

**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 Local and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years

Rulemaking 17-09-020
(Filed September 28, 2017)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON PROPOSED DECISION**

The California System Operator Corporation (CAISO) hereby provides comments on the Proposed Decision Adopting Local Capacity Obligations for 2019 and Refining the Resource Adequacy Program (Proposed Decision). These comments address the following issues: (1) potential procurement of the Ormond Beach Generating Station (Ormond) and Ellwood Generating Station (Ellwood) for local resource adequacy needs; (2) concerns raised regarding the CAISO's local capacity technical study; (3) multi-year resource adequacy requirements; (4) qualifying capacity for combined demand response and storage resources; (5) the process for adopting Availability Assessment Hours (AAH); (6) reallocation of collective deficiency costs; and (7) necessary clarifications to effective load carrying capacity (ELCC) values to be used for CAISO study purposes.

I. Discussion

A. Ormond and Ellwood Facilities

As noted in comments submitted on May 15, the CAISO intends to seek a reliability must-run (RMR) designation for Ellwood and one of the Ormond Beach units at the CAISO's July Board of Governors meeting. The CAISO's intention to seek an RMR designation for each of these units does not in any way bar load-serving entities from entering into bilateral contracts with them. If bilateral contracting proceeds promptly, the CAISO could terminate the RMR negotiations as the RMR designation would authorize CAISO management to enter into negotiations for an RMR contract, but would not obligate the CAISO to enter into an RMR contract. It is also possible for a resource to be under both an RMR and a bilateral resource adequacy contract. The CAISO would adjust the compensation available under the RMR

agreement accordingly to ensure there is no duplicative compensation, but the RMR agreement would be available to compensate the resource for costs that are not recoverable under the resource adequacy power purchase agreement. Once the RMR designation is made, the RMR owner must propose its rates, terms and conditions based on the pro forma RMR contract. Accordingly, the cost of any RMR agreement is unknown at this time.

B. Local Capacity Technical Study

The Proposed Decision adopts the CAISO's recommended 2019 local capacity requirement (LCR) values, but notes the Commission's concern based on comments submitted by Pacific Gas & Electric Company (PG&E) and San Diego Gas & Electric Company (SDG&E). PG&E and SDG&E complained that the Final LCR Report did not adequately address the problems identified in the Draft LCR Report.

SDG&E's substantive comments on the Draft LCR Study focused on the CAISO's methodology for establishing LCR need for the San Diego-Imperial Valley (SD-IV) local area. SDG&E filed these comments with the Commission on May 4, 2018. SDG&E filed very similar comments in the CAISO's local capacity study process in November 2017, as the CAISO was in the process of developing the draft study manual for the 2019 LCR Study. The CAISO responded to these comments in the CAISO's study process on December 12, 2017.¹ The responses included detailed explanations regarding the need for and benefits of jointly studying the SD-IV and Los Angeles Basin areas together, rather than as separate areas.² The CAISO also clarified its modeling of the Imperial Valley phase shifter in the local studies.³

SDG&E again submitted comments in the CAISO's local capacity study process on April 16, 2018,⁴ and the CAISO provided detailed responses on April 23, 2018.⁵ The CAISO's responses again addressed the modeling of the Imperial Valley Phase Shifter⁶ and interrelation of the SD-IV and Los Angeles Basin local areas.⁷ In addition, CAISO staff worked directly with SDG&E to provide additional details regarding the local capacity study methodology, as detailed in the CAISO's May 18, 2018 comments to the Commission.

¹ <http://www.aiso.com/Documents/ISOResponsestoCommentsfromOct312017StakeholderCalldocx.pdf>, pp. 10-17.

² Id. at p. 4; pp 10-12.

³ Id. at p. 13-14.

⁴ http://www.aiso.com/Documents/SDG_EComments-2019and2023DraftTechnicalStudyResults-April92018.pdf.

⁵ <http://www.aiso.com/Documents/ISOResponsestoCommentsfromApril92018StakeholderCall.pdf>.

⁶ <http://www.aiso.com/Documents/ISOResponsestoCommentsfromApril92018StakeholderCall.pdf>, p. 8.

⁷ <http://www.aiso.com/Documents/ISOResponsestoCommentsfromApril92018StakeholderCall.pdf>, p. 9.

Similarly, PG&E filed comments on the CAISO's Draft LCR Study on April 16, 2018. These comments were very similar to PG&E's comments filed with the Commission on May 4, 2018.⁸ In both circumstances, PG&E requested that the CAISO flag when it has used an approved operating procedure to optimize the results of the most critical contingency.⁹ In responsive comments in the CAISO stakeholder process, the CAISO explained that flagging existing operating procedures would release market sensitive information and would have no effect on the LCR results.¹⁰

In summary, the CAISO provides multiple opportunities for stakeholders to comment during the local capacity study process, and it provides detailed responses to comments submitted in that process. The comment schedule established through this resource adequacy proceeding is often duplicative with the CAISO's comment process and not well-timed to coincide with the existing study processes. The duplicative comment schedules often create confusion when, as in this case, stakeholders file comments (and the CAISO responds to them) in the CAISO's local capacity study process, and stakeholders then file separate comments in the Commission's resource adequacy proceeding. As the CAISO has recommended in the past, the Commission and the CAISO should work together to ensure that comments and responses in the CAISO and Commission forums are consolidated and jointly noticed, to the greatest extent possible.

C. Multi-Year Resource Adequacy Requirements

The CAISO strongly supports the Commission's efforts to enhance local resource adequacy by signaling its intention to adopt multi-year local resource adequacy requirements for 2020. As the CAISO stated in previous comments, either of the two proposals put forward by Energy Division staff would greatly enhance long-term local reliability, and the CAISO urges adoption of multi-year local capacity requirements for 2020. Given the progress on this matter in Track 1, the CAISO believes that the Commission is well positioned to adopt multi-year local resource adequacy requirements for the 2020 compliance year. The CAISO recommends that the Commission review the need for multi-year flexible resource adequacy requirements as it reviews the flexible resource adequacy program more generally. Finally, in addition to

⁸ <http://www.caiso.com/Documents/ISOResponsestoCommentsfromApril92018StakeholderCall.pdf>, p. 3.

⁹ Proposed Decision, p. 6;

<http://www.caiso.com/Documents/ISOResponsestoCommentsfromApril92018StakeholderCall.pdf>, p. 6.

¹⁰ <http://www.caiso.com/Documents/ISOResponsestoCommentsfromApril92018StakeholderCall.pdf>, p. 6.

developing multi-year local requirements, the Commission must also adopt additional modifications to the local resource adequacy program, specifically, refinements to address more granular needs, including needs in transmission constrained sub-areas, in Track 2. Such requirements will better promote reliability, support the retention of needed resources, and reduce the need backstop procurement.

D. Qualifying Capacity for Joint Storage and Demand Response Resources

The Proposed Decision removes the prohibition on combined storage and demand response resources being eligible for RA and notes that “[g]oing forward in this proceeding, parties should consider combined storage and [demand response] resources to be eligible for system, local and flexible [resource adequacy].”¹¹ The basis of this determination appears to be CESA’s argument that there is “no good policy basis” for excluding combined storage and demand response resources from receiving resource adequacy credit. The CAISO supports allowing combined resources to provide all types of resource adequacy capacity, but based on the record to date, there is currently no means to determine the qualifying capacity value for combined resources. As a result, there is no reasonable means for load-serving entities or the CAISO to verify the capacity value of such resources. Absent new counting rules, load-serving entities could be subject to deficiencies in resource adequacy showings. Therefore, the CAISO recommends that the Commission clarify the appropriate venue for determining the qualifying capacity for combined resources. Given the issues already scoped into Track 2 of the current proceeding, the CAISO recommends that Commission defer this issue to Track 3, at the earliest.

E. Alignment of Resource Adequacy Measurement Hours and Availability Assessment Hours

The CAISO supports the Proposed Decision’s adoption of resource adequacy measurement hours that align with the CAISO’s availability assessment hours (AAHs). Prior to this alignment, the CAISO filed for and the Federal Energy Regulatory Commission granted the CAISO a limited waiver of its tariff provisions to exempt certain Demand Response Auction Mechanism (DRAM) demand response resources that have delivery obligations between April 2018 through October 2018 and April 2019 through October 2019 from the requirement to bid into the CAISO markets during availability assessment hours.¹² This is one of the unintended consequences of misaligned resource adequacy measurement hours and the AAHs, which the

¹¹ Proposed Decision, p. 38.

¹² Docket No. ER18-838-000, March 29, 2018.

CAISO seeks to avoid in the future. However, the CAISO acknowledges that in the near-term some amount of mismatch may be unavoidable. Specifically, the Proposed Decision correctly notes that it would be infeasible for the CAISO to provide an updated AAH analysis by January 10 given that it is only ten days after the end of the prior year.¹³ The CAISO's AAH analysis relies on load serving entity surveys that are not due till January 15, as well as the California Energy Commission's (CEC) managed demand forecast set within the Integrated Energy Policy Report, which may be adopted after January 10. In recent years, behind-the-meter solar penetration has been a significant driver of the forecast shape and thus grid needs. Major changes in and the accuracy of the CEC forecast will impact CAISO's AAH analysis. As a result, the Proposed Decision states that there will "be a lag in implementation [of updated resource adequacy measurement hours] for demand resources where the LIP analysis will use the most recently adopted measurement hours."¹⁴ The CAISO believes that any lag in implementation that causes a disconnect between the CAISO and the Commission assessment hours is undesirable because resources will not have the appropriate incentives to respond during hours of critical system need. In Track 2, the Commission and parties should explore options to eliminate any disconnect and treat resources similarly. Continued alignment between the CAISO and Commission measurement hours will be increasingly important as the Commission implements a multi-year resource adequacy framework.

F. Reallocating Collective Deficiency Procurement Costs

The CAISO appreciates parties' requests to review the cost allocation related to its Capacity Procurement Mechanism (CPM). The CAISO is currently conducting a stakeholder initiative to review of the CAISO's backstop mechanisms, including CPM and RMR. As part of this initiative, the CAISO is re-examining the cost allocation mechanism for collective deficiencies.

G. Effective Load Carrying Capacity (ELCC)

The CAISO appreciates the progress made by the Commission and Energy Division staff to refine the ELCC framework. The CAISO agrees with the Proposed Decision's conclusion that, given the record developed in Track 1 of this proceeding, the record is insufficient to the modify the qualifying capacity values utilized in for the 2018 compliance year. The CAISO

¹³ Proposed Decision, p. 37.

¹⁴ Id.

requests that the Commission clarify that intends to rely on the same qualifying capacity values for wind and solar resources as was used for the 2018 RA compliance year.

Additionally, although the CAISO agrees that there are outstanding issues the Commission must resolve regarding behind-the-meter solar, the CAISO urges the Commission to further evaluate that the ELCC value for wind and solar resources and their contributions to local reliability. The CAISO uses Commission-approved ELCC values for wind and solar resources in its local capacity requirements study, but in many areas—most notably the San Diego-Imperial Valley area—the output of solar resources during the local area peak is far lower than the ELCC value. As a result, these resources will not be able to provide sufficient capacity during actual local peak conditions, thereby increasing the likelihood of unserved load.

II. Conclusion

The CAISO appreciates this opportunity to provide comments on the Proposed Decision and looks forward to working with the Commission to continue to refine and improve the resource adequacy program in Track 2 of this proceeding.

Respectfully submitted,

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