the CPUC should outline a clear path for demand response to integrate into ISO markets as RA resources in several key areas. First, the

CPUC should indicate that for demand response resources to count as RA resources, they must be able to establish a qualifying capacity value based on a load impact protocol or other methodology. The ISO strongly supports a requirement that demand response resources seeking to count as RA resources must satisfactorily complete some form of certification, registration, or actual testing of their performance characteristics. This approach will determine the resources' operational capabilities and in order to best approximate their future participation in the ISO markets.

Second, the CPUC should require that demand response programs must be available for events at a minimum of four hours per event and three days in a row in order to count as RA resources. The ISO supports these minimum time periods as the foundational availability provision in the RA program. The time periods will also help frame the must offer obligation for demand response programs that will be included in the ISO Tariff. Demand response programs that are unable to meet these minimums should not be eligible to count as resource adequacy capacity.

Third, it is essential that the CPUC count as local RA only those demand response resources that are capable of dispatched by the ISO in the local area in which the need occurs. Allowing demand response programs to count for local RA when they are not "dispatchable" like all other RA resources "where needed" is inconsistent with the central tenet of the CPUC's RA program. All resources are "point" resources. Resources provide energy to the grid at specific locations, be it at an intertie point, generator node, or within a sub-lap as is the case with ISO demand response products. There is no such thing as a "system RA resource" that makes energy available to the grid wherever it happens to be located on the grid. The ISO operates a full network

model that considers the impact of energy injections and load take outs at thousands of points on the ISO controlled grid, and allows the ISO to balance loads and resources and ensure a feasible dispatch. Enabling retail demand response programs, like PG&E's Peak Day Pricing program, to make energy available wherever it is located on the grid when it is needed can exacerbate congestion management for the ISO and increase costs for consumers.

This example illustrates the ISO's point. If the ISO's full network model calls for incremental energy in the East Bay and the resource to be dispatched is a 50 MW combustion turbine in Oakland, PG&E's demand response proposal would be equivalent to dispatching every combustion turbine it operates throughout its system when a combustion turbine is only required in the East Bay. This would be ineffective in addressing the local need, and could result in incremental congestion in the event that another area whose loads and resources are balanced may be thrown out of balance if demand response occurs where it is not needed or expected. There is also a cost to disrupt all customers on a demand response program when only a minority of the customers on that program are actually needed to respond. Disruption can be economically inefficient, and result in customer and societal costs, such as lost productivity, that likely far exceed a utility's direct program costs and the long-term cost to get demand response to conform and operate more equivalent to a point resource, available when and where needed, like all other RA resources.

Fourth, the CPUC should determine the extent to which the demand response programs fit into the existing Maximum Cumulative Capacity ("MCC") buckets as supply-side resources. The ISO supports inclusion of demand response resources in

any existing MCC bucket for which they qualify, but is not opposed to creation of a small bucket specific to demand response. Whether the bucket is existing or new, the important factor is that demand response be treated equivalent to supply-side resources, not taken off the top of the monthly or annual RA requirement for a load serving entity. This is important because all resource types should be treated comparably for RA capacity counting purposes. Counting demand resources on the supply side establishes a structure to enable the competitive solicitation, procurement and resource adequacy showing of demand response resources by load serving entities. It will allow demand response resources to be listed as supply-side resources on the monthly and annual RA plans and supply plans that are submitted to the ISO.

The CPUC's adoption of these refinements to the RA program will help facilitate the transition of retail demand response programs that is necessary for their full integration into the wholesale electricity market and ability to meet the requirements to be RA capacity under the ISO tariff.

C. RA Resources With Historical QC

On June 22, 2010, the ISO filed a tariff amendment at FERC to extend SCP to the RA resources with historical QC. While that filing was pending, the CPUC on June 25, 2010 issued Decision 10-06-036 that eliminated the double-counting concern that had caused the ISO to defer applying SCP to these resources. The CPUC modified its RA counting rules to eliminate forced outage and de-rate hours from its calculation of the QC of RA resources, and to use instead proxy energy output values for those hours. Because FERC had not yet approved SCP for RA resources with historical QC, Decision 10-06-036 accepted SCP for RA compliance by these resources, but did not

mandate it. The decision, however, did allow for the assigned ALJ to take comment in this proceeding in the event FERC does approve SCP for the resources with historical QC.⁴ On August 20, 2010, FERC approved the ISO's tariff amendment and the ISO extended SCP to the RA resources with historical QC effective January 1, 2011.

The SCP provisions are designed to (i) standardize RA availability requirements so RA capacity is more readily tradable among market participants, and (ii) increase the availability of RA capacity through financial incentives in the form of availability payments that recognize high availability and non-availability charges that discourage poor operating performance, based on the actual availability of RA capacity during the availability assessment hours each month. Now that the potential for double-counting forced outages has been eliminated, and SCP has been extended to the RA resources with historical QC, the ISO urges the CPUC to mandate compliance with SCP by these resources.

III. ISO COMMENTS ON OTHER PROPOSALS

A. Seasonal LCR Requirements

SDG&E requests that the CPUC consider the feasibility of establishing a monthly or seasonal local RA requirement. SDG&E claims that the current year-ahead requirement, based on meeting the August peak load each month, causes SDG&E to include all of its local resources on its monthly supply plans, even for the non-summer months, which leaves SDG&E with no substitutable capacity and the potential of being assessed SCP non-availability charges. SDG&E suggests that a monthly or seasonal local RA could be implemented if the California Energy Commission would publish monthly or seasonal 1in10 load forecasts for each local area.

⁴ D.10-06-036 (June 24, 2010), p. 35.

The ISO strongly objects to this proposal. It is based on an incorrect assumption that a monthly or seasonal local RA requirement will be lower than the August peak load currently used in setting the year-ahead obligation. In actuality, the ISO's experience is that local areas can be more constrained during the spring and fall months when many generating units are off-line for scheduled maintenance. By switching to a monthly or seasonal analysis, there is real potential that the RA requirement will increase for most of the local areas in the non-summer months, which is the opposite result SDG&E intended.

SDG&E has additionally overlooked the fact that most planned maintenance on transmission facilities is performed during the off-peak months. Under either a monthly or seasonal approach, the ISO would need to include in its studies for the non-summer months some level of transmission maintenance beyond the existing criteria for local capacity requirements. This will increase the need for RA resources during the non-summer months, otherwise there will not be sufficient RA capacity in local areas to support the planned transmission maintenance activities. SDG&E's proposal fails to recognize that a monthly or seasonal RA requirement will create an increased need for RA resources during the non-summer months.

SDG&E is also mistaken in its belief that a monthly or seasonal local RA requirement can be implemented without significant burden to the ISO. Such a change would require the ISO to perform many more deliverability studies than it does today. Since only deliverable resources should count for RA purposes, especially local capacity, a change to a monthly or seasonal local requirement would oblige the ISO to conduct deliverability studies to assure that such resources are actually deliverable in

each month or each season. Today, it takes about six months for ISO to perform its studies and complete the stakeholder process for the following year's local capacity requirements. Performing monthly or seasonal studies would substantially increase the time and effort required by the ISO and would be unduly burdensome.

Moreover, increasing the local RA requirement on a monthly or seasonal basis will affect all load serving entities and will likely increase their cost of RA procurement, without providing any corresponding or necessary enhancement of system reliability. In these circumstances, the increased cost may help insulate SDG&E from SCP non-availability charges, but it would do so unfairly at the expense of other load serving entities.

B. Peak-Day Pricing Program Hours and SCP

In Decision 10-06-036, the CPUC determined that a demand response program's hours of operation must include the hours of 1:00 p.m. to 6:00 p.m. in order to be counted as RA. PG&E requests that the CPUC modify that rule for 2012 to allow PG&E's Peak-Day Pricing programs to receive credit for RA although their hours are 2:00 p.m. to 6:00 p.m. PG&E's proposal does not discuss what the program hours will be or how the programs should count as RA after 2012.

In response to this proposal, the ISO encourages PG&E to align the operating hours of its Peak-Day Pricing Program with the SCP availability assessment hours that will apply to demand response RA resources. PG&E should also consider setting up these programs as a resource that can participate in the wholesale market. These measures will allow peak-day-pricing resources to be dispatched by the ISO when and where needed, consistent with the tenets of the RA program. As noted above, retail

demand response programs will need to be configured to operate in the ISO market under the applicable SCP availability provisions. Retail demand response programs that cannot be configured to operate under the SCP provisions will not meet the requirements to be RA capacity under the ISO tariff.

C. Partial-Year Counting of New Generation

SCE proposes that the CPUC give load serving entities the option to count toward their RA requirement the capacity of new generation resources that come on-line during a compliance year for the months those resources supply capacity. This proposal is consistent with the ISO's current practice. A new generating unit can be included on the next monthly RA Plan after the resource is actually operational and an NQC has been established. The ISO updates the NQC list throughout the year as new units become operational.

D. Elimination of Preliminary Local Filing

In Decision 06-06-064, the CPUC adopted a requirement to assist the ISO's Reliability Must Run ("RMR") designation process that all load serving entities file a Preliminary Local RAR compliance showing that lists all local RA units procured. The preliminary submission is due to the ISO on or around September 15 each year.

In Proposal 2, the Energy Division proposes to eliminate the preliminary submission starting in 2011. Thereafter, any load serving entities that contract with a resource with an existing RMR agreement would be required to notify the ISO and CPUC of the procurement by email no later than the second Monday in September each year. In support, the Energy Division cites to the dwindling number of RMR contracts in use today, the short time between and preliminary and the final submission,

and the administrative costs related to the two filings.

The ISO does not object this proposal. However, if in future years the number of RMR contracts increase and the absence of the Preliminary Local RAR is hindering the RMR designation process, it may be necessary for the ISO to request that the CPUC reinstate the requirement for that submission.

E. Elimination of Portfolio Resources as RA Capacity

In Decision 06-07-051, the CPUC approved portfolio resources that meet certain requirements for use as RA capacity, and adopted the RA Guide containing that rule and the RA System Template prepared by the Energy Division that included a tab for reporting the use of such resources. The category of RA portfolio resources is designed to recognize plant-specific RA contracts, rather than unit-specific RA contracts. In this proceeding, Proposal 1 of the Energy Division Proposal 1 suggests that the rule allowing the use of portfolio resources be eliminated and the corresponding portfolio resources tab in the RA System Template be deleted. According to the Energy Division, the portfolio resources rule and tab have not been used by a load serving entity since 2006. The ISO does not object to this proposal.

IV. CONCLUSION

The ISO respectfully requests that the CPUC issue an order consistent with the ISO's proposal.

Respectfully submitted,

/s/ Anthony Ivancovich

Nancy Saracino

General Counsel

Anthony Ivancovich

Assistant General Counsel

Beth Ann Burns

Senior Counsel

California Independent System

Operator Corporation

250 Outcropping Way

Folsom California 95630

Tel. (916) 351-4400

Fax. (916) 608-7222

aivancovich@caiso.com

bburns@caiso.com

Attorneys for the California Independent
System Operator Corporation

Date: February 8, 2011

CERTIFICATE OF SERVICE

I hereby certify that on February 8, 2011, I served, by electronic and United States mail, a copy of the foregoing California Independent System Operator Corporation's Comments on Phase 2 Proposal to each party in Docket No. R.09-10-032.

Executed on February 8, 2011
at Folsom, California

Anna M. Pascuzzo

Anna M. Pascuzzo
An Employee of the California
Independent System Operator