

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

Order Instituting Rulemaking to Continue
Implementation and Administration of California
Renewables Portfolio Standard Program.

Rulemaking 11-05-005
(Filed May 5, 2011)

**REPLY COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
IN RESPONSE TO THE MAY 23, 2011 RULING
SETTING PREHEARING CONFERENCE**

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June 9, 2011

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I. Introduction

This rulemaking proceeding was instituted on May 5, 2011 as the successor to R. 08-08-009, the oversight docket for the Renewables Portfolio Standard (RPS) program, including the administration of RPS procurement plans, assessing compliance with RPS requirements and enforcing procurement results. As noted in the Order Instituting Rulemaking (OIR), ongoing administration of RPS procurement plans now requires a consideration of the recent RPS legislation (SB 2 [1X]) and necessary modifications to the existing program. The OIR included a preliminary list of program changes necessitated by SB 2 (1X) (Attachment A).

By ruling issued May 23, 2011, ALJ Simon set a prehearing conference for June 13, 2011 and provided interested parties with an opportunity to submit comments and reply comments. In particular, the ruling asked parties to provide their views on the highest priority topics for the initial months of the proceeding. Numerous parties submitted comments, priority listings and proposed schedules on May 31, 2011.

The California Independent System Operator Corporation (ISO), as the high voltage transmission grid operator for much of California, is also heavily involved in working towards the 33% RPS by 2020 standard now statutorily mandated by SB 2 (1X). The ISO is working closely with the Commission on

several fronts with regard to achieving this goal. In the long term procurement proceeding, R. 10-05-006, the ISO is working with energy division staff, the investor owned utilities and the other parties in analyzing the potential operational requirements from resources that will assist with the integration of renewable resources into the grid by 2020. For these purposes the ISO is evaluating four renewable portfolio scenarios developed by the staff and will present its study results as part of the evidentiary proceeding in that case. In addition, the renewable portfolio scenarios developed with the energy staff will be used in the ISO's 2011/2012 transmission planning process to make policy and economic decisions about the need for additional transmission investment to achieve the RPS goals. The ISO's renewable integration study results will inform both the transmission planning process and market design initiatives that are currently underway with ISO stakeholders.

The ISO has not participated in the previous RPS procurement dockets and does not envision extensive participation in this proceeding. However, there are certain topics identified in the OIR and ALJ ruling that align with issues under consideration by the ISO, or that might impact ISO market operations. The ISO has reviewed the comments and priority lists submitted by the other parties and would like to take this opportunity, in reply comments, to identify areas of overlap with ISO initiatives and prioritization of these topics.

II. Preliminary ISO Areas of Interest

On April 5, 2010, the ISO initiated Phase 2 of its Renewable Integration: Market and Product Review initiative.¹ In its scoping paper, the ISO listed candidate elements for a comprehensive market design program, including the appropriate allocation of increased operational costs resulting from the need to meet load and reserve requirements and maintain reliable operations while integrating substantial amounts of variable energy resources. From a market standpoint, the ISO's overarching consideration with respect to integration costs is to consider how market rules can be used to provide long term

¹ See "Discussion & Scoping Paper on Renewable Integration Phase 2" at <http://www.caiso.com/2b3d/2b3d8b92f940.html>

incentives for resource developers to design new renewable resources that are better able to manage variability and minimize grid and cost impacts. The allocation of integration costs aligns with items listed under Topic 3 (Modify RPS procurement rules) in the ALJ ruling, particularly modifying the bid evaluation methodology to include consideration of integration cost adders in procurement contracts. The ISO notes that as the renewable integration market design initiative progresses, there may be other areas of alignment with items under consideration in this docket and identified in the scoping ruling.

Other topics that might impact ISO operations, markets or transmission planning responsibilities include:

- Modifications to the definition of renewable energy credits (RECs) to eliminate delivery requirements and to define “firmed and shaped,” “incremental energy,” and “unbundled” RECs (Topic 2)
- With respect to cost containment mechanisms, the extent to which RPS costs should be “all in,” including transmission costs (Topic 4)
- Expedited interconnection procedures for small renewable resources in accordance with Section 399.20 (Topic 5)
- Developing an RPS “need” assessment methodology (Topic 9)

III. Prioritization

The ISO has reviewed the comments and priority listings submitted by other parties, in particular the issues ranking submitted jointly by PG&E, SCE, SDG&E, CalWEA, CUE, DRA, IEP, LSA, Nextera and TURN, and notes that the REC issues have been listed with more urgency in Tier 1. The integration cost allocation and contract adder issues are generally listed as Tier 2 or 3. While the ISO understands that the other issues may seem more pressing, considering the costs of integration when selecting renewable resources must be a high priority consideration. The ISO is currently undertaking its Renewable Integration Market and Product Review Phase 1, which is looking at changes in how some

variable energy resources, such as wind and solar, are treated in the ISO markets.² These changes will potentially change the balancing costs that these resources face. As discussed above, the ISO is also starting Phase 2 of the Renewable Integration Market and Product Review, which will consider allocating variable integration costs to those generators which cause them. The Commission staff is participating as a stakeholder in these proceedings. It should be clear that the results of these two stakeholder processes will significantly influence the costs associated with procuring variable energy resources in California. The timing suggested by most parties by including integration costs in Tier 2 or 3 should provide time for the ISO to work with the stakeholders and for all parties to have a better understanding of the integration cost issues.

The other issues of potential interest to the ISO have similarly been ranked as Tier 2 or 3 which at this point would not appear to present timing issues with respect to ISO studies or possible stakeholder initiatives. Many respondents to this proceeding are also participating in ISO stakeholder processes and are aware of the need to align our efforts. As this proceeding progresses, the ISO will provide information and updates from its efforts to address RPS compliance from the grid operator's standpoint.

Respectfully submitted,

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² See <http://www.caiso.com/27be/27beb7931d800.html>

CERTIFICATE OF SERVICE

I hereby certify that on June 9, 2011, I served, by electronic and United States mail, a copy of the foregoing, *Reply Comments of the California Independent System Operator Corporation in Response to the May 23, 2011 Ruling Setting Prehearing Conference* to each party in Docket No. R.11-05-005.

Executed on June 9, 2011
at Folsom, California

/s/ Anna M. Pascuzzo

Anna M. Pascuzzo
An Employee of the California
Independent System Operator