

**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 and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years

Rulemaking 17-09-020
(Filed September 28, 2017)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
REPLY COMMENTS ON PROPOSED DECISION**

The California System Operator Corporation (CAISO) hereby provides reply comments regarding the Proposed *Decision Adopting Local Capacity Obligations for 2019 and Refining the Resource Adequacy Program* (Proposed Decision). These comments address the following issues: (1) procurement of the Ormond Beach and Ellwood Generating Facilities; (2) multi-year resource adequacy requirements; (3) alignment of the Commission’s resource adequacy measurement hours with the CAISO’s availability assessment hours (AAHs); (4) system resource adequacy requirements and load forecasts; and (5) effective load carrying capacity (ELCC).

I. Discussion

A. Ormond Beach and Ellwood Facilities

The CAISO agrees with Southern California Edison Company’s (SCE) recommendation to clarify rules regarding potential procurement of the Ormond Beach Generating Facility consistent with Commission Decision (D.) 12-04-046. In addition, the CAISO recommends that the Commission revise the guidance in D.12-04-046 regarding the procurement of once-through-cooled (OTC) facilities that are needed past the State Water Resources Control Board’s (SWRCB) scheduled compliance date. D.12-04-046 provides contracts with OTC facilities “shall not allow the utility to continue to purchase or receive power generated using non-compliant OTC beyond that date even if SWRCB extends the compliance date.”¹ In 2017, this provision precluded San Diego Gas & Electric Company (SDG&E) from procuring capacity from the Encina Generating Station despite the fact the SWRCB extended the OTC compliance

¹ D.12-04-046, p. 27.

date for the facility. As a result, the CAISO had to use its capacity procurement mechanism as a backstop to maintain local reliability.

In the present case, the CAISO and the Commission are planning to have resources in place to allow for the retirement of the Ormond Beach facilities by the end of 2020, in compliance with the SWRCB's current timeline. However, this plan depends heavily on the completion of a fourth Pardee-Moorpark 230 kV circuit prior to the 2021 peak period. If that project is delayed, it may be necessary to procure capacity from the Ormond Beach facility until the delay has been resolved. As a result, the CAISO recommends that the Commission revise the guidance in D.12-04-046 to allow utilities to enter purchase capacity from OTC facilities past the current compliance date if necessary for local reliability and if the SWRCB extends the compliance date.

B. Multi-Year Resource Adequacy Requirements

There is near unanimous support for the Proposed Decision's establishment of multi-year resource adequacy requirements for the 2020 compliance year. Several parties request that the Commission modify the Proposed Decision to allow for Track 2 proposals that would set local requirements at less than 100% in the second year of the requirement. The CAISO disagrees with the objections raised by these parties. Absent requirements set at 100% of the forecasted local need in year two, the multi-year local resource adequacy requirement will likely provide limited benefit, leaving marginal resources at risk of retirement. The CAISO recommends that the Commission retain the direction in the Proposed Decision requesting multi-year resource adequacy proposals that require full procurement of necessary local resources in the second year. The CAISO supports exploring the duration of the multi-year resource adequacy requirement and the nature of a central buyer as part of Track 2.

The CAISO understands that the Commission's focus to date has been on establishing multi-year local resource adequacy requirements. The CAISO agrees with this focus, but also recommends that the Commission explicitly consider how the multi-year framework can scale to include flexible and system requirements in the future. In opening comments, SDG&E expressed concern about the failure to adopt a companion multi-year local requirement without a corresponding multi-year flexible requirement.² To address this issue, the CAISO recommends

² SDG&E Opening Comments, p. 5.

that the Commission modify the Proposed Decision to direct parties to include in their multi-year proposals either (a) a demonstration of how the program could be scaled to address system and flexible capacity requirements, or (b) a proposal that includes system and flexible capacity procurement under a multi-year central buyer framework. The Commission should explicitly consider these issues in Track 2 to avoid potential complications in the future and avoid any need to revisit the multi-year local resource adequacy construct.

Finally, several parties express concerns that the CAISO may not have the appropriate studies necessary to support a multi-year resource adequacy framework. The CAISO is currently reviewing its resource adequacy-related study processes to determine what studies may require modifications. Based on its initial review, the CAISO believes that it will be able to make any modifications needed to support the Commission in establishing multi-year resource adequacy requirements.

C. Alignment of Resource Adequacy Measurement Hours and AAH

The CAISO understands the timing challenges of adopting new resource adequacy measurement hours that align with the CAISO's AAH. However, the CAISO is concerned about any potential lag and misalignment in the hours used to assess demand response resources. This misalignment can lead to counter-productive operational outcomes and is counter to the central tenets of the resource adequacy program, which is to ensure resource adequacy resources are available when and where needed. SDG&E explained that because "AAHs will be used to design DR programs as well as LIP assessments, this timing mismatch will create situations in which SDG&E's DR programs cannot perform to "new" hours because the Commission did not adopt those hours in time for the year-ahead process."³ As SDG&E and other parties recommend, this timing issue should be resolved promptly, especially because the CAISO's settlement system cannot accommodate different AAHs for different resource types. To avoid any negative impact from the current disconnect between the CAISO's AAH and the Commission's resource adequacy measurement hours, the CAISO filed a one-time waiver with the Federal Energy Regulatory Commission to exempt demand response auction mechanism (DRAM) resources from the AAH requirements. FERC approved the waiver on the basis that it

³ SDG&E Opening Comments at p. 9.

was “limited in scope because it is a one-time waiver narrowly tailored to apply to a small number of resources for a limited time period.”⁴ The CAISO believes that any extension of the waiver would be operationally unsound and unsupportable as a business practice, and that FERC would likely find an extension of the waiver to be unjust and unreasonable.

The CAISO notes a comment by the Joint DR Parties that “...changes to the AAH would be prospective so as not to interfere with or undermine forward contract commitments that are made by DR resources, especially in light of discussion around a multi-year forward RA requirement.”⁵ The CAISO would be concerned if the Joint DR Parties are inferring that a set of availability assessment hours would be “locked in” for multiple years depending on the contract term. AAHs can change over a multi-year contract period and there are existing contract terms that require resources to conform to annual updates to AAHs. Going forward, the CAISO expects that these contractual provisions will stay in place and will be used to ensure that resource adequacy resources are effective and available during the hours of greatest need, as represented by the AAH, in the applicable resource adequacy compliance year.

The CAISO looks forward to collaborating with the Commission to resolve this issue and to ensure all market participants comply with the applicable AAHs by the 2020 resource adequacy compliance year.

D. System Resource Adequacy Requirements

Several parties recommended delaying review of system resource adequacy requirements to Track 3 of this proceeding. The CAISO opposes this delay. The CAISO’s recommendation to use a 1-in-5 year load forecast in certain months is both simple and necessary. The CAISO is prepared to present analysis showing that the current 1-in-2 forecast with a 15percent planning reserve margin is not sufficient to provide adequate capacity in certain months. Using a 1-in-5 load forecast provides a short-term solution that is simple to understand and implement.

E. Effective Load Carrying Capacity (ELCC)

The CAISO supports Calpine Corporation’s (Calpine) recommendation for a clear schedule to analyze and improve ELCC modeling. Calpine recommended “clear direction to

⁴ 162 FERC ¶ 61,280 at P 32.

⁵ Joint DR Parties Opening Comments at p. 5; original footnote omitted.

Energy Division and a schedule with respect to when workshops, working groups, and any associated [ELCC-related] analysis will occur.”⁶ The CAISO agrees that there are significant ELCC issues—including the treatment of behind-the-meter solar—that need to be addressed urgently. The CAISO supports a dedicated effort to discuss and resolve the outstanding ELCC issues.

Respectfully submitted,

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⁶ Calpine Opening Comments, p. 6.