

**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
COMMENTS**

I. Introduction

Pursuant to the Administrative Law Judge’s June 1, 2016 e-mail Ruling (Ruling), the California Independent System Operator Corporation (CAISO) submits these comments regarding the Energy Division Staff’s Track 2 Workshop Report (Workshop Report) and recommendations regarding the development of future flexible resource adequacy requirements.

II. Discussion

A. CAISO Recommendations

As noted in the Ruling, the Commission is seeking additional proposals and comments on proposals made at the Workshop. At this time, the CAISO recommends that the Commission defer consideration proposals to modify the existing flexible capacity resource adequacy frameworks until additional analyses of existing mechanism and future needs are available. With that said, the CAISO does support the principle of unbundling Effective Flexible Capacity (EFC) from Net Qualifying Capacity (NQC) and will work with stakeholders to develop the requisite studies to facilitate such unbundling the near future. These recommendations are discussed in detail below.

1. The Commission Should Defer Changes to the Flexible Resource Adequacy Framework at this Time.

Throughout the workshop, presenters identified potential gaps with the existing flexible resource adequacy product. Specifically, Energy Division Staff identified issues with unit start requirements, the CAISO and Wellhead discussed a need for increased ramping speed and resources to address intra-hour variability, and California Energy Storage Alliance (CESA) focused on the need for downward flexible capacity. Based on

the diversity of potential gaps identified by the presenters, the CAISO has determined that prior to pursuing any changes, it is best to first determine (a) how well the existing product works at meeting current flexible capacity needs, (b) if the current product will continue to address the same flexible capacity needs in the future, and (c) whether the gaps identified by each of the presenters (and other potential gaps) exist or are reasonably expected to exist in the future. The CAISO believes the answers to these questions lay at the heart of any potential changes to the existing flexible capacity product. Because this is the first real opportunity for change to the flexible resource adequacy program, any revisions that are implemented should be based on a holistic view program and should be comprehensive in nature. Small incremental changes to the program risk solving one problem at the expense of creating another.

Given the unique opportunity to implement broad improvements to the flexible capacity framework, the CAISO has determined that a complete assessment of the flexible capacity product and program is necessary. Currently, the CAISO is examining potential enhancements to the existing flexible capacity product in the Flexible Resource Adequacy Criteria and Must Offer Obligation – Phase 2 (FRACMOO2) stakeholder process. Consistent with the goals stated above, the CAISO intends conduct a more thorough assessment the current product and its potential gaps in meeting future operational needs within the scope of the FRACMOO2 stakeholder process. The CAISO expects that this assessment will run through the third quarter of 2016 and the results of the assessment will be presented as part of the FRACMOO2 stakeholder process in late third quarter/early fourth quarter of 2016. The CAISO believes that the results of this analysis are necessary for the Commission to make a fully informed decision on any changes to the current flexible capacity procurement requirements. The analysis will help inform the Commission on establishing flexible capacity procurement requirements that closely align with the future operational needs of the system including ramping speed, product duration, and daily and/or annual start requirements. Therefore, the CAISO recommends that the Commission delay consideration of any the flexible capacity product proposals until the CAISO is able to conduct its more thorough assessment of the existing product capabilities.

2. *Unbundling EFC and NQC*

The CAISO supports the principle of unbundling the requirement that a resource have an NQC from the ability to obtain an EFC. The CAISO refers to this concept as “product qualification unbundling,” which is distinct from unbundling that would allow a resource to sell the EFC to one Load Serving Entity (LSE) and NQC, a concept that the CAISO refers to as “financial/contractual unbundling.” However, the CAISO notes that product qualification unbundling will require a significant amount of work prior to implementation. The basis for requiring a resource to have an NQC is that the qualifying capacity of the resources is deliverable at system peak conditions. In the absence of an NQC, the CAISO must develop a separate study to determine that a resource will be deliverable when needed for flexibility capacity purposes. The CAISO is currently exploring which stakeholder process is best suited to develop this new study methodology. This study must be in place prior to product qualification unbundling to ensure the flexible capacity resources are available when and where needed. The CAISO hereby commits to developing an independent deliverability study process for EFC. Until this process is in place, the Commission should defer any further action on product qualification unbundling.

In previous resource adequacy proceedings, the Commission was asked to allow financial/contractual unbundling of EFC and NQC. The CAISO supported this concept in those proceedings and does so again here. Allowing for financial/contractual unbundling requires no additional studies and is already supported by CAISO systems. As San Diego Gas & Electric Company demonstrated in its February 9, 2015 presentation in this proceeding, financial/contractual unbundling can improve market liquidity and reduce costs for ratepayers.¹ Finally, allowing financial/contractual unbundling prior to product qualification unbundling is a first step in preparing for fully product qualification unbundling. Having the financial/contractual unbundling framework in place and understood by market participants will aide in making product qualification unbundling successful.

¹ <http://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6539>

B. Corrections to Workshop Report

The CAISO reviewed the Workshop Report for accuracy and completeness. Generally, the Workshop Report accurately reflects the presentations and discussions provided by the CAISO. However, the CAISO requests that the following modifications be reflected in the workshop report as they pertain to CAISO presented materials:

1. Page 7 of Workshop Report states: “different studies are reaching very different estimates of behind the meter solar growth.” The CAISO requests that this statement be amended to state that “the 2016 Flexible Capacity Needs Assessment and the 2017 Flexible Capacity Needs Assessment show very different estimates of existing behind the meter solar resources.” The incremental growth of behind the meter solar for each of these studies is reasonably similar. In addition, the CAISO did not examine or present alternative studies regarding behind the meter solar growth as part of the 2017 Flexible Capacity Needs Assessment. There, cannot not support the assertion captured in the report.
2. Dr. Meeusen presented analysis at the April 2, 2016 Workshop on behalf of the CAISO. While Dr. Meeusen presented the analysis, the Workshop Report should credit all analysis to the CAISO rather than Dr. Meeusen in his individual capacity.
3. Page 12 of the Workshop Report omits an import aspect of the CAISO statement at workshop regarding unbundling EFC and NQC. Specifically, the CAISO identified an inconsistency between the presenting parties regarding how the term unbundling was used. Some presenting parties used the term unbundling to refer to allowing resources to receive an EFC without first receiving an NQC (*i.e.*, product qualification unbundling) while others referred to the ability to sell the EFC of a resource to one LSE and the NQC to another (*i.e.*, financial/contractual unbundling). Energy Division staff clarified that the discussion was intended to relate to product qualification unbundling. This addition is necessary to place the CAISO statement regarding the need for additional deliverability studies

in the proper context of product qualification unbundling. No additional studies are required for financial/contracting unbundling.

III. Conclusion

The CAISO appreciates this opportunity to provide comments on the Workshop Report and recommendations for the flexible resource adequacy program going forward. The CAISO looks forward to participating fully in this proceeding and relevant stakeholder processes to develop a durable flexible capacity product that meets system needs in the most cost-efficient manner.

Respectfully submitted,

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