

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Develop an
Electricity Integrated Resource Planning
Framework and to Coordinate and Refine
Long-Term Procurement Planning
Requirements.

Rulemaking 16-02-007
(Filed February 11, 2016)

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION**

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Pursuant to the *Administrative Law Judge's Proposed Decision Requiring Electric System Reliability Procurement for 2021 - 2023* (Proposed Decision) issued on September 12, 2019, the California Independent System Operator Corporation (CAISO) hereby provides reply comments in response to parties' October 2, 2019 opening comments.

I. Introduction

The CAISO appreciates the opportunity to provide reply comments and agrees with the majority of commenters supporting the Proposed Decision's directive to procure new resources to meet the identified capacity and operational needs. Importantly, no party provided evidence that contradicts the Proposed Decision's finding that there will be a significant capacity shortfall without incremental resource additions or extensions of the once-through-cooling (OTC) policy compliance dates for existing generators that are scheduled to retire. To further clarify the Proposed Decision and meet system needs, the CAISO recommends that the Commission:

- Use the CAISO's operational analysis and baseline assumptions to identify and procure incremental resources;
- Decline to make changes to the Demand Response Auction Mechanism (DRAM) contracting mechanism in this proceeding; and
- Adopt Southern California Edison Company's (SCE) proposal to consider each load serving entity's resource adequacy position to allocate incremental procurement.

II. Discussion

A. The Commission Should Use the CAISO's Operational Analysis the Baseline Assumptions to Identify and Procure Incremental Resources.

Numerous parties have noted that the Proposed Decision provides confusing or conflicting direction regarding (1) whether once-through cooling (OTC) resources are incremental procurement and (2) the resources are or are not included in the Preferred System Plan (PSP) baseline, including imports up to the maximum import capability. As an example, Calpine noted that the PSP baseline includes its Sutter Energy Center (Sutter). However, Sutter is not currently within the CAISO balancing authority area and is not used to serve CAISO load.¹ The CAISO agrees with Calpine that if Sutter can secure deliverability into the CAISO footprint it should be counted as an incremental resource that can meet the identified capacity deficiencies.

The CAISO and SCE analyses properly accounted for Sutter by excluding it from the baseline available resources. The Sutter example highlights the difficulty associated with using the PSP baseline to identify incremental resources. The PSP baseline also incorrectly assumes that resource-adequacy based imports can be accessed up to the maximum import capability. These examples illustrated that there is a fundamental disconnect between the baseline used to identify the deficiencies (in the CAISO and SCE analyses) and the baseline in the PSP, which the Proposed Decision uses to identify incremental procurement. Rather than using the PSP as a baseline to determine incremental resources, the Commission should use the CAISO's operational analysis baseline, which is well documented and sufficiently detailed to determine both the deficiencies and the incremental procurement.

The CAISO operational analysis baseline should also be used to determine which resources must be retained under resource adequacy contracts. Any failure to retain resources in the CAISO's baseline will increase the identified resource deficiency. As the CAISO described in opening comments, the Commission should pair the operational analysis with an annual assessment to determine the megawatt need and the specific OTC units necessary to maintain reliability.² In addition, the Commission should use the annual assessment to determine whether

¹ Calpine Corporation, *Comments of Calpine Corporation on Proposed Decision Requiring Electric System Reliability Procurement for 2021-2023*, October 2, 2019, p. 5.

² California Independent System Operator, *Opening Comments of the California Independent System Operator Corporation*, October 2, 2019, pp. 5-6. (CAISO Opening Comments)

OTC units could be retired sooner than expected.

The California Community Choice Association (CalCCA) argues that differences between the SCE and CAISO analyses cause uncertainty and therefore more rigorous analysis is needed.³ The CAISO strongly disagrees. The SCE and CAISO analyses show similar results and the CAISO fully explained the deviations in its August 12 reply comments. Furthermore, incremental procurement in the amount necessary to address the identified operational shortfall in the CAISO analysis now is truly a “least regrets” approach, because the Commission will need to both provide the ultimate timely retirement of OTC and address additional capacity shortfalls in 2024 and 2025 due to the retirement of 2,280 MW Diablo Canyon Power Plant.

B. The Commission Should Decline to Make Changes to the Demand Response Auction Mechanism Contracting Mechanism in This Proceeding.

The Demand Response Auction Mechanism (DRAM) is a continuing and evolving pilot. SCE notes that there is a significant gap between the resource adequacy capacity procured versus energy delivered from DRAM resources, and that improvements are being made to address this and other issues.⁴ The CAISO agrees with SCE and, as a result, disagrees with Joint DR Parties’ recommendation to modify the DRAM contracts in this proceeding.⁵ DRAM contract modification and performance improvements are more appropriately addressed in the demand response proceeding. Instead, the IRP process should validate that the resources procured meet the reliability, operational, and renewable integration needs of the system. In the interest of ratepayers, the Commission must ensure investments made in preferred and all resources address both the near-term reliability needs of the system and enable the timely retirement of OTC units and support transition to the a low carbon grid.

C. The Commission Should Adopt Southern California Edison’s Proposal to Consider Each Load Serving Entity’s Resource Adequacy Position to Allocate Incremental Procurement.

³ California Community Choice Association, *Comments of the California Community Choice Association on Proposed Decision Requiring Electric System Reliability Procurement for 2021-2023*, October 2, 2019. pp. 3-4.

⁴ Southern California Edison, *Opening Comments of Southern California Edison Company (U-338-E) on Proposed Decision Requiring Electric System Reliability Procurement for 2021-2023*, October 2, 2019, pp. 13-14. (SCE Opening Comments)

⁵ Joint DR Parties, *Joint Opening Comments of CPower, Enel X North America, Inc., and EnergyHub (“Joint DR Parties”) on the Proposed Decision Requiring Electric System Reliability Procurement for 2021-2023*, October 2, 2019, p. 5.

In opening comments, the CAISO suggested that the Commission develop a more nuanced cost allocation mechanism to ensure equitable responsibility for electric reliability.⁶ One of SCE's cost allocation proposals asks the Commission to consider all LSEs' system resource adequacy needs in allocating the procurement.⁷ The CAISO understands this approach to mean the Commission can allocate the incremental procurement need to all LSEs in the same manner as the annual system resource adequacy requirement. If an LSE has a long position, the capacity can be used to offset the allocated incremental procurement amount. The CAISO urges the Commission to adopt SCE's cost allocation proposal.

III. Conclusion

The CAISO appreciates the opportunity to provide reply comments and recommends that the Commission direct procurement to address the identified operational needs as soon as possible.

Respectfully submitted,

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⁶ CAISO Opening Comments, p. 8.

⁷ SCE Opening Comments, p. 7.