

**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
REPLY COMMENTS ON PHASE 1 WORKSHOP ISSUES**

In accordance with the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge Determining the Scope, Schedule, and Need for Hearing in this Proceeding (“Scoping Memo”) issued by the California Public Utilities Commission (“CPUC”) on December 23, 2009, and the extension of time granted by the Administrative Law Judge on March 4, 2010, the California Independent System Operator Corporation (“ISO”) respectfully submits its reply comments on the Resource Adequacy (“RA”) issues in Phase 1 of this proceeding.

I. SUMMARY

In its initial comments in this matter submitted on March 12, 2010, the ISO discussed its proposals to extend the Standard Capacity Product (“SCP”) to the deferred resource types, eliminate the replacement rule, and count demand response under the load-impact protocols. In these reply comments, the ISO will update the CPUC on the status of the SCP II stakeholder initiative underway, in which the ISO is considering the extension of SCP to resources whose qualifying capacity (“QC”) is based on historical energy production data (i.e., solar, wind, and qualifying facilities

("QFs")) and implementation of alternatives to the CPUC's replacement rule.

With respect to the proposals of other parties, the ISO's initial comments addressed the "show all local capacity" requirement, distribution system level resources, avoided line losses in demand response load impact protocol estimates for the RA QC calculation, and the Energy Division's proposed changes to the QC counting methodology related to the dispatchability classification and the hydro counting methodology. The ISO's discussion of those issues in its initial comments presented its position and addressed the anticipated comments by other parties. The ISO continues to rely on those initial comments and will not reiterate that discussion here.¹

II. REPLY COMMENTS

A. SCP II STAKEHOLDER INITIATIVE -- STATUS UPDATE

On February 22, 2010, the ISO published its draft final proposal² to address the issues covered by the SCP II initiative. Based on subsequent feedback from stakeholders on the draft final proposal, the ISO has decided to extend the SCP II stakeholder process. The ISO believes that additional time should be taken to evaluate the draft final proposal, and consider possible alternatives, with respect to extending the SCP availability standard to solar, wind, and QF RA resources and implementing a mechanism to take the place of the CPUC's replacement rule. The ISO is hopeful that this extended review and opportunity for additional stakeholder interaction and feedback will lead to enhanced recommendations and broadened stakeholder support and consensus around the appropriate resolutions for these issues.

¹ The absence of a reply to an argument raised by another party in its initial comments should not be interpreted as agreement or acquiescence by the ISO to the point that was made. The ISO's positions are fully discussed in its initial comments.

² The document is posted on the CAISO's website at <http://www.caiso.com/2745/2745780041b40.pdf>

On March 22, 2010, the ISO posted a paper entitled *Alternative Options for the Availability Standard and Replacement Rule Components of the Standard Capacity Product II Initiative* (“Alternative Options Paper”).³ This paper focuses on these two key issues because of their importance and because they garnered the most stakeholder concern.

With regard to extending the SCP availability calculation to the resources whose QC is based on historical energy production data, the Alternative Options Paper presents the ISO’s draft final proposal and an alternative that takes actual energy production into account. The methodology described in the draft final proposal is based on the principle that the observed historical production of an RA resource, on which its net qualifying capacity (“NQC”) is based, occurred during hours when the nominal capacity of the resource (e.g., its Pmax) was fully available. For such an RA resource, any forced outage or temperature-related ambient derate that reduces its nominal capacity below its full availability during an SCP assessment hour will proportionately reduce its ability to fully deliver its NQC in that hour. For example, assume that the RA resource is derated from 100 MW to 50 MW and that its NQC is 15 MW. Because its NQC of 15 MW was based on the resource’s production when the 100 MW of capacity was fully available, a derate that causes the resource to be only 50 percent available will also limit its availability to meet its RA obligation to 7.5 MW, or 50 percent of its 15 MW NQC. Since the resource sold 10 MW of RA capacity and is now capable of providing only 7.5 MW of RA, the resource is considered to be only 75 percent available for purposes of the SCP availability metric in this hour.

In the alternative, the actual energy delivery of a wind, solar, or QF RA resource

³ The document is posted on the CAISO’s website at <http://www.aiso.com/275d/275de29440be0.pdf>.

would be factored into the SCP availability calculation. The RA resource's availability would be determined as the higher of either its maximum energy delivery for the hour or its RA capacity value as proportionally derated. This alternative is expressed in the following formula:

$$\text{Min (100\%, Max(energy delivery; proportional derate metric))}$$

For example, assume that: (i) a 100 MW wind generator (consisting of 100 one-MW wind turbines) has an NQC of 15 MW based on a revised CPUC methodology that excludes any hours of forced outage or derate from the QC calculation; (ii) the resource sells 10 MW of RA capacity; (iii) in one of the SCP availability hours 50 of the turbines are taken off line due to a forced outage; and (iv) its actual metered energy production during the hour was 10 MW. Under this alternative, the resource's SCP availability would be the higher of either its percentage of energy produced (10 MW produced / 10 MW RA capacity = 100 percent) or its RA capacity prorated for the derate (7.5 MW / 10 MW = 75 percent available) for that hour.

With regard to possible approaches for maintaining a replacement obligation for planned outages by RA resources, the Alternative Options Paper discusses the ISO's draft final proposal and an alternative, non-mandatory replacement obligation. It also considers retention of the CPUC's replacement rule.

Under the ISO's draft final proposal, an RA resource with a planned outage longer than one-week in a particular month would be required to indicate the details of the intended outage in its supply plan submitted to the ISO in the month-ahead time frame and specify the non-RA resource that would be available to replace it during the planned outage. A local RA resource requesting a planned outage would be required to

make a best effort to replace the resource with a non-RA resource in the same local area. If the RA resource is unable to obtain local capacity in the same local area, a resource elsewhere within the ISO area must be offered. In the event that the ISO uses its Interim Capacity Procurement Mechanism (“ICPM”) to procure capacity in the local area during the time the RA resource is out of service, a local RA resource on planned outage that provided replacement RA capacity in the same local area will not be responsible for any ICPM cost. However, a local RA resource that provided replacement capacity outside that local area would be allocated a share of the ICPM cost in proportion to that RA resource’s share of the total RA capacity in the local area that was out of service at the time of the ICPM designation. In the event that an RA resource on planned outage fails to provide any replacement capacity in its supply plan, the cost of any ICPM capacity procured to cover the deficiency would be allocated to the SC of the resource.

Under the non-mandatory alternative, an RA resource with a planned outage longer than one week in a month would have the opportunity to replace its RA capacity during the outage period with a non-RA resource in accordance with the substitution rules already approved for unit substitution under SCP. The ISO would then determine whether the replacement capacity is acceptable, based on various criteria. If the proposed replacement capacity is acceptable to the ISO, the RA resource would meet its replacement requirement for that particular planned outage. If the replacement capacity is not acceptable to the ISO, the ISO may, based on anticipated system conditions or other operational considerations at the time the supplier’s supply plan is submitted to the ISO: (i) deny or reschedule the requested planned outage, (ii) approve

the requested outage and procure additional replacement capacity through the ICPM (or whatever mechanism may replace ICPM in the future), or (iii) approve the requested outage and not procure additional replacement capacity. If the RA resource does not cure any deficiency prior to ICPM procurement, it would be allocated the cost of the replacement capacity.

A further option is for the CPUC to retain the replacement rule. As discussed in the Alternative Options Paper, the ISO does not support eliminating the CPUC's current replacement rule until a mechanism can be implemented in place of that requirement. In addition, it is important that the CPUC retain the replacement rule as a key feature of the RA program at least until the ISO develops and implements a successor mechanism to the ICPM, which will expire on March 31, 2011.

B. SCP II STAKEHOLDER INITIATIVE -- NEXT STEPS

Following issuance of the Alternative Options Paper, the ISO conducted a conference call with stakeholders on March 24, 2010 to discuss that paper and the alternatives it addresses. The next steps in the SCP II stakeholder initiative is stakeholders' submission of comments on the paper on April 1, 2010, the ISO's issuance of a revised draft final proposal on April 6, 2010, a round of comments and a conference call on that revised proposal, and consideration of the ISO's final proposal by the Board of Governors at its meeting on May 17 – 18, 2010.

II. CONCLUSION

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

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on March 26, 2010, I served, by electronic and United States mail, a copy of the foregoing: **CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION REPLY COMMENTS ON PHASE 1 WORKSHOP** to each party in Docket No. R.09-10-032.

Executed on March 26, 2010 at Folsom, California

/s/ Jane L. Ostapovich/

Jane L. Ostapovich
An Employee of the California
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