

**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
PROPOSALS ON PHASE 1 ISSUES**

In accordance with the Order Instituting Rulemaking (October 29, 2009) and the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge Determining the Scope, Schedule, and Need for Hearing in this Proceeding (December 23, 2009) (“Scoping Memo”) issued by the California Public Utilities Commission (“CPUC”), the California Independent System Operator Corporation (“ISO”) respectfully submits its proposals on the issues described in the Scoping Memo for consideration in this proceeding.

I. INTRODUCTION

On October 29, 2009, the CPUC issued the Order Instituting Rulemaking in the above-captioned matter. The CPUC initiated this rulemaking as a successor rulemaking proceeding to R.08-01-025 for the purpose of overseeing the resource adequacy (“RA”) program and establishing local procurement obligations for 2011 and future years. The parties submitted comments on the Order Instituting Rulemaking on November 13, 2009 and reply comments on November 20, 2009. Based on those

comments, and discussion during the pre-hearing conference held on December 9, 2009, the CPUC issued the Scoping Memo on December 23, 2009 to determine the scope, schedule, and need for hearing in this proceeding. The Phase 1 schedule outlined in the Scoping Memo provides the parties the opportunity to submit proposals at the outset of the proceeding on the issues to be considered within the scope of Phase 1.

In this filing, the ISO presents its proposals on issues 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.

Specifically, the ISO will address the following issues:

- Extending the Standard Capacity Product (“SCP”) to the deferred resource types,
- Eliminating the replacement rule, and
- Counting demand response under the load-impact protocols.

II. STANDARD CAPACITY PRODUCT – DEFERRED RESOURCE TYPES

On April 28, 2009, the ISO filed with the Federal Energy Regulatory Commission (“FERC”), in Docket No. ER09-1064-000, a proposed amendment to the ISO Tariff to adopt SCP and an ancillary services must-offer obligation for RA resources. As part of that filing, the ISO proposed that the SCP availability standards and incentives would not initially apply to: (i) RA resources whose qualifying capacity (“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 resource types affected are wind, solar, and Qualifying Facility (“QF”) resources); and (ii) demand response resources.

The ISO proposed to defer the application of the SCP availability provisions to wind, solar, and QF resources in order to avoid “double counting” the impact of the resources’ forced outages and derates in both the SCP availability metric and the current CPUC rules for determining a resource’s QC for RA purposes. The SCP availability standard counts hours of forced outages, non-ambient de-rates, and ambient de-rates due to temperature against a resource’s availability, and this can result in a financial charge if the outages and de-rates cause the resource’s availability to drop below the availability standard (after taking into account the 2.5 percent tolerance band). The CPUC’s existing counting rules for determining the QC of a wind, solar, or QF resource for RA purposes also take outages and de-rates into account, because QC is based on actual, historical hourly energy production, including the hours where energy output was reduced due to forced outages and de-rates. The counting rules determine the QC value of the resource using its hourly energy output over the past three years. To the extent that the resource experienced forced outages or derates during that period, the resource’s output in those hours would have been adversely affected and would thus lower the resource’s QC value for the following RA compliance year. If the ISO were to apply the SCP availability metric to these resources, a resource could be penalized twice for the same outage or de-rate: once in the form of an SCP availability charge during the current period and then again under the counting rules by

reducing its QC value for the following year. The ISO's proposal to temporarily defer applying SCP to these resources was explicitly designed to avoid this outcome.

The ISO's Tariff filing for SCP also proposed not to initially apply the SCP availability standards to demand response resources. The ISO opted to defer applying the SCP non-availability charges to these resources because initiatives are underway at both the CPUC and ISO to change the manner in which demand response resources participate in the California market. In addition, the manner in which these resources are currently participating in the operation of the power system does not readily allow imposition of the availability standards.¹

By Order dated June 26, 2009, FERC approved the ISO's SCP proposal, including the temporary exemptions for wind, solar, QF, and demand response resources.² However, FERC made it clear that the exemptions are 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 FERC also required the ISO to post biannual status reports so that it could monitor the progress of efforts to sunset these exemptions and allow FERC to determine if the efforts to sunset the exemptions are being unreasonably delayed.⁴

In accordance with FERC's June 26 Order, the ISO implemented SCP effective January 1, 2010. It is important that the CPUC and ISO in this proceeding resolve the "double counting" of outages issue for the deferred resource types so that the temporary

¹ For example, the majority of demand response resources do not schedule using Resource IDs, nor do they report availability to the ISO, which means that the ISO does not have data needed to track the status of these resources for SCP availability purposes.

² *Cal. Indep. Sys. Operator Corp.*, 127 FERC ¶ 61,268 (2009) ("June 26 Order").

³ *Id.* at P. 58.

⁴ *Id.*

exemptions can be terminated and the ISO can proceed to develop SCP availability standards for wind, solar, QFs, and demand response RA resources as required by FERC's June 26 Order.

To that end, the ISO proposes that the CPUC modify its RA counting rules either to: (1) eliminate forced outage and de-rate hours from its calculation of the QC of RA resources, or (2) use proxy energy output values for those hours. The ISO believes that the second option could be implemented by adopting an approach similar to the methodology the CPUC has previously approved to account for scheduled outages in the QC calculation for these types of resources.⁵ This methodology uses three years of historical data to calculate QC, and substitutes proxy data for the hours of a scheduled outage. The proxy energy output for any particular scheduled outage hour is then calculated by averaging the output in the corresponding hours for the other two years of data, assuming those hours were not affected by scheduled outages. The ISO supports extending this approach to forced outage and derate hours because it will effectively remove the impact of forced outages and derates from the QC calculation, thus eliminating the problem of double counting when the ISO applies the SCP availability metric to these types of resources.

III. REPLACEMENT RULE

In D.06-07-031 (July 20, 2006), the CPUC adopted the replacement rule to require each jurisdictional load serving entity to procure additional RA capacity to meet its RA requirement in those months where some of its RA capacity is significantly affected by a scheduled outage. The replacement rule provides a methodology for

⁵ See CPUC Decision D.09-06-028 Adopting Local Procurement Obligations for 2010 and Further Refining the Resource Adequacy Program (June 18, 2009).

determining how scheduled outages of RA resources will be counted to assess whether a load serving entity has procured sufficient RA capacity to meet its monthly RA obligations. The amount of capacity that counts toward a load serving entity's system RA requirement is determined by reducing the total net qualifying capacity ("NQC") for the month by the amount of capacity on scheduled outage, as computed under the replacement rule methodology. The currently effective rule is summarized in the CPUC's *2010 Filing Guide for System and Local Resource Adequacy (RA) Compliance Filings*, page 13, as follows:

Counting Resources with Scheduled Outages

Time Period	Description of How Resource Would Count at Time of the Showing
<p>Summer May through September</p>	<p>Any month where days of scheduled outages exceed 25% of days in the month, the resource does not count for RAR. If scheduled outages are less than or equal to 25% of the days in the month the resource does count for RAR.</p>
<p>Non-Summer Months October through April</p>	<p>For scheduled outages less than 1 week, the resource counts towards RA obligations.</p> <p>For scheduled outages 1 week to 2 weeks, the amount counted for RAR is prorated using the formula: $[1 - (\text{days of scheduled outage} / \text{days in month}) - 0.25] * \text{NQC in MW} = \text{NQC that can count towards an LSE's RA obligation}$ The formula will allow resources to count between 50% and 25% of NQC.</p> <p>For scheduled outages over 2 weeks, the resource does not count for RAR.</p>

At the pre-hearing conference in this matter on December 9, 2009, several parties suggested that the CPUC consider removing the replacement rule from the RA requirements. The ISO understands that the effect of eliminating the replacement rule would be to relieve CPUC jurisdictional load serving entities of any requirement to procure additional RA capacity to meet their RA requirement for months where some of their RA capacity is unavailable due to a planned outage. The parties that support eliminating the rule argue that it limits the tradability of RA capacity as a standard capacity product by imposing an obligation on the individual load serving entity to replace RA capacity on scheduled outage that is not counted under the rule. In response to these comments, the Scoping Memo includes the replacement rule as an issue in Phase 1.

The ISO does not oppose removing the replacement rule from the CPUC RA program, subject to the following considerations. Most importantly, eliminating the replacement rule must not adversely affect the reliability of the ISO balancing authority area. The fundamental purpose of the RA program is to ensure that sufficient resources are available when and where needed to maintain the reliability of the system. If the replacement rule is no longer in effect, steps must be taken to ensure that scheduled outages will not cause shortfalls in available RA capacity that degrade system reliability or introduce market instability. The CPUC and ISO should work collaboratively on the steps necessary to transition the treatment of scheduled outages for RA purposes from the current replacement rule to another approach that will enable the ISO to ensure that sufficient capacity subject to the RA provisions of the ISO Tariff is available as needed to serve load and reliably operate the grid. In particular, the timing of the end date for

the replacement rule should be coordinated to provide adequate opportunity for the alternative to be developed and implemented.

The ISO will conduct a stakeholder process to obtain input for developing an alternative mechanism for addressing potential reductions in the amount of available RA capacity due to scheduled outages, while at the same time fostering tradability of the standard capacity product as requested by market participants. The ISO will either include this issue in the SCP II initiative currently in progress, or initiate a separate, parallel stakeholder process to consider the matter. Under either approach, the ISO anticipates that the initiative will be active and a straw proposal will be posted by the end of January 2010. In order to facilitate collaboration between the CPUC and the ISO, we will file the straw proposal in this proceeding as soon as it becomes publicly available and will provide periodic updates on the status and outcome of the stakeholder process at workshops and in written comments.

Although the schedule for the ISO process has not yet been established, the ISO anticipates that any ISO Tariff modifications necessary to implement the alternative mechanism will be filed in the April 2010 timeframe, with the goal of implementing the amendments for the 2011 RA compliance year if possible. Until some progress is made in developing a draft proposal through the stakeholder process, the ISO will not be in a position to assess the potential implementation requirements and system changes necessary to deploy the proposal, nor determine a target implementation date.

IV. DEMAND RESPONSE COUNTING USING LOAD-IMPACT PROTOCOLS

The Scoping Memo includes in Phase 1 of this proceeding any issues related to the Energy Division document describing the use of load-impact protocols to develop

the QC of demand response resources. The ISO understands that the document referenced in the Scoping Memo is *Qualifying Capacity Methodology*, issued by the Energy Division on December 19, 2009 (“QC Report”). Section 11 of the QC Report discusses use of the load impact protocols to calculate the QC of demand response RA resources, including air conditioning cycling programs.⁶ Under the existing load impact protocols, summer air conditioning cycling programs are allowed to be valued for local RA purposes at the amount of their August NQC value and counted as local RA capacity at that level for all 12 months of the year.

The ISO does not agree with this counting rule. It allows demand response resources enrolled in summer air conditioning cycling programs to count toward fulfillment of a local RA requirement at the same MW amount for each month of the RA compliance year, even though these programs are operative only in the summer months.⁷ In other words, these resources do not provide any actual “capacity” or service during the non-summer months. Based on the current level of participation in demand response air conditioning cycling programs, this approach results in approximately 900 MW per month of “phantom” demand response being counted as local RA capacity during each of the non-summer months.⁸

⁶ QC Report, pp. 22-24.

⁷ For example, Southern California Edison Company’s summer air conditioning cycling programs (both the base and enhanced cycling programs) are only eligible to operate and be paid under the CPUC-approved tariff schedule during the summer season, when demand for electricity is generally at its peak, which is the period June 1 through October 1.

⁸ Based on enrolled MW values for the month of August 2009, as reported by the utilities in monthly reports to the CPUC on the operation of interruptible and demand response programs, specifically:

- Report of Pacific Gas and Electric Company (U 39 M) On Interruptible Load and Demand Response Programs for October 2009, dated November 23, 2009, Table I-1,
- Report of Southern California Edison Company (U338-E) on Interruptible Load Programs and Demand Response Programs, dated November 23, 2009, Attachment A, Table I-1, and
- Report of San Diego Gas & Electric Company (U 902 M) on Interruptible Load and Demand Response Programs for October 2009, dated November 20, 2009, Table I-1

The ISO is concerned that an RA capacity shortfall of this magnitude could impact system reliability and increase the likelihood of backstop capacity procurement by the ISO. In addition, the ISO believes that it is fundamentally unfair and inequitable to count demand response resources participating in air conditioning cycling programs as local RA capacity throughout the year even though they are not physically available in the non-summer months, while determining the availability of generation resources under SCP by deducting the hours they are physically unavailable in a given month due to a forced outage or derate, which could result in a monetary charge. Further, counting demand response resources under air conditioning cycling programs as RA capacity during months they are not available essentially allows those resources to “lean” on other resources when they do not perform, which could cause the ISO to rely on backstop procurement under its Interim Capacity Procurement or Exceptional Dispatch mechanisms.

Simply stated, the rule allowing these resources to count as RA capacity for every month of the year even though they are not required to be available for service during non-summer months, like other RA resources are, represents a direct assault on the reliability benefits that have been incorporated into the RA program. For these reasons, the ISO proposes that the CPUC modify the load impact protocols discussed in Section 11 of the QC Report so that they count demand response resources enrolled in air conditioning cycling programs as local RA capacity only in the summer months when the resources are actually available and capable of performing.

V. CONCLUSION

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

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on January 11, 2010, I served, by electronic and United States mail, a copy of the foregoing California Independent System Operator Corporation Proposals on Phase 1 Issues to each party in Docket No. R.09-10-032.

Executed on January 11, 2010
at Folsom, California

Asl Anna M. Pascuzzo ll
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