

**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
PROPOSALS ON PHASE 2 ISSUES**

In accordance with the Order Instituting Rulemaking (October 29, 2009) and the “Phase 2 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge Determining the Scope, Schedule, and Need for Hearing in this Proceeding” (November 3, 2010) (“Scoping Memo”) issued by the California Public Utilities Commission (“CPUC”), the California Independent System Operator Corporation (“ISO”) respectfully submits its proposals on the issues described in the Scoping Memo for consideration in this proceeding.¹

I. INTRODUCTION

On October 29, 2009, the CPUC initiated this rulemaking as a successor rulemaking proceeding to R.08-01-025 for the purpose of overseeing the resource adequacy (“RA”) program and establishing local procurement obligations for 2011 and future years. The CPUC divided the proceeding into two phases. On June 24, 2010, the CPUC issued Decision 10-06-036 to address Phase 1 issues and the local RA procurement obligations for 2011. On November 3, 2010, the CPUC issued the

¹ The ISO reserves the right to address the other issues listed in the Scoping Memo for Phase 2, and any new matters, in response to the proposals submitted by other parties.

Scoping Memo for Phase 2 identified the issues that will be considered in this next stage of the proceeding and will determine the local RA procurement obligations for 2012. The Phase 2 schedule outlined in the Scoping Memo provides the parties the opportunity to submit on November 30, 2010 their proposals on the Phase 2 issues.

II. EXECUTIVE SUMMARY

The ISO strongly supports the CPUC's continued efforts through this rulemaking to refine the RA program and enhance its ability to ensure sufficient resources are available where and when needed. It is important that the CPUC, ISO, and stakeholders consider issues and proposals that will refine or enhance the RA program so that it better serves to facilitate open and efficient competition that will produce the optimal, cost-effective mix of existing resources and new infrastructure investments sufficient to meet end-use demand at stable and reasonable prices and reliably provide for the operating requirements of the ISO balancing authority area.

In order to maintain an effective RA program, the ISO submits that RA capacity must comply with the availability provisions of the standard capacity product ("SCP") as specified in the ISO tariff.² The SCP provisions apply to RA resources that integrate into the ISO market. The ISO intends to conduct a stakeholder initiative beginning in early 2011 to develop the SCP availability provisions that will apply to demand response that is RA capacity. Once those provisions are approved by FERC and in effect, demand response that is RA capacity will be required to comply with the SCP provisions in the ISO tariff. Thus, to prepare for the application of SCP to demand response, the CPUC in this proceeding, as part of the demand response issues identified as item (2)

² The SCP provisions are designed to (i) standardize RA availability requirements so RA capacity is more readily tradable among market participants, and (ii) increase the availability of RA capacity through financial incentives in the form of availability payments that recognize high availability and non-availability charges that discourage poor operating performance, based on the actual availability of RA capacity during the availability assessment hours each month.

(c) of the Scoping Memo, pages 4-5, should ensure that retail demand response programs are making the transition necessary to fully integrate into the wholesale electricity market since retail demand response programs will need to be configured to operate in the ISO market under the SCP availability provisions. Retail demand response programs that cannot be configured to operate under the SCP provisions will not meet the requirements to be RA capacity under the ISO tariff.

The ISO also proposes that the CPUC extend SCP to the RA resources whose qualifying capacity (“QC”) for RA purposes is based on historical actual hourly output data from the CPUC or a local regulatory authority without removing or otherwise adjusting for forced outage hours that occur during the period when actual output is measured. At the time the CPUC issued Decision D.10-06-036 in Phase I of this proceeding, the ISO had filed, but the Federal Energy Regulatory Commission (“FERC”) had not yet approved, the ISO’s tariff filing to extend SCP to the RA resources with historical QC. The decision, therefore, accepted SCP for RA compliance by these resources, but did not mandate it. The decision stated that if FERC does approve application of the SCP to the resources with historical QC, the assigned ALJ may take comment in this proceeding to consider an appropriate response.³ FERC has since approved the tariff provisions that will apply SCP to the resources effective January 1, 2011. Accordingly, the ISO requests that the CPUC mandate compliance with SCP by the resources with historical QC.

³ D.10-06-036 (June 24, 2011), p. 35.

III. ISO PROPOSAL

A. Background

On April 28, 2009, the ISO filed with FERC, in Docket No. ER09-1064-000, a proposed amendment to the ISO Tariff to adopt SCP and an ancillary services must-offer obligation for RA resources. As part of that filing, the ISO proposed that the availability standards and incentives of SCP would not initially apply to: (i) demand response resources; and (ii) RA resources with historical QC.

The ISO's filing proposed not to apply the SCP availability standards to demand response because initiatives were underway at both the CPUC and ISO to change the manner in which demand response resources participate in the California market.

The ISO opted to defer applying SCP to RA resources with QC determined by historical output in order to avoid "double counting" the impact of a resource's forced outages and de-rates under both the SCP availability metric and the CPUC rules in effect at the time for determining QC for RA purposes. The potential existed for a resource to be penalized twice for the same outage or de-rate -- once by an SCP non-availability charge for poor availability in the month in which the forced outage or de-rate occurred, and once by the CPUC counting rules that would account for the forced outage or de-rate through a reduction to the resource's eligible QC for the next RA compliance year.

By Order dated June 26, 2009, FERC approved the ISO's SCP proposal, including the temporary exemptions for demand response resources, and the intermittent resources.⁴ However, FERC emphasized that the exemptions are only temporary and directed the ISO to work diligently with stakeholders, the CPUC, and

⁴ *Cal. Indep. Sys. Operator Corp.*, 127 FERC ¶ 61,268 (2009) ("June 26 Order").

local regulatory authorities to end the exemptions in a timely manner.⁵

The ISO has since worked collaboratively with the CPUC and stakeholders to develop demand response products that enable the integration of retail demand response programs in the ISO market and to extend SCP to the deferred RA resources with historical QC.

B. Demand Response

Significant progress has been made this year on measures designed to facilitate increased participation in the ISO market and grid operations by demand response.

On February 16, 2010, the ISO filed a proposed tariff amendment at FERC designed to reduce barriers to the participation of demand response in the ISO's market through the implementation of a new demand response product – the proxy demand resource product or PDR. These proxy demand resources will participate as a load or an aggregation of loads capable of measurably and verifiably reducing their electric demand in response to ISO dispatch instructions. FERC approved the proxy demand response program on July 15, 2010 and the ISO implemented it on August 10, 2010.

On June 25, 2010, the CPUC issued Decision 10-06-034 in Docket No. R.07-01-041 regarding policies and protocols for aligning demand response with ISO market design. That decision adopted a settlement agreement that resolved issues regarding emergency triggered demand response. This settlement led to development of the ISO's reliability demand response product that will enable retail emergency-triggered demand response programs to integrate into ISO markets and operations. The product is scheduled to be implemented by spring 2012.

As these measures will increase participation in the ISO market and grid operations by demand response, the actual availability of these resources as RA

⁵ *Id.* at P. 58.

capacity is essential to fulfilling the purpose of the RA program to ensure that adequate resources are available when and where needed to serve load, meet appropriate reserve requirements, and support reliable operation of the ISO controlled grid. Application of a SCP to all RA resources ensures the equitable treatment of all resource types and provides a financial incentive to meet the RA program objectives.

In early 2011, the ISO will undertake an initiative to extend SCP to demand response that is RA capacity. The goal is to complete this initiative in time for these new SCP requirements to be in place on January 1, 2012.

Thus, to prepare for the application of SCP to demand response, the CPUC in this proceeding, within the scope of the demand response issues identified in the Scoping Memo, should ensure that retail demand response programs are making the transition necessary to fully integrate into the wholesale electricity market since retail demand response programs will need to be configured to operate in the ISO market under the SCP availability provisions. Retail demand response programs that cannot be configured to operate under the SCP provisions will not meet the requirements to be RA capacity under the ISO tariff since the ISO tariff does not extend jurisdiction beyond wholesale products to retail demand response programs.

C. RA Resources With Historical QC

The ISO filed a tariff amendment at FERC on June 22, 2010 that proposed to extend SCP to the RA resources with historical QC. While that filing was pending, the CPUC on June 25, 2010 issued Decision 10-06-036 that eliminated the double-counting concern that had caused the ISO to defer applying SCP to these resources. The CPUC modified its RA counting rules to eliminate forced outage and de-rate hours from its calculation of the QC of RA resources, and to use instead proxy energy output values for those hours. Because FERC had not yet approved SCP for RA resources with

historical QC, Decision 10-06-036 accepted SCP for RA compliance by these resources, but did not mandate it. The decision, however, did allow for the assigned ALJ to take comment in this proceeding in the event FERC does approve SCP for the resources with historical QC.⁶ On August 20, 2010, FERC approved the ISO's tariff amendment.

In accordance with FERC's approval of the ISO tariff provisions, SCP will be applicable to the RA resources with historical QC effective January 1, 2011. The ISO, therefore, proposes that the CPUC mandate compliance with SCP by these resources.

IV. CONCLUSION

The ISO respectfully requests that the CPUC issue an order consistent with the ISO's proposal.

Respectfully submitted,

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⁶ D.10-06-036 (June 24, 201), p. 35.

CERTIFICATE OF SERVICE

I hereby certify that on November 30, 2010, I served, by electronic and United States mail, a copy of the foregoing California Independent System Operator Corporation Proposals on Phase 2 Issues to each party in Docket No. R.09-10-032.

Executed on November 30, 2010
at Folsom, California

Anna M. Pascuzzo

Anna M. Pascuzzo
An Employee of the California
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