

**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 2016 and 2017 Compliance Years

Rulemaking 14-10-010
(Filed October 16, 2014)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
REPLY COMMENTS**

I. Introduction

Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure, the California Independent System Operator Corporation (CAISO) submits these reply comments on the *Proposed Track 1 Decision Adopting Local and Flexible Capacity Obligations for 2017, and Further Refining the Resource Adequacy Program* (Proposed Decision). The CAISO responds to issues raised by the California Large Energy Consumers Association (CLECA), the Clean Coalition, the Green Power Institute (GPI), the Joint Demand Response Parties (Joint DR Parties) and San Diego Gas & Electric Company (SDG&E).

II. Discussion

A. Local Capacity Resources, Pre-Contingency Dispatch and Response Time Requirements

CLECA, Clean Coalition, and the Joint DR Parties take issue with portions of the Proposed Decision addressing the adoption of resource characteristics necessary to meet local capacity requirements. All parties generally agree that there is a need for additional stakeholder process regarding how to implement pre-contingency dispatch resources to meet local capacity requirements in a non-discriminatory manner. However, parties disagree with the Proposed Decision’s threshold determination that “local RA resources should be useful to the CAISO in operating the grid reliably, in accordance with applicable standards.”¹ This fundamental determination properly reflects the purpose of the resource adequacy (RA) framework—to assure that resources are available when and where needed. The Commission should not change this requirement. In the sections below, the CAISO responds to

¹ Proposed Decision, p. 34. See also, CLECA’s recommendation that this language be deleted, CLECA Opening Comments, p. 4.

specific issues raised regarding the Proposed Decision’s treatment of the 20-minute response requirement.

1. The Commission’s Determination that Resources Must either (1) Have Adequate Energy for Pre-Contingency Dispatch or Be Dispatchable within 20 Minutes Post-Contingency is Reasonable.

The Proposed Decision finds that “CAISO’s proposed requirement that local resources must either be able to respond within 20 minutes or have ‘sufficient’ energy for pre-contingency dispatch is a logical interpretation of the ‘when and where needed’ tenet.”² The Joint DR Parties disagree with this finding because “there has been no examination at either the CAISO or the Commission to determine if these two criteria are the only two methods of categorizing resource characteristics for local capacity resources.”³ This is a straw man argument. The Commission and the CAISO must pursue RA options that can address reliability concerns and be effectively implemented.

Since at least 2013, the CAISO has worked to develop ways to incorporate preferred resources, such as demand response, in a manner that will meet local capacity needs consistent with applicable reliability standards.⁴ To meet local reliability requirements, the CAISO must be able to reposition the electric system within operating limits in 30 minutes following a contingency event. Logically and simply, a resource must either be able to (1) provide capacity prior to the first contingency event to ensure that system operating limits are not violated if such an event occurs or (2) provide capacity with sufficient speed after the first contingency to allow the CAISO to reposition the system within 30 minutes. This logical conclusion stands, and no other party has presented alternative methods that would enable the CAISO to meet the requirement to reposition the system in the allotted timeframe, despite the fact that this issue has been regularly raised in different forums since at least 2012.

2. The Proposed Decision Correctly Finds that the CAISO Provided a Valid Basis for the 20-Minute Response Time Requirement.

The Proposed Decision notes that “CAISO has provided a valid basis for its proposed 20-minute response time, noting that there are numerous activities that it must undertake after a contingency in order to reposition the system for a potential second contingency.”⁵ The Proposed Decision also finds

² Proposed Decision, p. 34.

³ Joint DR Parties Opening Comments, p. 4.

⁴ See the CAISO’s 2013 paper on Consideration of Alternatives to Transmission or Conventional Generation to Address Local Capacity Needs in the Transmission Planning Process, <http://www.caiso.com/Documents/Paper-Non-ConventionalAlternatives-2013-2014TransmissionPlanningProcess.pdf>.

⁵ Proposed Decision, p. 35.

that “no party has provided analysis to support any alternative response time between 20 and 30 minutes.” The Joint DR Parties take issue with these findings, mainly the grounds that demand response aggregators and customers may not be capable of responding within the 20-minute timeframe.⁶ The 30-minute period for post-contingency system repositioning is not in question in this proceeding. From that starting point, the CAISO must determine how it can reliably plan system-given operational constraints. Based on operational experience, it is necessary for the CAISO to maintain 10 minutes to gather information, assess the system, run any necessary studies and redispatch resources after a first contingency event. Based on this understanding, 20 minutes is the maximum allowable time for resources to effectively respond to a first contingency event. If demand response aggregators and their end-use customers are incapable of providing such response post-contingency, they cannot be relied upon to reposition the system within the 30-minute period.

3. The Proposed Decision Properly Considers the Relationship between Planning and Operating Criteria.

The Joint DR Parties assert that the Commission should differentiate between planning and operating standards because the North American Electric Reliability Corporation (NERC) has developed different criteria for each. The Joint DR Parties ask “why would NERC not include operating criteria in its planning standards?”⁷ The Joint DR Parties are incorrect that operating criteria are not included in planning standards. NERC TPL-001-4 specifically states that the purpose of the planning standards are to “[e]stablish Transmission system planning performance requirements within the planning horizon to develop a Bulk Electric System (BES) that will *operate reliably* over a broad spectrum of System conditions and following a wide range of probable Contingencies” (emphasis added).⁸ The key purpose of the planning standards is ensuring operational reliability. Implying that planning standards should disregard operational requirements or disregard actual resource characteristics is nonsensical. The CAISO cannot assume resources will mitigate contingency events if actual operational characteristics indicate otherwise.

4. The Commission Should Consider Comparisons with Other Independent System Operator Requirements in Context.

Numerous parties suggest that the Commission and CAISO look to other independent system operator (ISO) practices to set requirements for local resources. Specifically, parties refer to rules for

⁶ Joint DR Parties Opening Comments, p. 8.

⁷ Id.

⁸ NERC TPL-001-4, p. 1.

the PJM Interconnection (PJM) to suggest that there should be exemptions to response time requirements for demand response resources. The CAISO believes such comparisons should be reviewed carefully before using them as templates for California’s local RA requirement because PJM’s capacity market differs markedly from California’s RA framework. PJM’s 30-minute response time requirement is based on specific capacity needs and rules governing that market and apply to all demand response unless a provider requests an exemption. The CAISO’s proposal relates only to local capacity resources, not all system resources. PJM’s requirement is more stringent than the CAISO’s because, in the CAISO market, neither demand response nor other resources are subject to response time requirements to qualify as system RA. In addition, PJM’s rules on the use of backup generators (BUGs) to provide demand response differ significantly from California’s treatment of BUGs acting as demand response. Use of BUGs with demand response can significantly increase both the availability and duration of demand response resources.⁹

This discussion illustrates the difficulty in trying to compare performance requirements across ISOs with differing resources, regulations, markets and system needs. Comparisons with other ISOs can be helpful, but the Commission should be careful in drawing any definitive conclusions without fully understanding the differences between ISOs. In comparing the CAISO’s proposed requirements with PJM, it is clear that in some ways the PJM requirements are more restrictive, because the 30-minute response requirement applies to all demand resources providing system capacity, whereas the CAISO’s requirement only applies to local capacity. In turn, this broad application of PJM’s 30-minute response requirement, without any alternative based on pre-contingency dispatch, serves as the basis for certain limited exemptions. The Commission should focus on ensuring resources procured in California are sufficient to meet California’s local reliability needs.

5. *The CAISO Agrees that Response Time Requirements and Pre-Contingency Dispatch Requirements Should be Non-Discriminatory.*

⁹ In addition, PJM has different capacity products with differing product values. PJM’s “capacity performance” resources must be “capable of sustained, predictable operation that allows resource to be available to provide energy and reserves during performance assessment hours throughout the Delivery Year. These resources are subject to non-performance charges throughout the year. PJM’s “base capacity” resources are those capacity resources that are “not capable of sustained, predictable operation throughout the entire Delivery Year; but are capable of providing energy and reserves during hot weather operations.” Base capacity resources are only subject to non-performance penalties seasonally, during June through September. (See <http://www.pjm.com/~media/markets-ops/rpm/20150708-capacity-performance-webex-training.ashx>, p. 18.) These products command different prices based on their value to the system. In PJM’s most recent capacity auction 10,348 MW of demand response resources cleared, but only 614 MW of demand response resources were capacity performance resources (See <http://www.utilitydive.com/news/new-pjm-capacity-rules-challenge-demand-response-aggregators/420511/>.) One must consider the different capacity products in an ISO before making blanket comparisons between operational requirements.

The Proposed Decision places significant emphasis on the need to identify and implement resource requirements in a non-discriminatory manner. The CAISO adheres to this principle, and the Federal Energy Regulatory Commission, which regulates the CAISO, requires it. The CAISO notes that both the 20-minute response requirement and the pre-contingency dispatch requirement are non-discriminatory in their treatment of resources. Every resource that is counted toward local capacity requirements must either provide the CAISO with the means to reposition the system to within operating limits within 30 minutes of a contingency event. The Joint DR Parties state that all resources, including demand response, have “physical limitations that should be honored and yet still valued for what it provides to the grid.”¹⁰ The CAISO agrees with this statement. If a resource enables the CAISO to maintain local reliability by allowing the CAISO to reposition the system within 30 minutes of a contingency, as required by tariff and applicable standards, it should be eligible to be valued as a local RA resource. Resources that cannot meet local requirements still have the opportunity to offer system RA capacity and should be valued as such.

B. Incremental RA Requirements Due to Aliso Canyon

SDG&E recommends that the Commission modify the Proposed Decision to make clear that SDG&E should track incremental RA capacity attributable to the limited operation of the Aliso Canyon natural gas facility for the San Diego sub-area. The CAISO agrees that only the incremental effects should be tracked and that the incremental shift is 172 MW for the San Diego sub-area.

C. Unbundling Effective Flexible Capacity (EFC) and Net Qualifying Capacity (NQC)

The CAISO agrees with the Proposed Decision that Track 2 of this proceeding should consider how to unbundle EFC and NQC. One of the issues that should be addressed is how to study and quantify a resource’s ability to contribute EFC outside of the traditional deliverability analysis conducted to quantify NQC. While this discussion is necessary prior to full unbundling, the CAISO does believe that transactional unbundling can occur now. That is, the Commission has the ability to authorize separate transactions for flexible versus system/local RA resources. Transactional unbundling should be a first step in the process of fully unbundling EFC and NQC.

Respectfully submitted,

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¹⁰ Joint DR Parties Opening Comments, p. 10.

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