

**Written Stakeholder Comments
Submitted After the
November 10 Stakeholder Meeting, With Added
ISO Response, Regarding the
2013 Local Capacity Requirement (LCR)
Criteria and Methodology and the
2013 LCR Manual**

**PG&E's Comments on the CAISO
2013 Local Capacity Requirement Draft Study Manual**

Introduction

PG&E appreciates the opportunity to comment on the CAISO's 2013 Local Capacity Requirement (LCR) Draft Study Manual presented on November 10, 2011. PG&E commends the CAISO Staff for its work in discussing this manual in detail. Generally, PG&E agrees with the draft study manual presented during the stakeholder meeting.

However, PG&E submitted a previous comment to the 2012 LCR Study Results regarding publishing the list of generation and local sub-areas which the CAISO stated it would consider. PG&E has not seen a resolution of this issue and therefore is re-submitting the comment below.

Comments

The CAISO should publish the list of generation units along with their local sub-area designations --- PG&E understands that the CAISO typically publishes information on LCR generation units along with their sub-area designations in the annual LCR report. Unfortunately, such information is not currently available in a format that would help LSEs assess local sub-area procurement.

PG&E requests that the CAISO make available the LCR generation units' information, including sub-area designation, in Microsoft Excel format as a supplement to the LCR generation information that is currently made available to stakeholders.

ISO Response: The ISO is considering posting this information along with the final 2013 LCR report in order to facilitate LSE procurement. Other LSEs and the owners of LCR generating units should comment as to whether they support the release of this locational information.

2013 ISO Local Capacity Requirements
(LCR) Technical Study

The Division of Ratepayer Advocates (DRA) submits these comments on the California Independent System Operator's (CAISO) 2013 Local Capacity Area Technical Study.

At the stakeholder meeting on November 10, 2011, the CAISO presentation covered basic Resource Adequacy (RA) concepts including how the LCR study works in conjunction with the CPUC's RA program. It was announced at the stakeholder meeting that the 2013 LCR Study will not include any changes in the underlying assumptions from the prior year's LCR study.

However, in addition to the regular annual LCR study, CAISO informed stakeholders that new five and ten year-forward LCR forecasts are being developed. During the meeting, CAISO stated that it planned to rely on the 1-in-10 year summer peak load forecast criteria for these new longer-term studies.

DRA has previously suggested that the use of the 1-in-10 criteria for the LCR Study is overly conservative and leads to higher procurement costs. Moreover, it has never been demonstrated through a cost/benefit analysis or value of service study that the incremental benefits from the use of the 1-in-10 criteria is valued by customers or even preferable to use of the 1-in-5 or 1-in-2 criteria. For example, by using the 1-in-2 year forecast for the LCR Study, the local need would be reduced by approximately 10% as compared with the current 1-in-10. With energy costs on the rise over the coming decade, it is important to re-evaluate the costs of the reliability customers pay for.

DRA Recommendation

DRA recommends that the CAISO include an analysis of the LCR need under a 1-in-2 and 1-in-5 criteria, in addition to the currently planned 1-in-10 analysis, in its future 5 and 10-year forward LCR studies. The CAISO's future LCR analysis that considers a 5 and 10-year forecast will necessarily involve greater forecasting uncertainties than the current 1-year study. Therefore, these longer-term LCR studies need to take a more considered look at the costs and benefits associated with the 1-in-2 and 1-in-5 criteria.

The cost-benefit analysis should then be presented to all stakeholders before the forecasting methodology for long-term studies is adopted.

ISO Response: The ISO understands the importance of forecasting uncertainty, however at the current rate of load growth (very small) there is a greater need for purposes of these studies to forecast and consider the impact of economic recovery over a longer horizon rather than focus on the slower load-growth conditions in the near-term future. The ISO also believes that higher uncertainty would come from renewable integration, rather than load growth. As part of this expansion plan cycle, the ISO has done LCR studies for all "renewable portfolios" agreed upon by the CPUC and stakeholders for all areas affected by the once through cooling legislation. The Long-Term LCR studies follow the latest LCR Manual including the methodology, assumptions and criteria agreed upon by stakeholders for the first year of study. Furthermore all transmission projects for local areas are approved based on the 1 in 10 load forecast as specified in the ISO Grid Planning Standards (page15):

<http://www.caiso.com/Documents/TransmissionPlanningStandards.pdf>

Changing the load forecast level from 1-in-10 to 1-in-5 or 1-in-2 in the LCR studies alone will create mismatch between when transmission reinforcements and resources are needed.

**SDG&E's Comments on the Draft Manual for
2013 Local Capacity Area Technical Study
and Stakeholder Meeting on November 10**

Seasonal Local RA Assessment

According to statements made at the November 10, 2011 stakeholder meeting, the CAISO will attempt to establish a methodology for developing an off-peak seasonal LCR study for the San Diego area. SDG&E sincerely appreciates the CAISO's effort to move forward on this issue. As SDG&E understands it, the proposed seasonal local methodology will be based on additional outages in the maintenance (off-peak) season of two generators and a transmission element. SDG&E recommends the off-peak season should be comprised of January through April and November through December. Additionally, the CAISO expressed concern that a lower off-peak LCR could possibly render previously deliverable generation non-deliverable. SDG&E questions this statement, and believes if true it would likely mean that existing generation may be undeliverable in the off-peak season even under the current annual LCR rules. SDG&E recommends this issue should be explored further.

As a possible alternative to establishing separate seasonal local RA requirements, the CAISO raised the possibility of allowing LSEs serving SDG&E load to substitute local capacity with system capacity in RAAM. This solution, while supported by SDG&E, still does not relieve the requirement to report LCR capacity for the entire year, and therefore precludes potential cost savings for ratepayers in SDG&E. While the CAISO is on record as doubting any potential cost savings, SDG&E recommends the CAISO not bias its effort or outcome of the

seasonal study with the presumption RA costs will remain unchanged under the seasonal scenario.

ISO Response: As agreed at the November 10, 2011 stakeholder meeting, the ISO will, for informational purposes, present the second season LCR needs, for San Diego service area only, based on the agreed-upon methodology. The actual LCR requirements for the San Diego service area will be established for the entire year based on the summer peak LCR assessment, consistent with the approach for establishing the LCR requirements for all other areas.

Current LCR Study Methodology Assumption Regarding Uncontracted Capacity

The presentation accompanying the November 10, 2011 stakeholder meeting, states, at slide 7, that:

“If a resource is not under an RA type contract or otherwise retained by the ISO for reliability services, it will be considered off-line and will not be available to meet reliability needs of the ISO because: 1) These resources will have no must-offer-obligation to the ISO; therefore, they are not obligated to have bids in the ISO markets, and 2) the ISO could be forced to go out-of-market and these resources may be unavailable or unwilling to respond to the ISO reliability calls. As a result, all units under RA contract + those retained by the ISO for reliability reasons can be used to meet applicable reliability standards.”

SDG&E believes this assumption regarding non-RA or uncontracted generator offer obligations is incorrect. The CAISO Tariff requires that all generation under a Participating Generator Agreement with the CAISO must respond to CAISO dispatches. The generator’s response is not elective. Also, the CAISO still approves planned outages based on reliability

needs whether unit is RA or not, therefore these units will be as available as RA resources in meeting system requirements. SDG&E believes that simply ignoring non-RA or uncontracted capacity in one area could cause the limiting element of another local area to not be loaded at 100% of its applicable rating (*see* page 7 of 2013 LCR Manual), and inflate the local resource requirements in that local area above the minimum MW level to meet reliability criteria.

ISO Response: The CPUC's RA program, is intended to make resources available when needed and where needed. If uncontracted capacity is used to meet RA requirements, the ISO cannot validate whether the capacity provided through the RA program is sufficient to meet criteria compliance.

Zonal Issues and LCR

At the November 10, 2011 stakeholder meeting, the CAISO stated that LCR will not be used to resolve zonal issues. SDG&E supports this approach, and believes it should be cemented in the LCR Study Manual since it seems different from what the CAISO indicated in last year's LCR process. Also the CAISO expressed a lack of a proper "tool" to address zonal capacity problems a year in advance so the CAISO should clarify if and how any zonal capacity problems will be addressed this year. A new stakeholder process should be started if the CAISO intends on changing any current practices.

ISO Response: The ISO does not intend to change the current practice, in which the zonal requirements are enforced through the ISO RA Import Allocation process as well as the CPUC Path 26 RA Allocation process.

Proposed Change in Long-term LCR study Timeframe

At the November 10, 2011 stakeholder meeting, the CAISO stated it intends to change the long-term LCR study timeframe from within 5 years to 10 years out. SDG&E supports this move, and believes it should provide more meaningful information, but cautions that the assumptions the CAISO uses for the 10 year out LCR study are important. Consequently, SDG&E recommends they provide stakeholders with the assumptions for the 10 year out LCR in advance for review, and initiate a comment process to make any needed changes.

ISO Response: For the 2011-12 planning process, the ISO is already in the final steps of producing the LCR results and all base cases used have ample opportunity to be reviewed by stakeholders. The 2016 LCR studies have been conducted using the reliability assessment base cases. The 2021 LCR studies have been conducted, for all areas with once-through cooling resources, on all 33% portfolio scenario base cases. All LCR studies use the same assumptions, methodology and criteria as the first year and this is established through an open stakeholder process in November of every year. For the upcoming 2012-13 planning process, the ISO will provide stakeholders the same opportunity to provide comments to base cases and assumptions before the studies are started.