

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

Order Instituting Rulemaking to Consider Annual)
Revisions to Local Procurement Obligations and)
Refinements to the Resource Adequacy Program)
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Rulemaking 08-01-025
(Filed January 31, 2008)

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

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

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

Pursuant to Rule 14.3 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, the California Independent System Operator Corporation (“CAISO”) submits these reply comments on the Proposed Decision.¹ CAISO urges the Commission to adopt the Proposed Decision’s exceedance methodology for counting intermittent resources. Compared to the existing counting methodology which overstates the availability of intermittent resources during peak periods and fails to account for their extreme variability, the exceedance approach will more accurately reflect the dependable level of intermittent generation that will be available to serve load during peak periods, thereby promoting reliability and reducing the need for CAISO to procure backstop capacity. The exceedance approach is a clear improvement over the existing methodology and is consistent both with how the CAISO operates the grid and with the fundamental purpose of the Resource Adequacy program which to ensure there is sufficient available capacity to meet peak loads.

The Commission should not defer a decision on the intermittent resource counting issue, and continue to retain the unquestionably flawed existing counting methodology. Tellingly, DRA, TURN and CalWEA do not offer one iota of evidence challenging the ALJ’s findings that the existing methodology overstates the availability of intermittent resources during peak periods and fails to account for the unpredictable performance of these resources. The exceedance approach appropriately addresses these flaws and is

¹ CalWEA relies on a NERC task force report that the ALJ did not allow into the record and which is the subject of a pending reconsideration motion. CAISO will not address this non-record evidence in this filing and has filed an answer opposing CalWEA’s reconsideration motion. The report does not reflect any material change in fact or law warranting reconsideration of the Proposed Decision. If the report is placed into the record, parties must be given a separate opportunity to respond to the substance of the report.

ready for immediate implementation. The concern that the existing intermittent counting rule overstates such resources' actual availability during peak periods has existed for some time. The Energy Division's 2007 RA Report demonstrated that the existing methodology for determining the Qualifying Capacity ("QC") of these resources overstates their capacity during peak periods.² The Commission acknowledged the issue in early 2008, but deferred it for consideration in this proceeding. Parties have had more than ample time to develop their proposals, and the issue has been fully vetted through the workshop and comment process. There is no basis to defer the issue again and keep a flawed methodology in place when it can be immediately replaced by an exceedance methodology that will produce more accurate QC values.

There is no basis for the claim that an Effective Load Carrying Capability ("ELCC") approach is the "best practice" for counting intermittent resources for an RA program or that exceedance is inconsistent with what other grid operators are doing. CalWEA's own exhibit shows that grid operators are using a variety of means to "count" intermittent resources including exceedance, ELCC, averaging, probabilistic, and other approaches.³ Therefore, it is clear that there is no single "best practice" in use. Rather, grid operators use methodologies that work best given the particular conditions they face and the particular purpose of their analysis (*e.g.*, RA, planning, reporting, operations).⁴ The argument that ERCOT has recently moved away from an exceedance approach and adopted use of ELCC is misleading. ERCOT is using ELCC *on a temporary basis* for the sole purpose of calculating the system's reserve margin. The results of this study are reflected in an annual report that forecasts future demands and resources for the energy based markets run by ERCOT.⁵ ERCOT is not using ELCC for operational purposes or to determine capacity based RA obligations for LSEs. Indeed, to ensure resource adequacy

² 2007 RA Report at 20-28.

³ Attachment A to CalWEA/AWEA January 15 Proposal, "Determining the Capacity Value of Wind: An Updated Survey of Methods and Implementation" at 12-20 (June 2008) ("Attachment A Survey").

⁴ The Attachment A Survey shows that SPP (85%), IdaCorp (70%), and MAPP (median) use exceedance type approaches, and PNM uses a probabilistic approach similar to exceedance.

⁵ The Attachment A Survey notes ERCOT concluded that "the ELCC methodology should be used until better (*i.e.* more) actual performance data becomes available to make an accurate determination of the true capacity value of wind in ERCOT.. Attachment A Survey at 17; *see also*, Electric Reliability Council of Texas Generation Adequacy Task Force, Recommended Changes to the ERCOT Reserve Margin calculation Methodology, March 7, 2007.

http://www.ercot.com/meetings/tac/keydocs/2007/0330/11._Draft_GATF_Report_to_TAC_-_Revision_2.doc

on a daily basis, ERCOT uses the exceedance approach, not ELCC, to determine available wind capacity. Under both its current market design and future nodal market design, ERCOT determines how much additional capacity it will need to procure each day (under the current Replacement Reserve Service or the nodal Reliability Unit Commitment process) based on an 80% exceedance wind forecast.⁶ ERCOT has found that use of an 80% exceedance forecast for wind resources is necessary to ensure that it procures sufficient resources each day to maintain reliability. ERCOT's use of the exceedance methodology to count wind in order to support reliable grid operations and meet expected loads is consistent with the approach adopted in the Proposed Decision.

The fact that the Commission adopted ELCC as a means to help LSEs evaluate the bids of renewable resources under the RPS program does dictate how intermittent resources should be counted for RA purposes.⁷ ELCC, which calculates capacity values by looking at wind performance every hour of every day, is fundamentally at odds with the basic purpose of the RA program, *i.e.*, to meet peak reliability needs, as well as the key elements of the RA program which are designed based on peak hours. Adoption of ELCC would turn the RA paradigm upside down. No party offered evidence to demonstrate that the fundamental underpinnings of the RA program should be abandoned. ELCC is not appropriate for an RA program that is based on meeting monthly peak demand conditions. By looking at production during every hour of every day, an ELCC approach ensures that intermittent resources will be overstated during peak periods. When these resources do not "show up" during peak periods, there will be potential reliability problems and increased costs as the result of the CAISO's need to procure backstop capacity from other resources.

There is no basis to TURN's suggestion that changes to QC values of intermittent resources will impact the development of renewables thereby thwarting the State's RPS

⁶ ERCOT Protocols, Section 4.4.15. <http://www.ercot.com/content/mktrules/protocos/current/04-060109.doc> ERCOT Nodal Protocols, Section 4.2.2 http://nodal.ercot.com/protocols/2009/05/04/04-050109_Nodal.doc

⁷ The Proposed Decision's exceedance approach is comparable to the Commission's approach for counting hydro resources under the RA program. That counting rule is based on the expectation that the resource will meet its RA capacity for a given month in four out of five years, *i.e.*, it essentially applies an 80% exceedance factor. There is no reason why an exceedance approach should not also be applied to intermittent resources given they raise unpredictability and variability issues similar to hydro.

goals.⁸ State law *requires* utilities to meet a 20% RPS standard. Renewable resources will be developed in order to comply with State law, and utilities will pay for such resources pursuant to the Commission's RPS program. The RPS goal is based on the amount of energy that is produced by renewable resources; whereas, the RA product is a capacity product that is available to serve load during peak load hours. Thus, the RA counting rules for intermittent resources have no bearing on the State's achievement of RPS goals.

Suggestions that any decrease in the QC values of intermittent resources will result in significant cost increases for ratepayers are baseless. CalWEA erroneously claims that utilities will need to procure an *additional* 2,100 MW of RA capacity above and beyond the total RA capacity that is already being procured. The Proposed Decision does not increase the total MW LSEs will have to procure under the RA program. LSEs will provide the same level of RA capacity that CAISO can rely on to serve California consumers. The revision to the counting methodology does not impact the benefit of wind for meeting RPS goals, but for RA purposes it merely shifts the capacity that is procured to other unit(s) which would provide the differential between the current intermittent QC values and any reduced QC values. No "additive" MW will need to be procured. Thus, CalWEA's claim that the new counting methodology will result in significant additional RA procurement is incorrect.

DRA incorrectly claims that if the QCs of wind resources are reduced, 1,200 MW of new capacity will need to be constructed to offset the decreased QC values at an annual cost of \$180 million. Today approximately 660 MWs of wind resources count towards RA⁹ and there is a surplus of capacity that is not RA.¹⁰ To the extent wind resources count less than they do today as the result of a new more realistic counting methodology, any difference can more than be made-up by procuring from existing resources and through Demand Response. There will not be a need to construct additional

⁸ TURN also claims that there are data flaws that might impact the estimates of the QCs that will result from the various proposals. Any flaws in the data are just that – data flaws. They are not flaws in the methodology itself. Interestingly, despite claiming that there were flaws in the data, TURN states that it "was able to reproduce most of the CEC's results either exactly or very closely." TURN Comments at 4.

⁹ The current QC methodology counts approximately 660 MWs of wind during the month of May, and the proposed exceedance method would still allow approximately 290 MWs of installed wind capacity to count for RA purposes during May. See Supplemental Information To Joint Proposal Submitted on January 15, 2009, filed February 11, 2009.

¹⁰ The CAISO's 2009 Summer Assessment (P.4) shows a 32.6% planning reserve margin – 14,719 MW. The RA program provides for a 15% reserve margin.

capacity as DRA claims. Given the surplus, procurement of any replacement capacity should result in competitive prices for existing resources.

CalWEA suggests that backstop costs will be nominal because they will only occur if the 15% planning reserve margin is exhausted, and this will not happen very often. It is speculative to claim that minimal backstop will occur because no one can predict outages, hydro conditions, the availability of imports, or future peak load conditions. The only certainty is that any backstop procurement costs will be additive to the capacity payments that will have been made to resources that were not available when needed. Even if the CAISO has to commit thermal RA units when intermittent resources are not available, the CAISO will have to pay such units their Start-Up and Minimum Load costs which can be considerable. CalWEA seems to be suggesting that it is acceptable for RA resources to regularly “lean” on other resources when they do not perform during peak periods. Under these circumstances, such resources are being paid a capacity payment for a service they are not providing when it is most needed. The Commission should not countenance such concepts as they constitute a direct assault on the reliability benefits that have been incorporated into the RA program.

Thus, for the foregoing reasons, the CAISO respectfully requests that the Commission adopt the exceedance methodology recommended in the Proposed Decision.

Respectfully submitted,

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Date: June 9, 2009

CERTIFICATE OF SERVICE

I hereby certify that I have served, by electronic mail and U.S. Mail, Comments on Proposed Decision of the California Independent System Operator Corporation in Docket No. R.08-01-025.

Executed on June 9, 2009, at Folsom, California.

Anna Pascuzzo

Anna Pascuzzo
An Employee of the California
Independent System Operator