

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

Order Instituting Rulemaking to Develop
Additional Methods to Implement the
California Renewables Portfolio Standard
Program.

Rulemaking 06-02-012
(Filed February 16, 2006)

**RESPONSE OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION TO PETITIONS
FOR MODIFICATION OF DECISION 10-03-021**

Anthony J. Ivancovich,
Assistant General Counsel-Regulatory
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION
151 Blue Ravine Road
Folsom, California 95630
Tel. (916) 351-4400
Fax. (916) 608-7296
Email: aivancovich@caiso.com

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Pursuant to Rule 16.4 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, the April 14, 2010 Assigned Commissioner’s Ruling,¹ and the April 16, 2010 Administrative Law Judge’s Ruling,² the California Independent System Operator Corporation (“ISO”) hereby submits this response to the petitions for modification of Decision 10-03-021 filed respectively by the Joint Utilities³ and the Independent Energy Producers Association (“IEP”). The ISO is still evaluating the specific points raised by the Joint Utilities and IEP. Nevertheless, the ISO supports the fundamental point raised by these parties that the Commission should reduce limitations on the use of out-of-state renewable generation for renewable portfolio standard (“RPS”) compliance purposes.

I. BACKGROUND

In Decision 10-03-021, the Commission established rules for the use of tradable renewable energy credits (“RECs”) for compliance with California’s RPS program. In

¹ See Assigned Commissioner’s Ruling Setting Schedule for Consideration of Joint Petition for Modification of Decision 10-03-021 and Joint Motion for Stay of Decision 10-03-021 (April 14, 2010).

² See Administrative Law Judge’s Ruling Granting Motion of the Independent Energy Producers Association to Shorten Time (April 16, 2010).

³ The Joint Utilities consist of Southern California Edison Company (“SCE”), Pacific Gas and Electric Company (“PG&E”) and San Diego Gas & Electric Company (“SDG&E”).

doing so, the Commission imposed certain limits on the amount of out-of-state renewable generation that SCE, PG&E, and SDG&E could use for RPS compliance purposes.⁴ In particular, the decision imposed a limit on the use of “REC-only” (also referred to as “non-bundled”) transactions, and included in the “REC-only” category most types of bilateral transactions involving the purchase of both energy and RECs.

REC-only transactions are defined in the decision as transactions for out-of-state renewable generation that either (1) do not have a first point of interconnection with a California balancing authority (“BA”); or (2) do not dynamically transfer renewable energy to a California BA.⁵ Fundamental to the Commission’s determination that dynamic transfers should be considered a “bundled” transaction is the belief that such transactions are “electrically equivalent to direct interconnection”⁶ and that such transfers are an available and viable option for out-of-state intermittent renewable resources.

Among the issues raised in their respective petitions for modification, the Joint Utilities and IEP assert that Decision 10-03-021 should be modified to broaden the scope of permissible out-of-state renewable generation that may be used for RPS compliance purposes.⁷ While both parties support classifying dynamic transfers as bundled transactions, they note that, currently, dynamic transfers do not represent a viable option for RPS compliance purposes. Thus, as a practical matter, the limitations placed by Decision 10-03-021 on the use of out-of-state renewable generation for RPS compliance purposes are even greater than appear from the face of the decision.

⁴ Decision 10-03-021, mimeo at 101 (Ordering Paragraph 17).

⁵ Decision 10-03-021, mimeo at 97-98 (Ordering Paragraph 7).

⁶ Decision 10-03-021, mimeo at 33.

⁷ See, e.g., Petition of the Independent Energy Producers Association for Modification Of Decision 10-03—21 Authorizing Use of Renewable Energy Credits for RPS Compliance at 1-2(April 15, 2010) (“IEP Petition”); Joint Petition of Southern California Edison Company (U 338-E), Pacific Gas & Electric Company (U 39-E), and San Diego Gas & Electric Company (U 902-E) for Modification of Decision 10-03-021 at 2-7 (April 12, 2010) (“Joint Utilities”).

II. THE ISO SUPPORTS RELAXING LIMITATIONS ON THE USE OF OUT-OF-STATE RENEWABLE GENERATION AND ELIMINATING THE PREFERENCE FOR DYNAMICALLY-TRANSFERRED RENEWABLE GENERATION FOR RPS COMPLIANCE PURPOSES

In its previously filed reply comments on the revised proposed decision of Administrative Law Judge Simon (“Revised PD”), the ISO expressed its concern regarding the limitations the Revised PD would put on purchases of RPS eligible out-of-state generation. Specifically, the ISO expressed its concern that classifying such transactions as REC-only transactions may serve to limit the amount and geographic diversity of renewable energy imported into California and discourage the future development of out-of-state renewable generation resources for the California market. Nevertheless, Decision 10-03-021 limits the use of out-of-state renewable generation for RPS purposes even more severely than the Revised PD does. As the Joint Utilities and IEP explain, the limitations that Decision 10-03-021 places on out-of-state renewable generation will serve to discourage the development of such generation for the California market.⁸ In addition the Decision establishes a preference for dynamic transfers of out-of-state renewable generation that the ISO does not support for reasons explained below.

From an operations perspective, a geographically diversified supply of renewable generation can help mitigate operational challenges posed by the intermittency of wind and solar generation. Of particular importance in this regard is the greater diversity of weather conditions that exist over larger geographic areas during any given operating hour, and the impact of such weather diversity in reducing the aggregate variability of output of wind and solar generating resources. For example, solar resources in New Mexico can begin generating up to an hour before solar resources in California and can

⁸ See IEP Petition at 1-2 and Joint Utilities Petition at 12-13.

thereby provide renewable energy to fill the fairly regular morning gap between the fall-off of wind generation and the increase in solar generation within California. As a result, the operational challenges of managing the inherent intermittency of solar and wind resources can be reduced by diversifying the geographic locations of these resources. This supports relaxing the Decision's limitation on the use of out-of-state resources for RPS compliance.

At the same time, from an operational perspective, requiring out-of-state renewable resources to use the ISO's dynamic transfer provisions in order to qualify as bundled transactions for RPS purposes could have some undesirable tradeoffs. First, dynamic transfers of external resources require the ISO to provide all real-time balancing services, including real-time imbalance energy and regulation service. This requirement will create additional operating challenges and costs for accommodating dynamically transferred out-of-state renewable generation, compared to generation that is scheduled like other imports at a fixed MW level for the hour. Although these challenges are not insurmountable, it is not clear that dynamic transfers provide compensating benefits with regard to the environmental objectives of the RPS. Indeed, substantially increasing the use of dynamic transfers could require an expansion of the internal thermal fleet to ensure that sufficient flexible, dispatchable resources are available to maintain system balance and reliability. Thus, the Decision's explicit preference for dynamically transferred out-of-state renewable generation likely would lead to unintended cost and environmental policy tradeoffs, as well as operational challenges, without offering a clear benefit in terms of meeting RPS policy objectives. Allowing out-of-state resources that are firmed

and shaped by their host balancing authority areas can provide significant operational, cost and environmental policy benefits.

Given the potentially significant benefits that may be realized from a geographically diversified supply of renewable generation, particularly without the encumbrance of the dynamic transfer requirement, the ISO (1) supports efforts to reduce the limitations imposed by Decision 10-03-021 on the use of out-of-state renewable generation for RPS compliance purposes, and (2) further recommends that the Commission remove the preference for dynamic transfers.

III. THE EXTENT TO WHICH DYNAMIC TRANSFERS WILL BE ABLE TO ACCOMMODATE INTERMITTENT RESOURCES IS STILL BEING DEVELOPED

As discussed above, Decision 10-03-021 classifies dynamic transfers as bundled transactions. Thus, as a result of limitations on the use of REC-only transactions for RPS compliance purposes, the Decision creates an incentive to incorporate dynamic transfer arrangements into procurement contracts for out-of-state renewable resources. However, as explained by the Joint Utilities and IEP⁹ and acknowledged by the Commission, Dynamic transfers do not currently represent a viable option for RPS compliance purposes:

[t]he CAISO does not currently use dynamic scheduling for intermittent resources, but is actively studying its implementation.¹⁰

At this time, it is unclear if and/or when dynamic transfers for intermittent renewable generation will be available in any significant quantity.¹¹ The ISO's existing

⁹ See IEP Petition at 6-7 and Joint Utilities Petition at 15-17.

¹⁰ Decision 10-03-021, mimeo at 33 (*citing* CAISO Dynamic Transfer Issue Paper (Nov. 30, 2009) at 5-6, available at <http://www.caiso.com/2476/2476ecfa5f550.pdf>).

¹¹ Dynamic transfers are operationally comparable to generators that have their first point of interconnection on the ISO grid, in the sense that such generators provide the ISO with, among other rights,

rules for dynamic scheduling, which is a type of dynamic transfer, were designed for and thus far have been utilized only by conventional dispatchable generation, not intermittent renewable generation. With regard to the other type of dynamic transfer -- pseudo-ties -- this effort exists only in the *pilot project* stage, and thus far the ISO has only one pseudo-tie *pilot project* with an RPS eligible generator, and this project is new and does not have an established performance track record.¹² The provisions and protocols for the dynamic transfer of intermittent renewable generation are still under development through an ISO stakeholder process and will require FERC approval of changes to the ISO tariff after such changes are approved by the ISO Board.

Once dynamic transfers for intermittent resources are permitted under the ISO tariff, agreements must still be reached with adjacent Balancing Authority Areas (“BAAs”) to accommodate the dispatch and delivery of the out-of-state resource. Thus, the actual quantity of dynamically transferred renewable energy is dependent, in part, on the ability and willingness of other BAAs to support the use of dynamic transfers. For instance, the Bonneville Power Administration (“BPA”) recently issued a study indicating that it can support no more than 500 MW of dynamically scheduled resources at California-Oregon interface, of which 100% is already fully subscribed.¹³ Thus, no

dispatch capabilities and other operational rights comparable to internal generation. However, dynamic transfers are not “electrically equivalent” to internal generating resources. Accordingly, Decision 10-03-021 is incorrect when it states that Dynamic Scheduling and Pseudo-Tie arrangements are electrically equivalent to internal generating resources. As the ISO explained in its reply comments on the Revised PD, Dynamic Scheduling and Pseudo-Tie arrangements provide the ISO with important operational benefits that other external resources do not provide, but it is not technically correct to say that external resources utilizing Dynamic Scheduling or Pseudo-Tie arrangements are electrically equivalent to internal generating resources. Reply Comments of the California Independent System Operator Corporation at 4, n. 3. (Jan. 25, 2010)

¹² Decision 10-03-021, mimeo at 33, note 59.

¹³ A copy of the study is available at:

http://www.transmisison.bpa.gov/wind/dynamic_transfers/DTLS_results.pdf.

additional dynamic transfer capability can be expected from the northwest until existing limitations can be resolved.

The ISO does not, however, intend the above discussion to mean that the Commission should modify Decision 10-03-021 to reclassify dynamic transfers as REC-only transactions. Rather, in considering the requests of the Joint Utilities and IEP to reduce limitations on the use of out-of-state renewable generation for RPS compliance purposes, the ISO believes it is important for the Commission to fully understand and properly account for the fact that dynamic transfers are currently not a viable option for out-of-state renewable generation, and based on this understanding and the arguments presented herein, consider allowing other types of arrangements with out-of-state renewable generation to count as bundled transactions for RPS compliance purposes. With respect to the latter consideration, the ISO believes there is merit to the approach suggested by IEP to modify the LCBF paradigm for assessing the contribution of various types of transactions to the various objectives of the Commission's REC policy.

IV. CONCLUSION

For the reasons discussed herein, the ISO supports the fundamental point raised by the Joint Utilities and IEP that the Commission should relax limitations on the use of out-of-state renewable generation for RPS compliance purposes.

Respectfully submitted,

/s/ Anthony J. Ivancovich
Anthony J. Ivancovich,
Assistant General Counsel-Regulatory
CALIFORNIA INDEPENDENT
SYSTEM OPERATOR
CORPORATION
151 Blue Ravine Road
Folsom, California 95630
Tel. (916) 351-4400
Fax. (916) 608-7296
Email: aivancovich@caiso.com

Dated: May 4, 2010

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commissioner's Rules of Practice and Procedure, I have this day served a true copy of **RESPONSE OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO PETITIONS FOR MODIFICATION OF DECISION 10-03-021** on all parties identified in the attached service list(s).

Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.

Executed this 4th day of May, 2010, at Folsom, California.

Anna Pascuzzo

Anna Pascuzzo
California Independent System Operator
Corporation
151 Blue Ravine Road
Folsom, CA 95630