



PUBLIC UTILITIES COMMISSION  
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COMMISSIONER

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March 24, 2016

Keith Casey  
Vice President  
California Independent System Operator  
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Mr. Casey,

It has recently come to my attention that CAISO Management has requested action by its Governing Board addressing Cost Commitment Enhancements at its March 25, 2016 meeting. While I am generally supportive of the proposal, I wish to share a particular concern and ask for your forbearance where your proposal concerns altering the use-limited status of preferred resources.

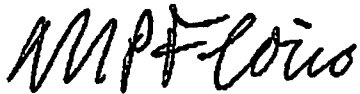
I am concerned about the implications the CAISO Management proposal may have on preferred resources which have integrated into CAISO markets. Many of these resources were conceived of and authorized by direction of the California Public Utilities Commission with an understanding they would be use-limited for the foreseeable future. Affected stakeholders, including investor owned utilities, demand response providers, storage providers, and the Commission's staff, have expressed through your stakeholder process concern that absent further consideration, preferred resources may suffer. They have asked for more time to understand and manage the implications. I am persuaded by their plea.

Looking ahead, I have an open mind to your proposed opportunity cost bidding structure and believe it will provide overall benefits to California's ratepayers and market participants alike. However, I'm concerned that the abrupt change to the "use limited" status proposed for your board's consideration may adversely impact the still nascent integration of these resources into your market, a cause I'm pleased to support. My plea therefore, is to allow more time for stakeholders to ease this transition. To that end, please consider adding the following language to your proposal for board approval:

*Management understands demand response and storage programs are currently in a significant transition period and are still determining how to effectively participate in CAISO markets. Existing DR tariffs and contracts have not been designed with these [proposed] changes in the resource adequacy availability incentive mechanism in mind, or in light of replacement requirements for the 2017 deliverability period. Therefore, Management commits to leaving the existing tariff definition of "default use limited" in place for DR and Storage through 2017 to allow sufficient time for reflection of future RAIM/replacement obligations in DR/ Storage tariffs and contracts. In this time period management also commits to the design of an opportunity cost (or equivalent) commitment-cost methodology for these resources through an ongoing stakeholder process.*

If you have any questions concerning my suggestion, please do not hesitate to be in touch.

Sincerely,

A handwritten signature in black ink that reads "MP Florio". The letters are cursive and somewhat stylized.

Michel P. Florio  
Commissioner