

**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	)	Rulemaking 11-10-023
Local Procurement Obligations.	)	
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**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
COMMENTS ON PROPOSED DECISION**

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Pursuant to Article 14 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, the California Independent System Operator Corporation (“ISO”) respectfully submits these comments on the Proposed Decision of Administrative Law Judge Gamson issued on May 22, 2012 (“Proposed Decision”). The Proposed Decision adopts local procurement obligations for the 2013 resource adequacy compliance year, accepts certain refinements to the Commission’s resource adequacy program, and defers consideration of the changes that are necessary to incorporate flexible capacity needs into the resource adequacy program. The ISO is generally supportive of the Proposed Decision’s resolution of the issues raised in this proceeding and is providing comments on only the deferral of flexible capacity procurement.

**I. FLEXIBLE CAPACITY PROCUREMENT**

The need for traditional, flexible generation that can balance the swings in net load (i.e., load net of variable generation) is increasing while capacity and energy revenues for these units decrease and their costs increase. The ISO throughout this

proceeding has expressed its concern that intermittent resource additions made to reach the 33 percent renewable portfolio standard, in conjunction with retirements of flexible generation resources due to revenue insufficiency or as a consequence of the once-through-cooling policy, will “crowd-out” and reduce the fleet of flexible generation capacity available to meet resource adequacy obligations, thereby leading to insufficient flexible operating capability to ensure future reliability. It has been the ISO’s consistent position that the resource adequacy program must be refined to ensure that these flexible resources remain viable and available to the ISO to maintain system reliability and to minimize the need for procurement through ISO backstop capacity procurement mechanism.

The Proposed Decision shares the ISO’s concern and clearly recognizes the importance of flexible capacity. It acknowledges that reliability needs are changing and that maintaining the existing high standard of reliability will depend on a more complex and flexible fleet of resources.<sup>1</sup> Further, the Proposed Decision agrees with the ISO that it is necessary “to define flexible attributes for local reliability purposes in order to ensure ongoing reliability in a changing load and supply environment.”<sup>2</sup> The Proposed

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<sup>1</sup> “Reliability needs are changing over time because of a number of factors. First, recent State Water Resources Control Board rules may now require once-through cooling (OTC) plants to shut down or significantly change their operations before the previously-expected retirement dates for these plants. This rule change necessitates contracting for resources to replace potential lost capacity in the local areas, which are presently dependent on these plants for local reliability. Per the ISO, this is particularly true in the Los Angeles Basin, Big Creek/Ventura, and San Diego areas. Second, the increased flexibility requirements due to the state’s 33% Renewable Portfolio Standard might change the reliability characteristics of the grid over the next several years. Some renewable resources have different operating characteristics than many traditional non-fossil based resources – for example, wind or solar resources are typically more intermittent in nature and subsequently they have less operational predictability and flexibility than gas-fired power plants. Going forward, we expect that our continued standard of high reliability of the grid is dependent upon a more complex and flexible fleet of generating resources. Third, there have been changes in load characteristics with changes to peak, shoulder and mid-peak times such that increased supply flexibility (as well as tools such as demand response) is needed. Proposed Decision, pp. 11-12.

<sup>2</sup> *Id.* at p.17.

Decision, however, defers consideration of the proposals made by the Energy Division and the ISO to incorporate flexible capacity attributes into the resource adequacy program. The Proposed Decision states an intent that the Commission immediately begin an effort to address flexible capacity needs and policies and to adopt a framework by or near the end of 2012, with the goals of having the resultant requirements in place for the 2014 resource adequacy compliance year.<sup>3</sup>

The ISO appreciates the significant first step taken in the Proposed Decision of recognizing how vital flexible capacity is to grid reliability. The ISO submits that it is equally important for the Commission act as quickly as contemplated in the Proposed Decision to refine the resource adequacy program and establish new rules to maintain reliability as the supply fleet becomes more variable and less predictable. Any additional delay to a timely transition will be unworkable. Securing too little flexible capacity may not be correctable until several years in the future given the time to re-commercialize retired resources or build new ones. Because the need for flexible capacity will continue to grow over the next few years with the addition of new renewable resources and, as existing once-through-cooled plants retire, the situation will worsen before it will improve. It is imperative that the Commission adhere to the schedule discussed in the Proposed Decision to undertake the transition toward adopting a flexible capacity procurement requirement for compliance year 2014 that will ensure the resource adequacy fleet is sufficient to continue to meet the reliability and operational needs of the system.

The ISO urges the Commission to schedule a pre-hearing conference in this proceeding as soon as possible in order to set the schedule for considering the flexible

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<sup>3</sup> *Id.* at pp. 19-20.

capacity attributes and implementation details of incorporating the flexible capacity procurement requirement into the resource adequacy program for 2014.

## II. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission issue an order consistent with the ISO's proposal.

Respectfully submitted,

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