<u>Stakeholder Comments Template</u>

Deliverability of Resource Adequacy Capacity on Interties

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SDG&E submits the following comments on the *Deliverability of Resource Adequacy Capacity on Interties* Straw Proposal posted on April 6, 2011, and issues discussed during the stakeholder meeting April 13.

While import capacity is generally capable of delivering generating capacity that satisfies CAISO Resource Adequacy (RA) obligations, the amount of import capacity that load serving entities (LSE) are currently able to count is constrained by the level of actual or scheduled imports flowing into the CAISO during prior peak load periods. This historical-based approach offers a measure of certainty that imports across a given intertie will in fact be deliverable to the CAISO during future peak load periods. However, this backward-looking approach also prevents imports from counting for RA until there are 2 to 3 years of historical data demonstrating imports during peak load hours.

This historical-based approach is currently colliding with the state's policy of achieving its 33% renewable energy requirement. At least one well documented, renewable rich area – an area whose resource potential is important to achieving 33% RPS – lies on the other side of an intertie with no historical import data. The inability to count towards RA obligations until years of import data is established creates a barrier to bilateral contracting for projects outside the CAISO control area.

<u>The CAISO's Proposal</u>
In this initiative, the CAISO proposes changes to the current Maximum Import Capability (MIC) methodology to remove barriers currently inhibiting renewable resource development in neighboring balancing authority areas (BAA). SDG&E agrees that removing these barriers will help jurisdictional load serving entities (LSEs) cost-effectively meet their combined RA and renewable portfolio obligations, and strongly supports the approach outlined in the Straw Proposal.

To accomplish these important policy objectives, the CAISO proposes a two-part approach that works in close coordination with the ongoing 2011-2012 Transmission Planning Process (TPP). First, in the TPP the CAISO will establish target expanded MIC values that achieve the 33% RPS requirement. That is, the CAISO will identify a "public policy" resource portfolio that contains some renewable resources outside its BAA, the combined amount of renewable resources being sufficient to reach the 33% RPS requirement. Next, the CAISO will establish target expanded MIC values at certain interties to ensure that qualifying capacity from those external resources is deliverable into the CAISO BAA.

Once the "public policy' resource portfolio is developed and the target expanded MIC values are established, the CAISO will perform deliverability assessments in the TPP to identify any network upgrades within the CAISO BAA to ensure the targeted import capacity is deliverable to the CAISO during peak load conditions. To the extent upgrades are necessary to ensure deliverability, those upgrades will be deemed policy driven pursuant to the TPP, and will proceed through the specified tariff process to determine building responsibility and ownership. Costs for any identified upgrades will be recovered through the CAISO's Transmission Access Charge (TAC) mechanism.

The CAISO's proposed expanded MIC process creates another key benefit. The process with determine both how much and when the current MIC quantities at interties to the CAISO BAA can be increased. Some interties may not need any transmission upgrades to obtain expanded MIC values, so MIC can be increased immediately and be available for the 2013 RA compliance year. Other interties may need transmission upgrades to reach expanded MIC values, but some MIC increase may be possible before the upgrades are finished; especially if Remedial Action Schemes are feasible as an interim measure to support expanded MIC values. Some interties may need a mix of upgrades that vary from quick to accomplish, to needing many years to accomplish. The CAISO's proposal will result in an expanded MIC roadmap that will state, by year, how much MIC can be increased until the target expanded MIC is finally reached. The available increases in MIC will allow generators and LSEs to work together to minimize costs for RPS and RA compliance.

<u>SDG&E's Comments</u>

SDG&E supports the scope and direction outlined in the CAISO's Straw Proposal. As previously stated, SDG&E believes this is a vital issue, and appreciates the CAISO's timely decision to tackle it. SDG&E agrees that the current historical-based MIC methodology, and the associated impact on generator capacity value (i.e., RA value), creates a distinct disadvantage for external resources attempting to contract with jurisdictional LSEs inside the CAISO BAA. This paradigm not only disadvantages developers, but if left unchecked would no doubt increase costs for LSEs (and by extension, ratepayers) tasked with satisfying both RPS and RA mandates.

SDG&E does, however, offer the following limited comments on two issues raised during the recent stakeholder meeting. First, the Straw Proposal indicates that the

CAISO will first establish "the base case policy driven portfolio, which at this time includes renewable resources that will be sufficient to meet the state mandate of 33% renewable energy. . ."[1] When questioned about the portfolio selection process at the recent stakeholder meeting, the CAISO indicated it would occur in close consultation with the CPUC, and that stakeholders would have an opportunity to comment. SDG&E wants to stress the importance of transparency in the selection process, and wishes to verify that stakeholders will have a meaningful opportunity for input and comment *prior to* the CAISO and CPUC selecting a particular resource portfolio. If that selection process occurs in the TPP process, SDG&E suggests that notice of the opportunity to comment be made to parties interested in this stakeholder process.

Second, at the recent stakeholder meeting, one commenter noted that some interties have excess MIC, meaning the import capability at those particular interties typically exceeds the LSE nominations at those interties. The commenter suggested the CAISO reduce import capability at those interties, and bestow the reduced amount on interties with zero or low historical MIC values. By generating import capability at affected interties, this redistribution would ostensibly address the issue this process is attempting to resolve. Importantly, by simply redistributing the current total MIC – MIC that is currently deemed deliverable – by the CAISO, this approach likely would not trigger system upgrades.

SDG&E appreciates the efficiency this approach is designed to achieve, but questions whether it could be implemented quickly enough to reduce the contracting uncertainty this proceeding is designed to address. From an operational standpoint, SDG&E doubts the CAISO would be willing to implement such an approach without first determining through studies that the changed distribution of MIC would be simultaneously feasible. From a more practical standpoint, redistributing MIC options and allocations will likely, and rightfully, engender serious stakeholder concern and debate. What interties will be affected? How would a reduction impact an LSE's long-term plans? These are the types of issues the CAISO was actively seeking to avoid when it limited this stakeholder proceeding to the MIC determination process, and left the 13 step allocation off the table. The former requires only changes to the Business Practice Manual, while the latter would likely require lengthy tariff changes.

In the interest of quickly implementing a useful change to the current RA import process, SDG&E's previous comments accepted the limited parameters of the CAISO's initial proposal. SDG&E understands that changes to the MIC allocation process would likely require significant revisions of tariff sections 40.4.6.2.1, slowing this process and further delaying resource development in California. As previously stated, SDG&E believes it is important to keep this process simple, focused, and on target for resolution by the end of this summer given the timing issues associated with the RA program's annual compliance framework. Accordingly, SDG&E continues to support the CAISO's decision to isolate and remedy the discrete barriers to purchase power contracting that initiated this process.

[1] April 6, 2011 Straw Proposal *Deliverability of Resource Adequacy Capacity on Interties* at p. 14.

That said, it is hard to ignore the possible efficiency gains that could arise from assessing unused MIC prior to triggering costly upgrades. As an alternative to the reallocating unused MIC – an approach that could indefinitely mire this process in MIC allocation discussions – SDG&E suggests the CAISO use the deliverability study process to assess the impact of historically-unused MIC on the need for upgrades to achieve 33% RPS, while leaving the current MIC allocation processes and amounts intact.