

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System            )           Docket No. ER15-1825-000  
Operator Corporation                        )**

**MOTION FOR LEAVE TO ANSWER AND ANSWER OF THE  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
TO COMMENTS AND PROTESTS**

The California Independent System Operator Corporation (“CAISO”) submits this answer to the comments and protests<sup>1</sup> filed in response to the CAISO’s May 29, 2015 tariff amendment to implement phase 1A of the two-part reliability services initiative (“May 29 tariff amendment”).<sup>2</sup> With the limited exceptions noted herein, the Commission should accept the CAISO’s tariff revisions as filed.

**I.       BACKGROUND**

The May 29 tariff amendment includes, among other revisions, proposed tariff provisions to achieve the following: (1) enhance the existing tariff criteria for determining default qualifying capacity values for specified types of resources;

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<sup>1</sup> The following entities filed comments and protests: the California Department of Water Resources State Water Project (“SWP”); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, “Six Cities”); City of Santa Clara, California d/b/a Silicon Valley Power (“SVP”); Northern California Power Agency (“NCPA”); NRG Power Marketing LLC and GenOn Energy Management, LLC (together, “NRG”); Pacific Gas and Electric Company (“PG&E”); San Diego Gas & Electric Company (“SDG&E”); and Southern California Edison Company (“SCE”).

<sup>2</sup> The CAISO files this answer pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R., §§ 385.212, 385.213. The CAISO requests waiver of Rule 213(a)(2) to permit it to address the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in the case. See, e.g., *Equitrans, L.P.*, 134 FERC ¶ 61,250, at P 6 (2011); *Cal. Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,023, at P 16 (2010); *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, at P 20 (2008).

(2) enhance the existing tariff provisions regarding the must-offer obligations of specified types of resource adequacy resources; (3) include a methodology for allocating flexible capacity need to a load-following metered subsystem that is a load-serving entity under the resource adequacy program; and (4) add to the tariff a new three-step resource adequacy availability incentive mechanism ("RAAIM") that will replace the existing standard capacity product mechanism.

The majority of the entities that filed comments or protests support Commission acceptance of most of the May 29 tariff amendment.<sup>3</sup> The issues raised by intervenors primarily concern the three steps of the RAAIM and proposed exemptions from the RAAIM, though the comments and protests also raise a few discrete issues on other topics. The CAISO addresses these comments and protests below.

## **II. ANSWER**

### **A. The CAISO's Proposed Bid-Based Availability Assessment Methodology Under Step One of the RAAIM Is Just And Reasonable**

#### **1. The RAAIM Merely Assesses Availability Based on Existing Tariff Requirements Regarding the Must-Offer Obligation for Flexible Capacity.**

The first step of the RAAIM is the bid-based availability assessment methodology for (1) local and system resource adequacy capacity, (2) flexible resource adequacy capacity, and (3) overlapping capacity in those two categories. NRG argues that the RAAIM imposes a blanket and unreasonable prohibition on self-scheduling for resources providing flexible resource adequacy

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<sup>3</sup> PG&E at 3, 9; NCPA at 3; SDG&E at 1-2; Six Cities at 2; SVP at 4; SWP at 4.

capacity.<sup>4</sup> This is incorrect.

The RAAIM does not impose a new prohibition on self-scheduling for flexible capacity resources. As the CAISO discussed in the May 29 tariff amendment, the RAAIM relies solely on *existing* must-offer obligations in the CAISO's tariff to assess the availability of resources. Specifically, these existing tariff provisions state that local and system resource adequacy resources may meet their must-offer obligations by submitting economic bids or self-schedules, whereas flexible resource adequacy resources are required to meet their must-offer obligations by submitting economic bids.<sup>5</sup> The Commission found this must-offer obligation for flexible resource adequacy capacity to be just and reasonable when it approved the CAISO's flexible resource adequacy capacity requirement tariff amendment in Docket No. ER14-2574.<sup>6</sup> The May 29 tariff amendment does not include proposed changes to those existing tariff provisions and must-offer obligations. Thus, NRG's arguments are beyond the scope of this proceeding and constitute a collateral attack on the Flexible RA Capacity Order.<sup>7</sup>

NRG's proposal would allow resource adequacy resources that have sold flexible capacity to entirely escape their obligations under the tariff. They would

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<sup>4</sup> NRG at 4-9.

<sup>5</sup> See transmittal letter for May 29 tariff amendment at 5-6, 32 n.76, 68-69 (citing existing tariff sections 40.10.5, 40.10.6, 40.10.6.1).

<sup>6</sup> *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶¶ 61,042, at P 30 (2014) ("Flexible RA Capacity Order").

<sup>7</sup> Similarly, SCE requests that the Commission direct the CAISO to create a single must-offer obligation for all resources and to establish a sunset provision regarding the different must-offer obligations applicable to different types of capacity. SCE at 6-7. For the same reasons discussed above with respect to NRG's claims, this request is beyond the scope of the instant proceeding and constitutes a collateral attack on the Commission's Flexible RA Capacity Order that approved specific must-offer requirements for flexible resource adequacy resources.

be able to sell flexible capacity, never submit economic bids, and never face any consequences for their failure to comply with their tariff obligations. The CAISO's proposal, on the other hand, properly incentivizes resources selling flexible resource adequacy capacity to comply with the Commission-approved must-offer obligations applicable to such capacity. The Commission has also recently approved tariff provisions for PJM and ISO New England that require capacity resources to actually deliver energy;<sup>8</sup> the CAISO is only seeking to incentivize resources with flexible resource adequacy capacity to follow the must-offer obligation applicable to the flexible capacity. This is reasonable.

Contrary to NRG's claims, neither the existing tariff provisions nor the RAAIM prohibit self-scheduling by resources that have sold flexible resource adequacy capacity. A flexible resource adequacy resource may self-schedule as long as it also submits economic bids for as much flexible resource adequacy capacity as it has sold. For example, if a resource self-schedules any portion of capacity, the entire minimum normal capability (PMin) of the resource is automatically also self-scheduled. The PMin and self-scheduled portion of the resource will not be available for the CAISO to economically dispatch and therefore are not available to meet the CAISO's flexible capacity requirements. However, even with this self-schedule, the resource can still comply with the must-offer obligation applicable to its flexible capacity and be assessed as fully available under the RAAIM because any remaining economically bid-in capacity will count toward the resource's meeting its flexible capacity requirement. As

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<sup>8</sup> *PJM Interconnection, LLC*, 151 FERC ¶ 61,208 (2015); *ISO New England Inc. and New England Power Pool*, 147 FERC ¶ 61,172 (2014).

long as the resource submits economic bids sufficient to cover the flexible capacity obligation, the CAISO will assess it as being 100 percent available under the RAIM.

As the CAISO indicated in its flexible resource adequacy capacity tariff amendment filing, the CAISO needs economic bids from flexible resource adequacy capacity so it can efficiently dispatch such resources in an optimal manner to meet to flexible capacity needs; self-schedules are not available for dispatch by the CAISO and thus do not provide the CAISO with the necessary flexibility.<sup>9</sup> The Commission found that the CAISO's flexible resource adequacy tariff provisions were just and reasonable and constituted "an appropriate set of measures for ensuring that CAISO has access to the flexible capacity it needs to operate the grid reliably."<sup>10</sup> The RAIM simply relies on the existing must-offer requirements for flexible resource adequacy resources in order to (1) incent flexible resource adequacy resources to perform routine maintenance so that suppliers do not go on unnecessary forced outages and (2) ensure that resources purportedly providing flexible output are in fact economically bidding into the market. This is a fundamental reliability need that will only increase as the CAISO integrates larger amounts of variable energy resources into its markets in the future. As indicated above, if the RAIM did not assess economic bids for flexible resource adequacy capacity, a resource could sell flexible resource adequacy capacity but then self-schedule such capacity and avoid

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<sup>9</sup> Transmittal letter for flexible resource adequacy capacity tariff amendment at 47-50, Docket No. ER14-2574-000 (Aug. 1, 2014).

<sup>10</sup> Flexible RA Capacity Order at P 30.

being penalized by the RAAIM for failing to bid.<sup>11</sup> These actions would deny the CAISO the flexibility it needs to maintain reliability, yet the resource would face no consequences for failure to comply with its obligations under the tariff. Resources should not sell flexible capacity if they are not prepared, willing, and able to meet the tariff obligations that accompany their sales.

NRG also errs in claiming that the purported prohibition on self-scheduling makes it more difficult for resources to perform environmental and other necessary testing without incurring unreasonable performance penalties.<sup>12</sup> The CAISO routinely grants and will continue to grant an outage exemption from the must-offer obligation in order to allow a resource to perform necessary testing. Further, resource unavailability due to testing will not be penalized under the RAAIM.<sup>13</sup>

**2. The CAISO's Proposal to Assess the Availability of a Flexible Resource Capacity Resource Based on the Highest Flexible Capacity Category Is Just and Reasonable.**

SCE argues that the CAISO's proposal to assess the availability of a flexible resource adequacy resource under the RAAIM based on the must-offer obligation for the highest quality of flexible capacity category designated could artificially lower the flexible capacity supply on the system by restricting

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<sup>11</sup> Transmittal letter for May 29 tariff amendment at 69.

<sup>12</sup> NRG at 7.

<sup>13</sup> New tariff section 40.9.3.5(c) will provide an exclusion from the RAAIM for a nature of work category relating to an administrative action by the resource owner. This exclusion will encompass resource unavailability due to testing.

generators that can provide different types of flexible capacity.<sup>14</sup> SDG&E alternatively proposes that the CAISO should assess the resource's availability based on the must-offer obligation for the resource's flexible capacity category. SDG&E argues that if a resource's commitment is spread over multiple categories the CAISO should not override the must-offer obligations for which the resource was committed. Recognizing the complexity of its alternative proposal, SDG&E requests that the CAISO implement it within one year after the Commission accepts the May 29 tariff amendment.<sup>15</sup>

As an initial matter, the CAISO wishes to clarify its proposal. As approved in the Flexible RA Capacity Order, there are three categories of flexible capacity: base ramping capacity; peak ramping capacity; and super-peak ramping capacity. The scope of the must-offer obligation (*i.e.*, the economic bidding requirement) is different for each flexible capacity category and declines from the first category to the third category.<sup>16</sup> The CAISO proposal does not prohibit resources from selling multiple categories of flexible capacity. Only to the extent a resource sells two categories of flexible capacity on the same day would the CAISO assess the resource based on the highest flexible capacity category. To the extent a resource sells one category of flexible capacity on one day and a different category on a different day, the resource would be subject to a RAIM assessment based on the resource's highest category of flexible capacity only for that day, not the highest category for the month.

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<sup>14</sup> SCE at 3.

<sup>15</sup> SDG&E at 9-11.

<sup>16</sup> Tariff section 40.10.6.1(a); transmittal letter for May 29 tariff amendment at 40.

Neither SCE nor SDG&E even attempts to address the rationale provided in the May 29 tariff amendment for using the highest flexible capacity category. As the CAISO explained, the purpose of the flexible capacity categories is to allow different resources to participate as flexible resource adequacy capacity, not to encourage resources fully capable of meeting a higher category of must-offer obligation to participate in a lower-quality category. The CAISO's proposal to use a single flexible capacity category to assess a resource's availability is straightforward, workable, and transparent.<sup>17</sup>

On the other hand, as the CAISO indicated, the approach espoused by SDG&E would be extremely complicated, lack transparency, and not provide any tangible reliability or market benefits.<sup>18</sup> Further, it would require the CAISO to make major modifications to its resource adequacy, settlements, residual unit commitment, and other systems and processes. It would also be difficult for market participants to track on their systems and would require the CAISO to develop numerous new rules and make numerous assumptions – which are certain to be contentious and to some degree arbitrary and non-transparent – to address issues regarding the impacts of resource stacking,<sup>19</sup> substitution, uncommitted capacity, outages, the different scope of the multiple flexible capacity categories, and resources providing local or system capacity in addition

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<sup>17</sup> Transmittal letter for May 29 tariff amendment at 41-42.

<sup>18</sup> *Id.* The CAISO provided several illustrative examples to contrast the advantages of the CAISO's proposal with the disadvantages of having to use multiple flexible capacity categories to assess a resource's availability. *Id.*

<sup>19</sup> For example, if there are capacity derates, which capacity in the resource stack is to be derated first.



to flexible capacity. These problems and issues associated with SDG&E's proposal would remain even if the CAISO had an additional year to implement an alternative mechanism.<sup>20</sup> The CAISO's proposal grants resources the general ability to sell different categories of flexible capacity over the course of a month, while avoiding the additional costs, complexity, and other problems associated with SDG&E's alternative proposal. Again, the CAISO stresses that its proposal only affects resources seeking to provide more than one category of flexible capacity in a single day.

**3. The CAISO's Proposal for Determining Must-Offer Obligations in Cases of Overlapping Capacity Is Just and Reasonable.**

SCE argues that the Commission should reject the CAISO's proposal to base RAAIM non-availability charges on the highest must-offer obligation in cases where there is overlapping resource adequacy capacity, *i.e.*, the same megawatt of capacity counts as both (1) local or system resource adequacy capacity, and (2) flexible resource adequacy capacity. Instead, SCE recommends the Commission direct the CAISO and stakeholders to reexamine alternative options for determining must-offer obligations in such cases.<sup>21</sup>

As explained in the May 29 tariff amendment, the CAISO's proposal to base RAAIM non-availability charges on the highest must-offer obligation in cases of overlap is just and reasonable because it maintains incentives for

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<sup>20</sup> The CAISO views SDG&E's proposal as so problematic that it considers a better option to be potentially filing a tariff amendment in the future to prohibit flexible capacity resources from providing two or more categories of flexible capacity on a given day.

<sup>21</sup> SCE at 2-6.

resources to provide economic bids for overlapping capacity, limits the potential for a resource to receive a double penalty for a single outage, and avoids unnecessary complexity and problems for CAISO settlements systems.<sup>22</sup> Therefore, the CAISO concluded that, at this early stage in the development of flexible capacity obligations, this straightforward approach for purposes of calculating availability incentives and non-availability charges best avoids the risk of over-payments and over-penalties.<sup>23</sup>

SCE acknowledges that the CAISO and stakeholders examined and discussed several alternatives during the extensive stakeholder process, and those options “received significant opposition.”<sup>24</sup> SCE’s primary objection seems to be that stakeholders addressed these options “sequentially” and there was no opportunity to discuss the options concurrently.<sup>25</sup> This objection is unfounded. The reliability services initiative stakeholder process went forward in accordance

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<sup>22</sup> Transmittal letter for May 29 tariff amendment at 69-71; attachment C to May 29 tariff amendment (Memorandum to CAISO Governing Board) at 39-41. See also attachment F to May 29 tariff amendment (Market Surveillance Committee Final Opinion) at 11 (stating that the Market Surveillance Committee “support[s] the single penalty approach for its simplicity if combined with reasonably efficient energy and ancillary service market incentives”).

<sup>23</sup> Transmittal letter for May 29 tariff amendment at 71. The CAISO contrasted its proposal with the alternative approach of separately assessing the availability of flexible resource adequacy capacity and system resource adequacy capacity, *i.e.*, the first alternative option that SCE proposes in its comments. The CAISO explained that basing RAIM non-availability charges separately on the must-offer obligations of overlapping flexible resource adequacy capacity and system resource adequacy capacity would decrease the incentive for resources to provide economic bids for overlapping capacity, require the CAISO either to undervalue flexible capacity availability or double-penalize a resource that is shown as both local and/or system and flexible resource adequacy capacity, and add unnecessary complexity and problems for CAISO settlements. Transmittal letter for May 29 tariff amendment at 69-71; attachment C to May 29 tariff amendment (Addendum to Draft Final Proposal) at 39-41. See also attachment F to May 29 tariff amendment (Market Surveillance Committee Final Opinion) at 11 (explaining that such an alternative approach would “increase the complexity of the incentive mechanism”).

<sup>24</sup> SCE at 3.

<sup>25</sup> *Id.* at 3-4.

with the usual procedure for conducting a CAISO stakeholder process. The usual procedure is to conduct an iterative stakeholder process in which the CAISO issues a straw proposal, seeks stakeholder input on the straw proposal, and then issues revised proposals as necessary. As in other stakeholder processes, stakeholders in the reliability services initiative process were also free to raise their concerns about a specific proposal and propose alternatives at any stage of the process, whether in writing or in public stakeholder meetings.

SCE is the only stakeholder that asserts the stakeholder vetting process was insufficient. It is important to note that SCE does not even support a particular alternative in its comments. It merely urges the Commission to remand the issue back to the stakeholder process. The CAISO already addressed these issues in the stakeholder process, and SCE had the opportunity to submit several sets of written comments addressing this issue.<sup>26</sup> Stakeholders have already considered and expressed their opposition to other options for determining must-offer obligations in cases of overlapping capacity. Under these circumstances, SCE's proposal would accomplish nothing other than to delay implementation of an availability assessment for flexible capacity resources. The Commission should not endorse such a delay.<sup>27</sup>

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<sup>26</sup> See, e.g., SCE stakeholder comments dated July 9, 2014, September 9, 2014, November 19, 2014, and February 17, 2015. Materials pertaining to the reliability services stakeholder process that are referenced in this answer are available on the CAISO website at <http://www.caiso.com/informed/Pages/StakeholderProcesses/ReliabilityServices.aspx>.

<sup>27</sup> The CAISO notes that the initial examination of alternatives for an availability incentive mechanism for flexible capacity can be traced back to the CAISO's flexible resource adequacy stakeholder initiative in which SCE was an active participant. As the stakeholder record for that initiative demonstrates, this issue was thoroughly discussed during the stakeholder process, both in stakeholder comments and in stakeholder meetings. For example, see the stakeholder presentations held on November 13, 2013 and December 13, 2013. See

The May 29 tariff amendment filing discusses why the CAISO adopted its proposal and rejected SCE's first alternative.<sup>28</sup> The CAISO will not repeat those arguments here. Moreover, the Market Surveillance Committee ("MSC") thoroughly deliberated this issue, received and considered input from stakeholders, and ultimately supported the CAISO's proposal.<sup>29</sup>

The CAISO first discussed SCE's second alternative – reducing the amount of capacity a generator can sell in future years instead of assessing a financial charge against the unavailable resource – six years ago when it implemented the standard capacity product. At that time, the CAISO, after considering stakeholder input, rejected that approach and opted instead for a financial incentive. That approach has been in place since January 1, 2010.<sup>30</sup> In this reliability services proceeding, the CAISO is merely modifying its use of a financial incentive in order to enhance resource adequacy resources' compliance with newly established must-offer obligations. The fact that the CAISO opted not to adopt a capacity derate approach does not render its financial incentive unjust

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<http://www.aiso.com/Pages/documentsbygroup.aspx?GroupID=1234A889-5AFC-4418-8582-9C0D0B5A0643>; <http://www.aiso.com/Pages/documentsbygroup.aspx?GroupID=783CA97B-0865-4BF7-A5C0-F103B0828609>. The CAISO ultimately deferred the issue for further consideration and a decision in the reliability services initiative that led to the instant tariff amendment filing.

<sup>28</sup> See *supra* note 23.

<sup>29</sup> Attachment F to May 29 tariff amendment (MSC Final Opinion) at 10-12.

<sup>30</sup> See *Cal. Indep. Sys. Operator Corp.*, 127 FERC ¶ 61,298, at P 40, Ordering Paragraph (B) (2009) ("In general, we find the CAISO's proposal to use financial incentive payments to reward resources that exceed the target availability and impose charges to discourage poor performance to be just and reasonable.").

and unreasonable. It was simply an option the CAISO chose not to adopt,<sup>31</sup> both here and in its standard capacity product tariff provisions accepted by the Commission. Other independent system operators and regional transmission organizations also use a financial incentive, as evidenced by the Commission's recent approval of PJM's and ISO New England's pay-for-performance proposals.

The CAISO also considered the third alternative identified by SCE – raising the incentive price when the CAISO is experiencing a shortage during market operations, which is comparable to PG&E's proposal (discussed *infra*) to increase the availability incentive charge when there is a capacity procurement mechanism event.<sup>32</sup> The CAISO is not proposing a full-fledged pay-for-performance mechanism like that of PJM and ISO New England, in part because the CAISO has not faced the extreme circumstances that necessitated those proposals. Instead, the CAISO's proposal to incent compliance with must-offer obligations constitutes an incremental enhancement of the existing standard capacity product, which only assesses availability based on forced outages.

The third alternative identified by SCE is flawed. It would unduly penalize resources that did not cause the shortage event. For example, assume a situation where a generator is on a forced outage; the CAISO has committed other resources in lieu of the resource on a forced outage; and circumstances

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<sup>31</sup> See, e.g., reliability services initiative, stakeholder meeting to discuss revised straw proposal (Aug. 18, 2014); reliability services initiative, stakeholder meeting to discuss second revised straw proposal (Oct. 29, 2014). See *supra* note 26.

<sup>32</sup> The CAISO's arguments *infra* that warrant rejection of PG&E's alternative two-tier non-availability charge approach apply as well to SCE's proposal.

change close to real-time because of a fire and a resulting transmission line outage that causes a system shortage due to insufficient transmission access to scheduled generation. SCE's proposal would charge the resource on a forced outage a higher non-availability charge in excess of the standard non-availability charge even though it did not cause the reliability event and would not have been able to alleviate the shortage. Thus, SCE's proposal would impose an unreasonable "penalty add-on" for the resource. This example illustrates that SCE's proposal confuses capacity scarcity with energy scarcity. The availability incentive mechanism is meant to ensure there is sufficient capacity on the system. SCE's proposal fails to recognize that the CAISO needs to maintain reliability 24 hours a day, 7 days a week, not just during scarcity events.

In any event, the merits of alternative proposals and when they were discussed during the stakeholder process are not relevant. The matter before the Commission is to determine if the ISO's proposal is just and reasonable. "Pursuant to section 205 of the [Federal Power Act], the Commission limits its evaluation of a utility's proposed tariff revisions to an inquiry into 'whether the rates proposed by a utility are reasonable – and not to extend to determining whether a proposed rate schedule is more or less reasonable to alternative rate designs.'"<sup>33</sup> Therefore, "[u]pon finding that CAISO's proposal is just and

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<sup>33</sup> *Cal. Indep. Sys. Operator Corp.*, 141 FERC ¶ 61,135, at P 44 n.43 (2012), quoting *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. 1984). In that same order, the Commission also explained that the revisions proposed by the utility "need not be the only reasonable methodology" and that "even if an intervenor develops an alternative proposal, the Commission must accept a section 205 filing if it is just and reasonable, regardless of the merits of the alternative proposal." *Cal. Indep. Sys. Operator Corp.*, 141 FERC ¶ 61,135, at P 44 n.43 (citing federal court and Commission precedent). See also *New England Power Co.*, 52 FERC ¶ 61,090, at 61,336 (1990), *aff'd*, *Town of Norwood v. FERC*, 962 F.2d 20 (D.C. Cir. 1992) (rate

reasonable, [the Commission] need not consider the merits of alternative proposals.”<sup>34</sup> That is the case here.

#### **4. There Is No Need for the CAISO to Include the Timeline for Resource Adequacy Substitutions**

NRG argues that the Commission should reject the CAISO’s proposal to replace an existing tariff provision stating that resource adequacy substitutions are allowed “prior to the close of the day-ahead market” with a tariff provision stating that such substitutions are allowed in accordance with the timeline specified in the business practice manual.<sup>35</sup> The Commission should not require the CAISO to include the specific deadline in the tariff. The CAISO generally includes specific timelines in the business practice manuals rather than the tariff. For example, the timeline for resource adequacy substitution is included in the business practice manual.<sup>36</sup> Timelines such as this are implementation details that generally belong in a business practice manual.<sup>37</sup>

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design proposed need not be perfect, it merely needs to be just and reasonable); *Louisville Gas and Elec. Co.*, 114 FERC ¶ 61,282, at P 29 (2006) (the just and reasonable standard under the Federal Power Act is not so rigid as to limit rates to a “best rate” or “most efficient rate” standard, but rather a range of alternative approaches often may be just and reasonable).

<sup>34</sup> *Cal. Indep. Sys. Operator Corp.*, 141 FERC ¶ 61,135, at P 44.

<sup>35</sup> NRG at 14-15. The existing provision is in tariff section 40.9.4.2.1(c)(2), which the CAISO proposes to delete in the May 29 tariff amendment, and the proposed provision is in new tariff section 40.9.3.6(c).

<sup>36</sup> Business practice manual for reliability requirements, section 8.7.2.

<sup>37</sup> Moreover, the current tariff language is problematic because it is ambiguous. It reads “prior to the close of the day-ahead market,” which could mean prior to the initiation of the day-ahead market run, prior to the close of the day-ahead market, or prior to the close of any final day-ahead market if it has to be rerun. The CAISO has encountered issues where market participants have requested that the CAISO rerun the substitution process after it was initially completed due to this lack of specificity. Such requests are unfair to other market participants who complied with the intent of the deadline and disruptive to CAISO operation engineers who must run an ad hoc substitution process to accommodate the requests.

Specifying timelines in the business practice manual provides the CAISO with flexibility to adjust the timelines if necessary to address changing circumstances or unclear deadlines. Contrary to NRG's assertion, however, the CAISO does not have complete discretion to revise the business practice manual at will. If the CAISO proposes to revise a timeline, it must vet the proposal with stakeholders pursuant to its business practice manual change management process. These provisions protect market participants from any arbitrary revisions.

**B. The CAISO's Proposal for Calculating the Availability Incentive Standard Percentage Under Step Two of the RAAIM Is Just and Reasonable.**

The second step of the RAAIM is calculating the availability incentive standard percentage. As discussed in the May 29 tariff amendment, the CAISO proposes to utilize a fixed availability incentive standard of 96.5 percent with a four-percentage-point deadband (*i.e.*, a band from 94.5 percent to 98.5 percent) within which resources will not be eligible to receive incentive payments or be subject to non-availability charges.<sup>38</sup>

NRG argues that the CAISO's proposal to compare the monthly availability assessment percentage of a resource with a static 96.5-percent availability incentive standard is not just and reasonable and has no factual basis. NRG asserts that the CAISO should retain the current variable monthly availability standard because it is based on average historical availability

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<sup>38</sup> Transmittal letter for May 29 tariff amendment at 60-62.



targets.<sup>39</sup> NRG also claims that the “interplay between the decrease in availability rules and the CAISO’s proposal to eliminate the right to self-schedule units raises serious concerns about the proposal.”<sup>40</sup>

As an initial matter, NRG again mischaracterizes the CAISO’s proposal. As discussed above, the Commission previously approved an economic bidding requirement for flexible resource adequacy capacity. Thus, flexible capacity resources are already obligated under the CAISO tariff to submit economic bids equal to the amount of their flexible capacity obligation. The CAISO is merely assessing availability based on a resource’s compliance with this existing must-offer obligation. Absent acceptance of this proposal, resources will have no incentive to satisfy their obligations under the tariff. NRG’s proposal would enable flexible capacity resources to completely avoid their tariff obligations without any consequence. Resources that do not wish to be subject to the existing economic bidding requirement should not sell flexible capacity.

The Commission should also reject NRG’s other arguments. As explained in the May 29 tariff amendment, using a fixed availability standard will (1) better encourage high performance by allowing well-performing resources to receive payments in months of high availability rather than allocating the payments to load, as sometimes occurs under the current availability standard; (2) allow the payments made to resources to better reflect monthly market conditions; and (3) motivate resources to perform when they are most needed, thus creating the

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<sup>39</sup> NRG at 9-13.

<sup>40</sup> *Id.* at 10.

correct incentives during the periods when the CAISO most needs availability for grid reliability.<sup>41</sup> The CAISO's proposal also reflects a resource adequacy paradigm where requirements already vary by month. NRG fails to address any of these benefits of using a fixed availability standard.

NRG's opposition should be seen for what it is – an attempt to lower the availability standards for resource availability and avoid charges for poor performance.<sup>42</sup> No other intervenor and, importantly, no other supplier, objects to the CAISO's proposal regarding the availability incentive standard and deadband. Resources providing resource adequacy capacity should be available to provide it in compliance with their must-offer obligations and should have an incentive to find substitute capacity if they cannot be available. Lowering the standards for resource availability will not incent compliance with must-offer obligations and will not incent resource substitution when units are on outage. To the contrary, applying a lower standard could undermine the very purpose of the RAIM – ensuring that resources that receive capacity payments reliably provide capacity to the CAISO.

The CAISO noted throughout the stakeholder process that, at its core, the CAISO's proposal is based on the goal of a resource adequacy program with a reserve margin, *i.e.*, to ensure the CAISO has sufficient resources available to

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<sup>41</sup> Transmittal letter for May 29 tariff amendment at 61-62.

<sup>42</sup> This is evidenced by the totality of NRG's positions set forth in its protest that seek to (1) undermine the existing tariff must-offer obligation that flexible capacity submit economic bids, (2) allow for a lower availability standard in certain months, (3) widen the deadband before availability incentive charges would apply, (4) exempt resources that request outages four to seven days before the outage start date from RAIM non-availability charges, and (5) oppose the CAISO's proposal to increase the availability incentive price.

address peak load, maintain adequate reserves, account for forecast error and outages, and respond to contingency events.<sup>43</sup> A sound resource adequacy program should ensure that the CAISO would be able to meet all of these objectives if it only had access to resource adequacy resources. The purpose of a reserve margin is to account for resources needed for ancillary services and to account for outages and forecast error.

The decision of the California Public Utilities Commission (“CPUC”) establishing resource adequacy requirements<sup>44</sup> recognized that, in addition to maintaining operating reserves, utilities must have more than seven percent reserves because at any time resources may not be available due to such factors as maintenance, forced outages, fuel limitations, or, in the case of hydroelectric power, insufficient water. The CAISO’s proposal is grounded in these principles and consistent with the underlying basis for reserve margin requirements. In this regard, the CAISO’s proposal takes into account that some portion of the resource adequacy fleet will be unavailable due to maintenance outages that are not subject to the RAIM. If the CAISO were to further reduce the availability incentive standard, it could result in overall capacity unavailability exceeding the seven-percent reserve margin. Also, the Commission is well aware of the

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<sup>43</sup> See, e.g., reliability services initiative working group meeting (Apr. 23, 2014) (proposed availability incentive standard plus bandwidth based on idea that 115 percent reserve margin accounts for about a four-percent forced outage rate); reliability services initiative stakeholder meeting to discuss draft straw proposal (June 12, 2014) (proposed availability incentive standard reflects the fact that some forced outages are expected and included in the planning reserve margin); reliability services initiative stakeholder meeting to discuss revised straw proposal (Aug. 18, 2014). See *supra* note 26.

<sup>44</sup> CPUC Decision 04-01-050 (Jan. 22, 2004), available on the CPUC website at <http://www.cpuc.ca.gov/PUC/energy/>.

extended drought that California is facing, as well as the increasing number of fires California faces each year that threaten power lines and generation facilities. Adopting a floating standard with lower availability requirements in certain months would be inconsistent with the foundational principles of the state's resource adequacy program and would be imprudent given the conditions the CAISO is facing.

The CAISO's proposal recognizes that resource adequacy requirements vary by month (because peak loads vary by month), but the total reserve margin does not change. For instance, there is a different megawatt requirement for January than there is for August – specifically, the total resource adequacy requirement in January is much lower than in August. However, the reserve margin is 15 percent for all months. Although the size of the pool of resource adequacy resources may change, the need to provide ancillary services (operating reserves) and account for forecast error and outages must still be captured by that pool of resources.

For example, if the CAISO must procure seven percent of peak load for reserves (non-spin, spin, and regulation) and has a system-wide planning reserve margin of 15 percent, then at the absolute minimum it would need to have 93 percent (107 percent divided by 115 percent) of the resource adequacy capacity available and bidding consistent with its must-offer obligation, regardless of the month. This unrealistically assumes perfect foresight (*i.e.*, zero forecast error) and no actual contingencies. In addition to accounting for outages (both maintenance and forced), the CAISO needs to maintain some minimal

amount of safety margin above 93 percent out of prudence. The CAISO's proposal affords the required safety margin because it will not assess non-availability charges unless a resource's availability falls below 94.5 percent. For example, the resource adequacy levels for CPUC-jurisdictional load-serving entities is set using 1-in-2 load conditions, meaning that the resource adequacy levels are set based on an equal probability that the load conditions will fall below the forecast value or exceed the forecast value. If this forecast for peak load were too low (e.g., were set using 1-in-5 load conditions) and only 93 percent of the resource adequacy capacity were available, the CAISO would not have sufficient capacity. Further, if the ISO only had this 93 percent, it might not be able to recover from a contingency. Moreover, if the outage rate were greater than the average outage rate and additional capacity were not provided, the CAISO might not even have enough capacity available to meet its basic reliability requirements.

Thus, setting the lower bound of the deadband at 93 percent would not ensure adequate resource adequacy. The minimum level of the deadband provides sufficient incentives for resource adequacy resources to be available while assuring that the CAISO will have sufficient capacity available when outage rates for resource adequacy resources exceed average levels. The Commission should not limit the CAISO's availability incentives to the absolute bare minimum of that which is needed. Instead, the Commission should find the CAISO's proposed availability incentive standard percentage and deadband width to be within the zone of reasonableness.

NRG expresses concern that the 96.5-percent availability incentive standard is approximately 0.5 to 1 percentage points above the average historical availability targets for some months. NRG's own table, however, shows that 96.5 percent is below the average historical availability targets for other months (e.g., the "seasonal averages" of 96.81 percent for January through April and October through December).<sup>45</sup> In fact, as explained in the May 29 tariff amendment, 96.5 percent is virtually the same as the 96.4-percent average overall historical availability of resources.<sup>46</sup> Further, it is just and reasonable to keep the percentage availability of resources constant each month because any adjustment to needs is already reflected in the resource adequacy requirement for load-serving entities each month, which is based on 115 percent of the monthly load forecast.<sup>47</sup>

NRG's proposal would essentially have the CAISO grade the availability of resources on a curve, *i.e.*, based on the availability of other resources during a given month. This would allow resources to significantly underperform and avoid being assessed non-availability charges simply because a significant number of other resources were not available. Resources' incentive to meet their tariff obligations should not depend on how other resources perform. Resources should not be excused from their tariff obligations simply because there was group non-performance rather than mere individual resource non-performance.

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<sup>45</sup> See NRG at 12.

<sup>46</sup> Transmittal letter for May 29 tariff amendment at 62.

<sup>47</sup> *Id.*

NRG ignores the fact that availability of a resource adequacy resource is just as important in June as it is in May. For example, NRG provides a table showing that for the month of May the average minimum availability under the standard capacity product was 92.66 percent, *i.e.*, below the seven percent reserve cushion (and that does not take into account maintenance outages).<sup>48</sup> For the months of April, June, August, September, October, and November, the same table shows that the minimum availability based only on forced outages was below 94 percent. It would be imprudent to tolerate “skating by” on thin margins, particularly during summer peak months and given the current drought conditions. NRG’s approach would not sufficiently ensure reliability or properly incent compliance with must-offer obligations.

NRG also argues that the CAISO’s proposed four-percentage-point deadband is not just and reasonable because it will result in minimum availability standard levels, below which resources incur non-availability charges, that are greater than the historical average minimum availability levels in nine out of the twelve months of the year.<sup>49</sup> The Commission should reject NRG’s arguments for the same reasons discussed above and for the reasons provided in the May 29 tariff amendment.<sup>50</sup> The rapidly changing resource mix on the CAISO system poses new and significant reliability challenges. Reducing the percentage band from its current five-percent level to the proposed four-percent level will better incent resources to be available and meet their must-offer obligations, thereby

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<sup>48</sup> See NRG at 13.

<sup>49</sup> *Id.* at 13-14.

<sup>50</sup> Transmittal letter for May 29 tariff amendment at 60-63.

resulting in a more robust availability mechanism and enhancing the CAISO's ability to maintain reliability and meet flexible capacity needs.<sup>51</sup> The Commission's recent orders approving pay-for-performance changes for ISO New England and PJM show the importance of adopting measures that minimize exemptions from availability requirements.<sup>52</sup> A broader deadband like that espoused by NRG essentially constitutes an increased exemption from availability requirements and should not be adopted.

Finally, the CAISO's intent is to maintain an availability incentive standard that fulfills its purpose but does not impose an undue burden on generators. Toward that end, the CAISO has committed to review the standard periodically against actual resource availability.<sup>53</sup>

**C. The CAISO's Proposal to Use a RAIM Price Set at \$3.79 per Kilowatt-month Under Step Three of the RAIM Is Just and Reasonable.**

The third step of the RAIM is calculating a resource's non-availability charge or availability incentive payment. PG&E argues that the CAISO has not demonstrated the justness and reasonableness of its proposal to calculate the non-availability charge for a resource other than a capacity procurement mechanism ("CPM") resource using a RAIM price set at \$3.79 per kilowatt-month (*i.e.*, 60 percent of the proposed CPM soft offer cap of \$6.31 per kilowatt-month). PG&E asserts that the RAIM price should instead be set at the full

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<sup>51</sup> *Id.* at 62.

<sup>52</sup> See *ISO New England*, 147 FERC ¶ 61,172, at PP 23-27; *PJM*, 151 FERC ¶ 61,208, at PP 158-86.

<sup>53</sup> Transmittal letter for May 29 tariff amendment at 63.



\$6.31 per kilowatt-month and that the CAISO's Department of Market Monitoring ("DMM") supports that higher RAIM price.<sup>54</sup> PG&E states that if the Commission adopts the CAISO's proposal for a lower incentive mechanism price, then it should require the CAISO to submit an informational filing within 12 months after implementation of the RAIM showing the impacts and reasonableness of the new RAIM price.<sup>55</sup>

As the CAISO indicated in the May 29 tariff amendment, the CAISO has committed to review the RAIM price after it has been in effect for a year (and periodically thereafter) and to report to the CAISO Governing Board.<sup>56</sup> The CAISO also agrees with PG&E's suggestion that, if the Commission accepts the \$3.79 RAIM price, the CAISO should submit an informational filing after the price has been effect for a year that shows the impacts and reasonableness of the RAIM price.<sup>57</sup> The CAISO notes that the Commission approved a similar approach for PJM when it accepted PJM's assumed number of performance assessment hours in connection with PJM's pay-for-performance program.<sup>58</sup>

The Commission should accept the RAIM price proposed by the CAISO rather than PG&E's alternative proposal. In the May 29 tariff amendment, the CAISO explained in great detail why its proposal falls within the zone of

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<sup>54</sup> PG&E at 5-8.

<sup>55</sup> *Id.* at 3.

<sup>56</sup> Transmittal letter for May 29 tariff amendment at 73.

<sup>57</sup> See PG&E at 3.

<sup>58</sup> *PJM*, 151 FERC ¶ 61,208, at P 163.

reasonableness.<sup>59</sup> PG&E does not address most of those arguments and, in particular, fails to address why a significantly higher RAIM price would not unduly penalize the vast majority of resource adequacy resources whose capacity payments are significantly below that price level. As the CAISO explained, the proposed \$3.79 RAIM price adequately balances the principles that the RAIM price should be (1) high enough to incent resources that will be on an outage to replace or substitute their capacity and (2) low enough not to cause any potential disruption of the resource adequacy market or unduly penalize entities that are receiving resource adequacy payments. Based on the best information available to the CAISO, obtained from a report produced by CPUC staff, the \$3.79 RAIM price reflects high-average resource adequacy bilateral market contract prices. It also equals 60 percent of the CPM soft offer cap. Further, the CPM soft offer cap is only a cap, not necessarily the price the CAISO will pay for backstop capacity in a competitive solicitation process, especially because suppliers will be submitting bids prior to knowing whether there is any reliability need or what exactly is the location of the need.<sup>60</sup>

PG&E's proposal ignores that the CAISO is also proposing to tighten the deadband around the availability incentive standard and apply a fixed annual standard. These modifications will effectuate a stronger availability standard and incent better availability from more generators. At this time there is no demonstrated need to increase the non-availability charge in addition to

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<sup>59</sup> Transmittal letter for May 29 tariff amendment at 63-67.

<sup>60</sup> *Id.* at 64-66, 71-73.

strengthening the basic availability standard. As indicated above, the CAISO will actively monitor this situation. If the changes to the availability incentive standard are insufficient to ensure availability and promote reliable operations, the CAISO will report this fact and then assess the need to increase the level of the non-availability charge. The CAISO's proposal achieves the best balance based on circumstances at this time, particularly given the large number of resource adequacy resources that would be unduly penalized by a higher non-availability charge.

PG&E also fails to take into account the fact that each CPM resource will be subject to the maximum of the resource's CPM price and the \$3.79 RAAIM price.<sup>61</sup> Thus, CPM resources may pay higher non-availability charges than non-CPM resources, depending on their CPM prices. In addition, the CAISO proposes to reassess the CPM soft offer cap every four years, which will allow the CAISO to adjust the RAAIM price along with the CPM soft offer cap based on the balancing of the two principles discussed above.<sup>62</sup>

Further, PG&E is mistaken regarding DMM's findings. Although the DMM favored a \$6.31 RAAIM price, the DMM did not oppose the CAISO's proposal to establish the \$3.79 RAAIM price. Instead, the DMM "recommend[ed] that the [CA]ISO monitor whether the new level of the availability incentive established under this initiative [*i.e.*, \$3.79] is high enough to prevent suppliers from opting to pay a penalty rather than provide substitute capacity when supply conditions are

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<sup>61</sup> See *id.* at 64.

<sup>62</sup> See *id.* at 66.

relatively tight.”<sup>63</sup> The MSC also supported the \$3.79 RAAIM price but also recommended monitoring by the CAISO.<sup>64</sup>

PG&E also proposes that, if the Commission does not require a \$6.31 RAAIM price, it should direct the CAISO to “explore alternative options to provide appropriate incentives to resources” such as a two-tiered RAAIM price structure with a higher charge for non-availability during CPM events.<sup>65</sup> The Commission should accept the CAISO’s proposal without requiring consideration of alternative options. This option was specifically discussed in the stakeholder process<sup>66</sup> and rejected. There is no reason to remand the proposal back to the CAISO stakeholder process for further discussion. The CAISO explained in the May 29 tariff amendment that a multiple-RAAIM-price structure is not just and reasonable because it would introduce unnecessary complexity, needlessly deviate from the existing Commission-approved approach of using a single-RAAIM-price structure, and violate the fundamental premise that no particular type of resource adequacy capacity should be encouraged more or less than any other type of resource adequacy capacity to participate in the energy markets, undertake maintenance, and take all necessary steps to perform and prevent forced outages.<sup>67</sup>

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<sup>63</sup> Attachment E to May 29 tariff amendment (DMM Memorandum) at 2. *See also id.* at 7 (“DMM recommends that the [CA]ISO monitor this issue once the new incentive mechanism has been implemented.”).

<sup>64</sup> Transmittal letter for May 29 tariff amendment at 73; attachment F (MSC Final Opinion) to May 29 tariff amendment at 9-10.

<sup>65</sup> PG&E at 8.

<sup>66</sup> *See. e.g.*, reliability services initiative working group presentation (Dec. 10, 2014).

<sup>67</sup> Transmittal letter for May 29 tariff amendment at 64, 66-67.

The Commission should also reject PG&E’s suggested two-tier non-availability charge alternative, which is similar to SCE’s proposal regarding a higher charge during shortage events, discussed *supra*.<sup>68</sup> Unlike PJM and ISO New England, the CAISO is not proposing a full-fledged “pay for performance” program. This reliability services stakeholder initiative was focused on incremental improvements to the standard capacity product and ensuring capacity is made available to the market. In comparison, the purpose of a performance program is to ensure that once energy is scheduled, the generator complies with dispatch instructions. The CAISO currently has a mechanism that tracks uninstructed deviations and adjusts bid cost recovery payments as needed. However, changes or enhancements to that mechanism were not in the scope of the reliability services initiative and there was no stakeholder support to examine performance mechanisms as part of the scope of this capacity-based initiative. Furthermore, the CAISO has not faced the extreme conditions, significant availability problems, lack of fuel assurance, and circumstances that PJM and ISO New England faced, and more stringent measures are not necessary at this time. SCE and PG&E provide no evidence to the contrary. The CAISO is merely implementing a mechanism to incent resource adequacy resources to comply with their must-offer obligations.

PG&E’s proposal could also unfairly penalize resources that did not cause the event and that would not resolve it even if they provided substitute capacity.

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<sup>68</sup> The reasons discussed here also argue against the third alternative option identified by SCE and discussed *supra* – raising the incentive price when the CAISO is experiencing a shortage during market operations.

For example, a fire could knock transmission lines or generators out of service (including generators that rely on the out-of-service transmission lines), requiring the CAISO to designate additional resources under the CPM. It would be unfair to charge the generators affected by the fire a higher availability price than would otherwise apply for being unavailable. Also, PG&E's proposal would make it more difficult and costly for those resources to find substitute capacity at the last minute because any replacement resources would know that the unavailable resource would be subject to a higher non-availability charge. That could drive up overall costs for ratepayers.

Another example of the unfairness of PG&E's proposal is that it would charge non-compliant resources a higher non-availability charge even if they could not resolve the CPM event and bear no relation to the event. For example, assume that the CAISO needs to designate CPM capacity to address a local capacity reliability area need in San Diego. If a local resource in Humboldt County (in far northern California) became unavailable during the CPM event, it would be subject to the higher non-availability charge simply because there was an unrelated, local CPM event hundreds of miles away. The resource in Humboldt County would already incur the standard non-availability charge; there is no rational reason why it should be penalized with a higher charge under these circumstances.<sup>69</sup>

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<sup>69</sup> PG&E's suggested alternative also raises a host of other, unanswered questions. For what duration would the CAISO penalize the capacity at the higher rate – during the entire CPM designation period or only for the duration of the outage? What MW amount would be penalized? What if the CPM value was less than the outage capacity value? What if the price for the CPM designated capacity was less than the soft offer cap? Would the CAISO be forced to do a “but-for” analysis to determine CPM responsibility, and, if so, exactly how would that be determined?

**D. The CAISO's Proposed Exemptions from the RAIM for Local and System Resource Adequacy Capacity Provided by Variable Energy Resources and Combined Heat and Power Resources Are Just and Reasonable.**

SDG&E argues that the CAISO's proposal to exempt local and system resource adequacy capacity provided by variable energy resources and combined heat and power resources from the RAIM is not just and reasonable because exempting them would undermine the RAIM's stated purpose of creating incentives for local and system resource adequacy capacity to be available for service.<sup>70</sup>

In its May 29 tariff amendment, the CAISO fully explained why it was proposing an exemption from the RAIM for variable energy resources and combined heat and power resources providing system and local capacity.<sup>71</sup> The exemptions reflect the reality that the megawatt amount a variable energy resource or combined heat and power resource will be able to sell as resource adequacy capacity from year to year is dependent on the resource's average historical output. Therefore, it would be overly punitive to assess the availability of these resources similarly to the availability of other generation and to hold

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Would the proposal require the CAISO to develop a process – which would not be a simple task – to determine if a forced outage caused the CPM and whether it would have caused the CPM if it were the only outage on the system (transmission and distribution)? In short, PG&E's suggested alternative is too "un-baked" and contains no details to warrant consideration by the Commission. The mere existence of this potential, undeveloped alternative does not render the CAISO's proposal unjust and unreasonable. As discussed above, the CAISO is willing to file annual reports. If those reports show problems resulting from the CAISO's alternative, the CAISO will initiate a new stakeholder process to address the issues and consider other alternatives.

<sup>70</sup> SDG&E at 5-9.

<sup>71</sup> Transmittal letter for May 29 tariff amendment at 75-78.

them responsible in every hour up to their local or system resource adequacy capacity values.<sup>72</sup>

SDG&E claims that at some point in the future, when the CPUC implements an effective load carrying capability (“ELCC”) methodology, the qualifying capacity of such resources will no longer be based on average historical output.<sup>73</sup> SDG&E also states that the CPUC decision on which the CAISO was relying on was only a proposed decision.

It is uncertain when the CPUC might adopt an ELCC methodology, and the proceeding where it is being evaluated is far from finished. Until an ELCC methodology is adopted, which would be the 2017 resource adequacy year at the earliest, it would be overly punitive to deny the resources an exemption from the RAAIM.

Further, as the May 29 tariff amendment anticipated, the CPUC issued a final decision late in June 2015 stating that outages and availability in one year may directly reduce the amount of capacity that variable energy resources and combined heat and power resources may sell in the next year.<sup>74</sup> Thus SDG&E’s reliance on the previously cited proposed decision is moot. Applying an availability incentive penalty to these resources, in addition to their facing a reduction in the amount of capacity they can offer as a result of prior outages,

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<sup>72</sup> *Id.* at 75-76, 78.

<sup>73</sup> SDG&E at 6, 8-9.

<sup>74</sup> Decision 15-06-063, Rulemaking 14-10-010 (June 30, 2015) (“June 2015 CPUC Decision”), available on the CPUC website at <http://www.cpuc.ca.gov/PUC/energy/>.



would penalize these resources twice.<sup>75</sup> The June 2015 CPUC Decision recognized that exempting the resources from the RAAIM was necessary to avoid a double penalty.<sup>76</sup> The CPUC also stated that its directive would apply for the 2016 resource adequacy compliance year but that the CPUC would reopen the issue when studying resource adequacy for the 2017 compliance year.<sup>77</sup> Thus, the exemption may need to continue through at least 2017 in order to prevent the resources from double penalties.

Finally, SDG&E questions why, if the CAISO is concerned about the risk of double penalties for local and system resource adequacy capacity provided by variable energy resources, flexible resource adequacy capacity provided by variable energy resources is not subject to this same risk.<sup>78</sup> The reason is because the penalty provisions in contracts only require resources to provide energy or face a penalty; they do not require resources to submit economic bids. Thus, resources can satisfy the requirements of their contracts by self-scheduling. However, that would not satisfy the must-offer obligation for flexible capacity resources. The RAAIM must apply to flexible resource adequacy capacity or no mechanism would be in place to incent compliance with the must-offer obligations applicable to flexible resource adequacy capacity.

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<sup>75</sup> Transmittal letter for May 29 tariff amendment at 77.

<sup>76</sup> June 2015 CPUC Decision at 24 (stating that “the CAISO’s RAAIM proposal . . . removes the ‘double penalty’”).

<sup>77</sup> *Id.*

<sup>78</sup> SDG&E at 7.

**E. It Is Just and Reasonable Not To Exempt Maintenance Outages Scheduled Four To Seven Days Ahead of Time from Non-Availability Charges.**

NRG argues that the Commission should reject the CAISO's proposal to eliminate the existing exemption from non-availability charges for maintenance outage requests that are submitted four to seven days in advance, approved by the CAISO Outage Coordination Office, and treated as forced outages not subject to the standard capacity product tariff provisions.<sup>79</sup> This is another suggestion that would weaken the CAISO's availability standards. As explained in the May 29 tariff amendment, the standard capacity product tariff provisions only address forced outage situations. The RAAIM will supersede those provisions and instead assess non-compliance with must-offer obligations.

In approving ISO New England's new performance standards, the Commission stated that "exemptions for non-performance should be minimal."<sup>80</sup> The CAISO's proposal is consistent with that principle. Also, the CAISO's existing outage management program offers several viable outage options to resources that will not subject them to availability incentive charges: resource maintenance outage with replacement; replacement maintenance outage without replacement (if the outage request is submitted more than four days prior to the outage start date); off-peak opportunity outages; and short-notice opportunity outages.<sup>81</sup> The CAISO's proposal incents resources to plan their outages in advance and to provide replacement capacity and allows certain outages without

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<sup>79</sup> NRG at 15-16.

<sup>80</sup> *ISO New England*, 147 FERC ¶ 61,172, at P 62.

<sup>81</sup> See existing tariff section 9.3.1.3.

replacement when the CAISO determines that there is resource sufficiency and reliability can otherwise be maintained. NRG's proposal would not incent resources to obtain substitute capacity when they seek outages from the CAISO on relatively short notice. That could jeopardize reliability and not allow for any resource accountability.<sup>82</sup>

**F. The Revised Resource Adequacy Tariff Provisions Already Specify Their Applicability to Load-Following Metered Subsystems.**

NCPA and SVP request that the Commission direct the CAISO to specify the applicability of the revised resource adequacy tariff provisions to load-following metered subsystems in place of the CAISO's proposed deletion of a provision in existing tariff section 40.1.1.<sup>83</sup> There is no need for the CAISO to make the requested change because the revised tariff provisions already specify their applicability to load-following metered subsystems.<sup>84</sup> Thus, any further changes in that regard would be duplicative and unnecessary.

**G. Other Issues**

SWP requests that the CAISO revise new tariff section 40.6.4.3.2(3) to allow a participating load that is also pumping load to provide resource adequacy capacity by submitting non-spin ancillary service bids in the day-ahead market. SWP correctly states that the CAISO agrees such revisions are needed.<sup>85</sup>

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<sup>82</sup> Transmittal letter for May 29 tariff amendment at 83-84.

<sup>83</sup> NCPA at 5-8; SVP at 7.

<sup>84</sup> See attachment B to May 29 tariff amendment (red-lined tariff changes) at revised tariff section 40.2.4, new tariff section 40.9.2(b)(2), new tariff section 40.9.2(c)(2), revised 40.10.1.2(b)(2), revised tariff section 40.10.2.2, new tariff section 40.10.5.1.1.

<sup>85</sup> SWP at 4-5.

Therefore, the CAISO requests that the Commission direct the CAISO to make the revisions on compliance in this proceeding.

NCPA and SVP state that, as currently worded, proposed tariff section 40.10.5.1.1(2) could first require a load-following metered subsystem to procure flexible resource adequacy capacity for a variable energy resource shown on its annual plan as being outside the metered subsystem resource portfolio and then require the metered subsystem to increase its procurement by the same amount after submitting its monthly plan. NCPA and SVP request that the CAISO clarify the section to require the metered subsystem to increase its flexible resource adequacy capacity for all variable energy resources shown in its annual plan, regardless of whether those resources were designated to be in the metered subsystem resource portfolio. The CAISO agrees that such clarifications are needed and requests that the Commission direct the CAISO to make them on compliance.<sup>86</sup>

Six Cities state that they generally support the CAISO's proposal to require load-following metered subsystems to provide flexible resource adequacy capacity to support variable energy resources that are not included in the metered subsystem resource portfolio used to follow the metered subsystem load. Six Cities contend that the CAISO should also apply a similar requirement to variable energy resources contracted to serve load outside the CAISO balancing authority area. Six Cities state that they do not object to the CAISO's proposal to consider this issue in connection with an informational report the

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<sup>86</sup> NCPA at 4-5; SVP at 4-6.

CAISO will submit in the fourth quarter of 2015.<sup>87</sup> As the CAISO indicated in its May 29 tariff amendment, the issue should be considered at that time rather than in the instant proceeding.<sup>88</sup>

### III. CONCLUSION

For the foregoing reasons, the CAISO requests that the Commission accept the tariff revisions contained in the May 29 tariff amendment as filed.

Respectfully submitted,

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Dated: July 7, 2015

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<sup>87</sup> Six Cities at 3-4 (citing transmittal letter for May 29 tariff amendment at 28-29).

<sup>88</sup> Transmittal letter for May 29 tariff amendment at 28-29.

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for the above-referenced proceeding, pursuant to the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 7<sup>th</sup> day of July, 2015.

/s/ Bradley R. Miliauskas  
Bradley R. Miliauskas