

**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
COMMENTS ON ORDER INSTITUTING RULEMAKING**

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Date: October 30, 2017

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I. Introduction

The Commission issued its Order Instituting Rulemaking (OIR) to oversee the resource adequacy program on September 28, 2017. The OIR set forth the following three issues to be addressed in this resource adequacy proceeding: (1) setting local and flexible resource adequacy procurement obligations for 2019 and 2020, (2) changing the basic structure of the resource adequacy program, and (3) incrementally refining resource adequacy program elements.¹ The California Independent System Operator Corporation (CAISO) agrees that the Commission should emphasize re-examining the basic structure of the resource adequacy program. To facilitate this, the CAISO recommends that the Commission adopt two separate tracks in this proceeding. The first and highest priority track should specifically focus on re-examining the basic resource adequacy structure and the second track should focus on annual local and flexible procurement obligations for 2019 and 2020. The CAISO discusses these recommendations in detail below.

II. Discussion

A. Need for a Separate Track to Address Issues Related to Conforming the Current Resource Adequacy Structure to the Needs of a Changing Grid

In the OIR, the Commission notes that “[g]iven the passage of time and the rapid changes occurring in California’s energy markets, it may be worthwhile to re-examine

¹ OIR at p. 3-6.

the basic structure and processes of the Commission’s [resource adequacy] program.”² The CAISO strongly supports this notion and urges the Commission to open a separate track within this proceeding dedicated solely to addressing the fundamental structure of the resource adequacy program in light of a grid that is rapidly transforming. As the state of California accelerates its transition to a cleaner, low-carbon electric grid, it is increasingly clear that the current resource adequacy framework is not well suited to ensure resources have the right capabilities and are available when and where needed to meet system needs.

To effectively and efficiently maintain grid reliability while incorporating greater amounts of preferred resources, the resource adequacy program must be restructured to identify not only the appropriate quantity and location of necessary resources, but also the performance characteristics required to balance supply and demand, which has become significantly more variable. The traditional one-year resource adequacy cycle does not provide a sufficient opportunity or time to thoroughly consider a holistic restructuring of the existing paradigm. As a result, the CAISO recommends that the Commission establish a separate, dedicated track of this proceeding—that operates on an extended timeline—to consider fundamental resource adequacy restructuring issues.

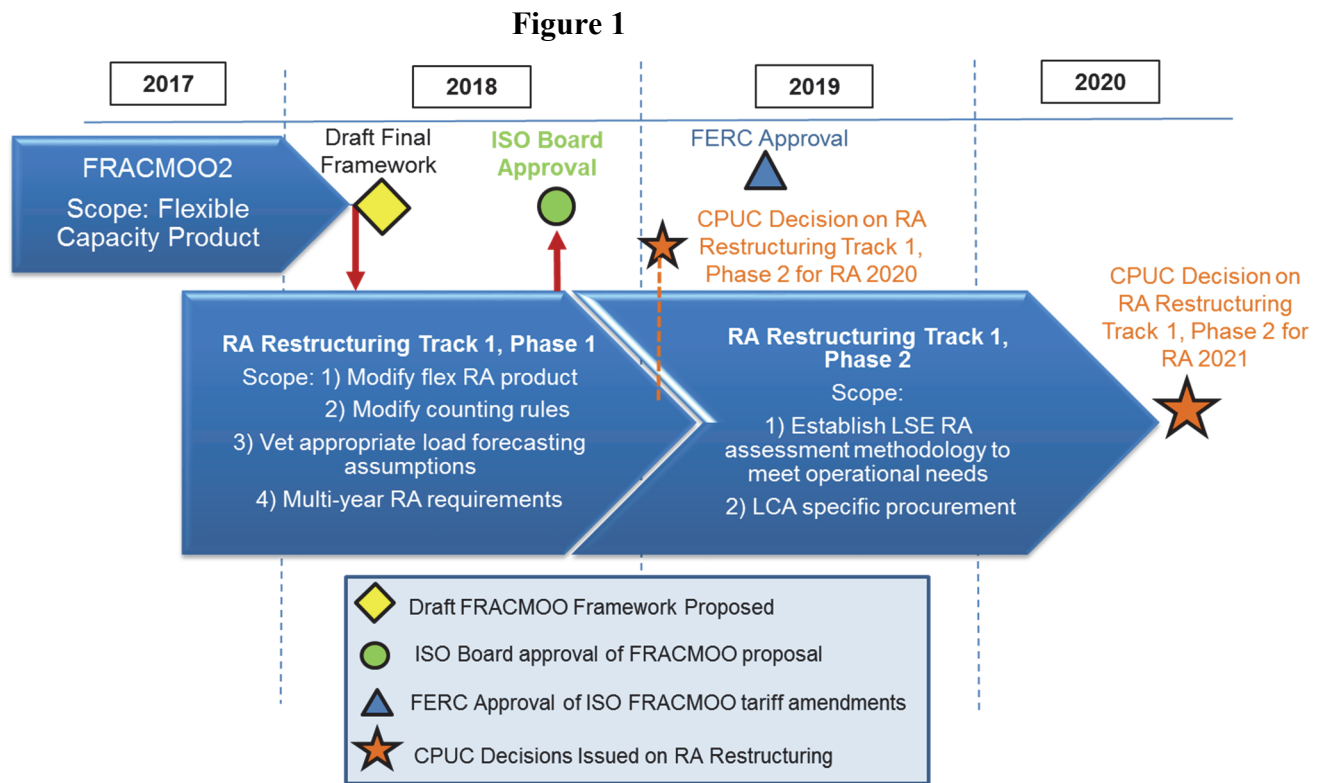
To this end, the Commission should establish a first track in this proceeding focused on resource adequacy restructuring and a second track limited to setting annual local and flexible resource adequacy requirements.

B. Track 1 Scope and Process

Track 1 should be dedicated to reviewing the resource adequacy program and assess appropriate restructuring. This track should be a collaborative effort between the Commission and the CAISO, with jointly hosted workshops and broad stakeholder engagement. The CAISO also suggests considering whether to engage a third party facilitator to ensure that progress is made in a timely manner. Track 1 should have a longer time horizon than the typical one-year resource adequacy cycle to allow stakeholders more time to consider the purpose and objectives of the resource adequacy program in light of the transforming grid. The CAISO proposes the resource adequacy

² OIR at p. 3.

restructuring path involve two distinct 18-month phases spanning a three year period. This phased approach will allow the Commission and the CAISO to expedite possible modifications and align with the CAISO’s ongoing flexible resource adequacy capacity and must offer obligation (FRAC-MOO2) initiative. Figure 1, below, provides an overview of the CAISO-proposed approach.



i. Track 1- Phase 1

Track 1, Phase 1 should (1) address modifications to the flexible resource adequacy product (in conjunction with the CAISO’s FRAC-MOO2 efforts), (2) assess the Commission’s Qualifying Capacity counting rules for resources other than solar and wind, (3) consider revised load forecasting assumptions, and (4) establish multi-year resource adequacy requirements. These issues should be prioritized because they will determine resource needs on the system; how capacity needs can be met with increased numbers of preferred resources, while ensuring the efficient retention and retirement of thermal resources. The CAISO discusses each of these items in greater detail below.

a. Flexible Resource Adequacy Product

The CAISO intends to present a draft flexible capacity framework proposal in its FRAC-MOO2 initiative in early 2018. The goal of the FRAC-MOO2 initiative is to set more durable flexible resource adequacy procurement rules to meet the operational needs of the transforming grid. The draft final framework proposal should be considered in Track 1, Phase 1 of this proceeding to ensure that the CAISO and the Commission are coordinating in this effort and can define and articulate the structure of a durable flexible capacity product. Following this path allows the Commission and stakeholders an opportunity to vet the draft final proposal prior to CAISO Board of Governor approval of the policy.

b. Qualifying Capacity Rules

The Commission adopted an effective load carrying capacity (ELCC) methodology for establishing Qualifying Capacity for wind and solar resources in Decision (D.) 17-06-027. This was an important first step in establishing more accurate Qualifying Capacity values, but additional steps are still necessary to properly reflect the load carrying capacity of other resource types. The CAISO recommends that the Commission continue refining the ELCC for wind and solar resources, while also addressing the qualifying capacity value for weather-sensitive demand response resources and applying a forced outage rate on thermal resources.

c. Load Forecasting Assumptions

The Commission should also address load forecasting assumptions in Track 1, Phase 1 of this proceeding, particularly for system resource adequacy requirements. Currently, system resource adequacy requirements are set using a monthly 1-in-2 load forecast plus a 15% reserve margin. Recent experience shows that using this load forecast can result in resource adequacy requirements that are significantly less than observed peak loads in some months.³ The relatively low load forecast undermines the intent of the resource adequacy program, which is to ensure that sufficient resources are available when and where needed.

³ See CAISO Q2 Report on Market Issues and Performance, September 24, 2017, p. 18-19, (<http://www.caiso.com/Documents/2017SecondQuarterReport-MarketIssuesandPerformance-September2017.pdf>).

d. Multi-Year Resource Adequacy Requirements

Multi-year resource adequacy requirements have been debated for years, but several factors have increased the need to resolve this issue. These factors include expansion of community-choice aggregators (CCAs), an increase in the number of resources considering retirement, and an increase in the use of the CAISO's capacity procurement mechanism (CPM) and reliability must run (RMR) backstop procurement authority to procure resources needed to maintain reliability. The Commission should prioritize the development of a multi-year resource adequacy requirement to ensure long-term reliability and an efficient and functional resource adequacy market.

ii. Track 1- Phase 2

In Track 1, Phase 2, the Commission should re-examine the methodologies the Commission and the CAISO use to ensure that load serving entities procure sufficient resources to meet reliability needs. Specifically, the CAISO recommends a more granular analysis of resources and demand to assess whether load-serving entity procurement is sufficient to meet CAISO operational needs throughout the year. With rapidly changing system conditions, this assessment methodology should be based on modeling the procured resources to ensure that the portfolio of resource adequacy resources meet CAISO operational requirements, including local and flexible requirements, during all hours of the compliance year. Such an assessment would likely require production cost modeling to test the procured resource adequacy fleet under various load scenarios.

The CAISO also recommends that the Commission review its local resource adequacy procurement policies in Track 1, Phase 2. Currently, load-serving entities are required to meet local capacity requirements in specific Transmission Access Charge (TAC) areas. However, the CAISO establishes local capacity needs based on transmission constraints into Local Capacity Areas (LCAs), which are typically geographically smaller than the TAC areas. This can lead to a disconnect in which load-serving entities meet procurement requirements in the larger TAC area, but deficiencies in the LCAs remain, thereby leading to potential backstop procurement by the CAISO. To avoid this circumstance, the Commission should review whether to require more granular local resource adequacy procurement by its load-serving entities.

C. Track 2 Scope

Track 2 should be primarily reserved to set annual local and flexible resource adequacy requirements. The Commission should limit an incremental refinement of the resource adequacy program to allow the stakeholders maximum capacity to focus on the changes contemplated in Track 1. Incremental refinements appropriate for Track 1 include (1) updating the Commission’s resource adequacy measurement hours to align with the CAISO’s Availability Assessment Hours and (2) incorporating the results of the CAISO-Commission joint workshops on slow response demand response resources.

The CAISO and the Commission staff recently hosted a third workshop on slow response local capacity resource assessment.⁴ During the workshop, the CAISO presented detailed planning analysis conducted in conjunction with the investor-owned utilities on the availability requirements for slow-response demand response to count for local RA based on pre-contingency dispatch.⁵ The analysis detailed the annual availability and hours of duration that are needed for demand response (and more broadly use-limited resources) based on an increasing level of penetration of these resources in the local areas. This analysis provides an assessment of the required availability characteristics if no market or regulatory barriers existed to serve as local resource adequacy. The workshop also moved the conversation forward by proposing a method to allow for proxy demand resources to be “pre-dispatched” to be used during a local contingency (and thus count as local resource adequacy) as well as broader proposed improvements to enable these resources to bid into the CAISO market commensurate with their program limitations. The CAISO will continue to work with the Commission on addressing barriers for reliability demand response resources. In Track 2, the Commission should consider rules and requirements for slow response demand response resources given the findings of the CAISO and the investor-owned utilities on the annual availability and hours of duration required from slow response demand response resources to qualify as local resource adequacy resources.

⁴ See <http://www.aiso.com/Pages/documentsbygroup.aspx?GroupID=9457D220-D7EE-4828-94F4-1D9A30B6E812>.

⁵ See http://www.aiso.com/Documents/Presentation_JointISO_CPUCWorkshopSlowResponseLocalCapacityResourceAssessment_Oct42017.pdf.

III. Conclusion

The CAISO appreciates this opportunity to provide comments on the scope of this OIR and looks forward to working with the Commission to re-examine the fundamental principles of the resource adequacy program.

Respectfully submitted,

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