

**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)
Local Procurement Obligations.)
_____)

R.09-10-032

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
REPLY COMMENTS ON PHASE 2 PROPOSALS**

In accordance with the Order Instituting Rulemaking (October 29, 2009) and the “Revised Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge Determining the Scope, Schedule, and Need for Hearing in this Proceeding” (February 3, 2011) issued by the California Public Utilities Commission (“CPUC”), the California Independent System Operator Corporation (“ISO”) respectfully submits its reply comments to the comments filed by other parties in this proceeding on February 8, 2011.

I. SUMMARY

In these reply comments, the ISO discusses several key proposals in this proceeding and requests that the CPUC:

- Modify the counting rules to count as local resource adequacy (“RA”) only those demand response resources capable of being dispatched by the ISO in the local area in which the need actually occurs.
- Adopt an option for demand response resources to establish a

Qualifying Capacity (“QC”) value through the CPUC’s load impact protocols, or by certification, registration, or testing to qualify as RA resources.

- Mandate compliance with the Standard Capacity Product (“SCP”) by the RA resources with historical QC.
- Determine that the proposal to establish a monthly or seasonal local RA requirement should be rejected on the grounds that it is not feasible and could increase costs in the non-summer months.

II. ISO PROPOSALS

A. Demand Response

The ISO’s initial comments stressed that, as demand response programs expand and increase participation in ISO markets and grid operations, it is essential that retail demand response programs undertake the transition necessary to fully integrate into the wholesale electricity markets. In order to maintain an effective RA program, the ISO continues to submit that RA capacity must comply with the availability provisions of the SCP as specified in the ISO tariff and that the SCP provisions apply to RA resources that integrate into ISO markets. Upon integration, demand response resources will be recognized and treated as individual, supply-side resources in wholesale markets, not as programs at the retail level. As such, demand response will be selected based on bids and schedules, and dispatched as a resource as needed. In an effort to encourage this transition and the successful integration of demand response into ISO markets as RA resources, the ISO’s comments suggested that the CPUC act in several key areas.

1. Demand Response Counted As Local Capacity Must Be Locally Dispatchable

Foremost, the ISO proposes that the CPUC count as local RA only those demand response resources capable of being dispatched by the ISO in the local area in which the need actually occurs. As the ISO explained in its initial comments, allowing demand response programs to count for local RA when they are not, in fact, “dispatchable”¹ like all other RA resources “where needed” is inconsistent with the central tenet of the CPUC’s RA program. The CPUC recognized that tenet in the early development of the RA program. In Decision D.05-10-042, the CPUC stated that: “it is pointless to design a regulatory system [RA program] that encourages investment in order to create capacity unless that capacity is actually available to the grid operator to serve load where it exists in day-ahead, hour-ahead, and real-time circumstances” when and where capacity is needed.”²

The initial comments of Pacific Gas and Electric Company (“PG&E”) contravene this established tenet of the RA program and oppose the ISO’s proposal

¹ As defined in the ISO Tariff, Appendix A, “Dispatch” means: The activity of controlling an integrated electric system to: i) assign specific Generating Units and other sources of supply to effect the supply to meet the relevant area Demand taken as Load rises or falls; ii) control operations and maintenance of high voltage lines, substations, and equipment, including administration of safety procedures; iii) operate interconnections; iv) manage Energy transactions with other interconnected Balancing Authority Areas; and v) curtail Demand.

² In Decision D.05-10-042, October 27, 2005, p. 10, the CPUC stated that: “In California’s restructured electric industry, the CAISO is the designated agent for determining when and where generation capacity is needed in its control area on an operational basis. The Commission’s policy that RAR should ensure that capacity is available when and where it is needed means that the RAR program design must be consistent with the CAISO’s operational needs. Some parties have implied that because RAR is a resource planning exercise, it need not attempt to meet CAISO’s system operational needs. Notwithstanding the distinction between planning and operational concerns, however, it is pointless to design a regulatory system that encourages investment in order to create capacity unless that capacity is actually available to the grid operator to serve load where it exists in day-ahead, hour-ahead, and real-time circumstances.”

in this proceeding.³ PG&E claims that it plans for “most DR” to be callable by local area in the future, but contends that there is insufficient time to make the significant changes to its demand response programs that would be required for current implementation of the proposal. More troublesome though is PG&E’s unsupported and unexplained statement that it may not be cost effective for all demand response programs to be locally dispatchable. In actuality, enabling retail demand response programs to make energy available without regard to location on the grid, under a design where all the resources in the program are triggered without regard to need, can exacerbate congestion on the grid. It can create an imbalance in loads and resources in areas where additional resources are not needed, but load is nonetheless reduced due to the unrefined dispatch of the retail demand response program. In addition, the non-dispatchability of demand response will increase costs for consumers to the extent that more resources are triggered than needed to address the reliability issue.

In Decision D.06-06-064, the CPUC stated that the investor-owned utilities do not currently map demand response resources to local areas, although it was not clear at the time as to why this could not be done in the future. The CPUC nevertheless allowed demand response resources to count for local RA capacity at the time “to the extent feasible.”⁴ The ISO submits that more than enough time has passed for this issue to have been addressed. Accordingly, these resources should not count for local RA in 2012 and beyond, unless they are dispatchable as described.

³ PG&E Comments, pp. 4-5.

⁴ D.06-06-064, June 29, 2006, p. 54.

Accordingly, the ISO urges the CPUC to modify the counting rules to *count as local RA* only those demand response *resources capable of being dispatched by the ISO in the local area* in which the need occurs. This requirement is necessary to ensure that the RA capacity the ISO depends on to be available in the areas where it is needed, will be there to serve load and support reliable operation of the ISO controlled grid. It is crucial for the Commission to uphold the standard of dispatchability for local capacity in order to prevent the unnecessary dilution of local capacity that is an essential element of the RA program and grid reliability. To the extent that PG&E does not intend to uniformly uphold this standard for its demand response resources, to be dispatchable by local area, such demand response programs must not count as local RA capacity.

2. The Option to Determine Demand Response Qualifying Capacity by Certification, Registration, or Testing

The ISO proposes that the CPUC afford demand response resources the option to establish a QC value through certification, registration, or testing to qualify as RA resources, or through the load impact protocols. The ISO recognizes that CPUC decision D.08-04-050 (April 24, 2008) adopted load impact protocols for retail demand response programs. However, the evaluation methodology and process of these load impact protocols is exceedingly complex. The 27 load impact protocols adopted in that decision cover evaluation planning and review activities, ex post evaluation for event-based and non-event-based demand response resources, ex ante estimation of demand response resource load impacts, impact estimation of demand response portfolios, sampling methods, reporting requirements, and process review. The evaluation of event-based and non-event-based activities involve

different considerations, and ex ante estimation requires yet a different set of considerations. The load impact protocols focus on ex ante estimation for resource planning, but also include ex post estimation protocols to use actual past performance of similar programs to inform estimates of future impacts.

While the complex and multi-layered methodological process provided in the load impact protocols may be appropriate for retail demand response programs of the IOUs, such an extensive approach may not be necessary for demand response that connects directly to the ISO controlled grid. The ISO suggests that the load impact protocols should not be the only method by which QC can be established. In the alternative to the load impact protocols, the ISO's initial comments proposed that demand response resources seeking to count as RA resources should be permitted to undergo some form of certification, registration, or actual testing of their performance characteristics.

The initial comments of EnerNOC, Inc. ("EnerNOC") and the Alliance for Retail Energy Markets ("AReM") also favor this approach. EnerNOC believes that the QC determination should be comparable for supply-side resources and demand response resources. EnerNOC proposes that the CPUC allow registration to identify the QC of demand response resources because that approach is straightforward, transparent, and similar to the registration or testing that other RTO/ISOs perform to determine the QC associated with demand response resources.⁵ AReM supports EnerNOC's proposal. AReM claims that the extensive analysis contemplated in the load impact protocols is not justified when the demand response program is funded and implemented by parties other than the IOUs, such as demand response

⁵ EnerNOC Comments and Proposals, pp. 8-9.

providers or energy service providers.⁶

In contrast, the comments of the Division of Ratepayer Advocates (“DRA”) question the basis or need for adopting a different methodology at this time and suggest that the issue be revisited after more experience is gained with the load impact protocols.⁷ PG&E supports continuing use of the load impact protocols and argues that allowing an alternative approach for demand response would be inconsistent with other RA proceedings, the long-term planning proceeding, and the proceedings that evaluate the cost-effectiveness of demand response programs.⁸ Southern California Edison Company (“SCE”) claims that the testing process advanced by EnerNOC would be overly simplistic and unreliable.⁹

The ISO requests that the CPUC adopt this approach as an alternative to determining QC under the load impact protocols. The ISO believes that certification, registration, and actual testing of the operational capabilities of a resource that is connecting to the ISO controlled grid will provide a reasonable alternative and reduce barriers as demand response programs proliferate and seek to participate in the RA program.

B. RA Resources With Historical QC

Now that the CPUC has modified its RA counting rules to eliminate forced outage and de-rate hours from its calculation of the QC of RA resources, and the ISO has extended the SCP provisions to RA resources with historical QC, the ISO proposes that the CPUC mandate compliance with SCP by the RA resources with

⁶ AReM Comments, p. 12.

⁷ DRA Comments, p. 4.

⁸ PG&E Comments, pp. 6-7.

⁹ SCE Comments, pp. 9-10.

historical QC.

Only SCE's comments oppose the ISO's proposal. SCE claims that it would be premature for the CPUC to mandate compliance with SCP by RA resources with historical QC because SCP does not yet extend to all resources, such as demand response and energy technologies like battery storage, and SCP is not yet a fully standard fungible product if the ISO is seeking to add non-generic operational characteristics to the RA obligation of load serving entities.¹⁰

SCE's opposition to the ISO's proposal on the application of SCP to historically-based QC resources is illogical. The CPUC has already accepted SCP for compliance by the RA resources that became subject to that availability incentive mechanism through its initial implementation effective January 1, 2010.¹¹ Consistent with that ruling, the ISO is now requesting that the CPUC mandate compliance by the next group of RA resources, those with an historical QC, that became subject to SCP effective January 1, 2011. There is no valid basis for treating these two categories of RA resources differently. SCE has offered no justifiable reason why extending the mandate to the RA resources with an historical QC should be delayed until SCP is also extended to demand response RA resources.

Further, SCE's reference to the ISO's non-generic RA capacity proposal in the context of this issue is tenuous. What SCE's argument fails to recognize is that RA capacity that is procured to meet the annual RA obligation should be subject to SCP, regardless of the reason it was selected for procurement. Whether it was procured to meet the overall obligation, fulfill a local capacity requirement, or obtain specific

¹⁰ SCE Comments, pp. 14-15.

¹¹ CPUC Decision D.09-06-028, June 18, 2009, pp. 41-44.

operating characteristics is unrelated to, and should not determine, the applicability of SCP to that RA resource.

SCE has raised no arguments that should dissuade the CPUC from mandating compliance with SCP by RA resources with historical QC. The SCP provisions standardize RA availability requirements so RA capacity is more readily tradable among market participants, and 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.

III. ISO COMMENTS ON OTHER PROPOSALS

A. Seasonal LCR Requirements

In its initial comments, the ISO discussed at length the reasons why establishing a monthly or seasonal local RA requirement, as requested by San Diego Gas & Electric Company (“SDG&E”), is not feasible and could increase costs in the non-summer months. The ISO is sympathetic with SDG&E’s shortage of substitutable capacity for SCP purposes, but there is nothing in SDG&E’s comments that has caused the ISO to change its position.

The comments of Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, and Dynegy Oakland LLC (“Dynegy”) also oppose changing the annual local RA requirement to a seasonal or monthly requirement. Among other reasons, Dynegy agrees with the ISO that operational flexibility is needed in for the entire year, not just

the five summer months.¹² PG&E does not support the request at this time because it has not been justified.¹³

The ISO continues to strongly oppose SDG&E's request, for the reasons stated by Dynegy and PG&E, and those discussed in the ISO's initial comments that: (i) it is based on an incorrect assumption that a monthly or seasonal local RA requirement will be lower than the August peak load currently used in setting the year-ahead obligation; (ii) the need for RA resources would be increased in the non-summer months to account for the performance of most planned maintenance on transmission facilities during the off-peak periods; (iii) a monthly or seasonal local RA requirement cannot be implemented without significant burden to the ISO to perform many additional deliverability studies in order to assure that such resources are actually deliverable in each month or each season; and (iv) an increase in the local RA requirement on a monthly or seasonal basis will affect all load serving entities and will likely increase their cost of RA procurement, without providing commensurate or necessary enhancement to system reliability.

Given these fundamental problems with a monthly or seasonal local RA requirement, the ISO urges the CPUC to deny SDG&E's request that the CPUC initiate the process outlined in SDG&E's comments to bring about the change to a seasonal or monthly local RA requirement, including the step in the process where SDG&E "volunteers" the ISO to perform an off-peak seasonal Local Capacity Requirement, which would be a time consuming study the ISO does not otherwise prepare.

¹² Dynegy Comments, pp. 13-15.

¹³ PG&E Comments, p. 13.

IV. CONCLUSION

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

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on February 22, 2011, I served, by electronic and United States mail, a copy of the foregoing California Independent System Operator Corporation's Comments on Phase 2 Proposal to each party in Docket No. R.09-10-032.

Executed on February 22, 2011
at Folsom, California

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