



March 17, 2014

Board of Governors  
California Independent System Operator

Via Electronic Mail  
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**RE: Sierra Club Comments on Flexible Resource Adequacy Criteria and Must-Offer Obligation, Revised Draft Final Proposal**

Board of Governors:

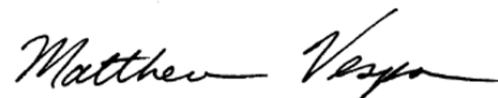
Sierra Club submits the following comments to the CAISO Board prior to consideration of the Revised Draft Final Proposal for the Flexible Resource Adequacy Criteria and Must-Offer Obligation (“Revised Draft Final FRACMOO Proposal”). Sierra Club has been an active participant in the FRACMOO initiative and corollary efforts at the Public Utilities Commission (“PUC”) to develop a flexible resource adequacy framework. When CAISO staff first presented a significantly modified Fifth Revised FRACMOO Straw Proposal in January, among Sierra Club’s principal concerns were that the proposal needlessly favored fossil fuels by requiring minimum procurement of resources that could meet a 17-hour continuous energy requirement and suppressed deployment and valuation of energy storage by failing to account for energy storage charging to meet flexible capacity needs. The Revised Draft Final Proposal addresses both of these concerns. Sierra Club appreciates and commends the efforts of CAISO staff in amending the Proposal. Recent revisions have resulted in a flexible capacity framework that better facilitates participation and deployment of low carbon resources in meeting emerging flexible capacity needs.

Moving forward, Sierra Club has two additional recommendations. First, with regard to jurisdictional issues over effective flexible capacity (“EFC”) determinations, Sierra Club appreciates recent clarification that CAISO will use the EFC criteria provided by a local regulatory authority (“LRA”) in assessing the adequacy of a flexible capacity showing. However, the Revised Draft Final Proposal also contemplates an evaluation of the need for a backstop determination based on the CAISO’s own EFC methodology. Because the PUC and CAISO EFC methodologies are more closely aligned than in previous FRACMOO iterations, as a practical matter, the potential for backstop procurement no longer appears as acute. However,

to avoid the potential for future conflict and remove unnecessary ambiguity, tariff language should specify the specific circumstances under which an LRA's EFC determination may be discounted. For example, in the analogous context of a QC/NQC determination, Section 40.3.1 of the CAISO tariff requires CAISO to "use the criteria provided by the CPUC or [LRA] to determine and verify, if necessary, the Qualifying Capacity of all Resource Adequacy Resources," but allows CAISO to reduce this value based on deliverability or failures in testing or performance of a resource. The same structure, which unambiguously distinguishes between the roles of the CPUC/LRA and CAISO and establishes clear justifications for a devaluation of an LRA's QC determination, should be followed in tariff language for an EFC determination.

Second, future determinations of flexibility needs must be evaluated in the PUC's Resource Adequacy proceeding. This is in keeping with PUC authority over procurement and will facilitate transparency, more robust public participation, and a higher degree of confidence in ultimate determinations of flexibility needs. Over the course of the FRACMOO initiative, purported flexibility needs shifted considerably without the opportunity for robust review. In adopting a Flexible Capacity Procurement Framework last year, the PUC identified a need to ensure the operational availability of resources to meet a maximum monthly three-hour ramp. Yet, in January of this year, the Fifth Revised FRACMOO Straw Proposal asserted that flexibility needs required a must-offer obligation capable of addressing two daily ramps. Stakeholders did not have a meaningful opportunity to assess whether a second daily ramp presented legitimate operational concerns justifying a significantly revised must-offer obligation. As our understanding of future grid needs continues to evolve, scrutiny of these needs and development of appropriate policy responses to ensure operational availability of flexible resources should take place in the Resource Adequacy proceeding.

Sierra Club appreciates CAISO's work in FRACMOO development and looks forward to continued collaboration. If you have any questions, please contact Matt Vespa at [matt.vespa@sierraclub.org](mailto:matt.vespa@sierraclub.org) or 415-977-5753.



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