

**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 2016 and 2017 Compliance Years

Rulemaking 14-10-010
(Filed October 16, 2014)

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

I. Introduction

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the California Independent System Operator Corporation (CAISO) files these reply comments regarding the proposed *Decision Adopting Local Procurement and Flexible Capacity Obligations for 2016, and Further Refining the Resource Adequacy Program (Proposed Decision)*. The CAISO addresses the initial comments: (1) opposing the Proposed Decision’s acceptance of the CAISO proposal to cap local resource adequacy (RA) requirements in monthly RA showings at system requirements within a Transmission Access Charge (TAC) area,¹ (2) requesting clarification of treatment for prescheduled qualifying facility resources,² (3) opposing the elimination of proxy data for wind and solar outages for 2016,³ and (4) asserting identified reliability benefits impacts of two-hour RA resources.⁴

¹ Western Power Trading Forum (WPTF), Calpine Corporation (Calpine), NRG Energy (NRG) and the Independent Energy Producers Association (IEP) opposed the Proposed Decision’s acceptance of the CAISO’s proposal.

² Responding to the comments of San Diego Gas & Electric Company (SDG&E) and the Cogeneration Association of California (CAC).

³ Responding to comments by WPTF, NRG, IEP, and Calpine.

⁴ Responding to comments by SolarCity Corporation (SolarCity).

Discussion

A. The Proposed Decision Appropriately Caps Local RA Requirements at System Requirements within a TAC area.

WPTF, Calpine, NRG, and IEP oppose the Proposed Decision's acceptance of the CAISO proposal to cap local RA requirements in monthly RA showings at load serving entity (LSE) system requirements, asserting that the proposal would degrade local reliability. This is inaccurate. The system level RA requirement ensures that, for any given month, an LSE will have adequate resources to meet its entire load plus a reserve margin of 15%. Need for local capacity for reliability purposes can never exceed an LSE's system level requirement in the TAC area because it is impossible for the CAISO to need more local capacity to reliably operate an LSE's service territory than is required to meet all of the load in the LSE's service territory plus 15 percent.

Further, DACC and PG&E support language in the Proposed Decision "requesting the [CA]ISO consider monthly or seasonal local requirements." The CAISO remains committed to working with the Commission and the California Energy Commission to ensure consistent and agreed-upon input assumptions for all planning studies. The CAISO agrees with Southern California Edison Company (SCE) that seasonal local RA requirements present significant implementation challenges and "implementing these changes could radically affect the local RA process in a manner that, in the end, could result in minimal or counterproductive benefits."⁵ A seasonal local capacity requirement study would not provide any purported cost savings. Resources must still recover fixed costs regardless of the length of the local capacity contract. By establishing an annual RA requirement, the system benefits by having the resource available for the entire year rather than just a season. For example, under an annual contract, the resource will be available as replacement or substitute capacity in months where it is not reflected in an RA plan. If a resource is only contracted for a season, it must still recover its fixed costs and it will recover them in that season instead of the entire year. This will not reduce overall costs, but it will decrease the length of the resource's commitment obligation from 12 months to five. By performing local capacity requirement studies during peak conditions, the CAISO is able to assume that all lines and resources are "in-service" because this better reflects peak load conditions. This is a critical assumption to ensure a reasonable and reproducible planning study.

⁵ SCE Comments, p. 3.

If the CAISO begins performing local capacity requirement studies on a seasonal basis, the CAISO cannot reasonably assume that all lines and resources are in service. Rather, the CAISO would have to make assumptions about the topology of the grid, which resources and lines are in or out, and at what available transfer capability, well in advance of knowing what lines and resources will actually be in service. Actual conditions could render the assumptions incorrect, potentially resulting in shortages of local capacity. This serious risk to reliability does not exist today.

B. The Commission Should Clarify Treatment of Qualifying Facility⁶ Resources for Qualified Capacity (QC) Purposes.

The CAISO requests that the Commission clarify that its use of the term “dispatchable” as it pertains to the Pacific Gas & Electric Company (PG&E) proposal to modify the QC definitions to allow RA resources that are capable of operating in accordance with day-ahead and pre-day-ahead scheduling instruction, but are not fully capable of responding to real-time dispatch instructions, to be given a QC value based on Pmax, rather than based on historical output. The Proposed Decision states that “a facility may be defined as dispatchable for QC purposes if the facility can bid or submit a schedule in the day-ahead market, even if the facility cannot bid or be dispatched economically in the real-time market fully and without any restrictions.”⁷ The Proposed Decision is unclear as to what constitutes dispatchable through a self-schedule. To be dispatchable as a self-scheduled resource, the dispatch instruction should come only *after* that self-schedule clears the CAISO’s day-ahead market.

CAC’s comments show the importance of this distinction and demonstrate that pre-dispatch resources are not operationally “dispatchable” in the CAISO markets. CAC seeks explicit recognition that a determination of dispatchability for QC purposes “shall not imply that [pre-scheduled resources] are capable of responding to dispatch instructions or are otherwise ‘dispatchable’ for any regulatory or operational purpose.”⁸ The fact that the CAISO has the ability to “dispatch” these resources for significant events, as it does for all resources (including wind and solar), does not mean pre-dispatched resources should be treated as “dispatchable” for QC purposes. CAC’s assertion supports the CAISO’s position reflected in its initial comments

⁶ The CAISO notes that its initial Comments on the Proposed Decision inaccurately referred to “combined-heat and power” resources where it should have referred to “qualifying facilities.”

⁷ Proposed Decision, p. 25.

⁸ CAC comments, p. 3.

that pre-dispatched resources are being dispatched to the levels that represent a combination of their output capability and their benefit to the system, which should be accounted for in determining the QC value of the resource. Based on this, qualifying facility resources that require dispatch instructions prior to the CAISO day-ahead market should be treated as non-dispatchable resources, and their QC should be calculated using historic output; on the other hand, qualifying facilities that submit bids or self-schedules in the CAISO's day ahead market should receive QC based on historic availability.

SDG&E requests the Commission also clarify that the Proposed Decision only adopts the modifications as they pertain to qualifying facility resources and does not extend generally to other resource types. The CAISO agrees with this clarification and, to the extent the Commission adopts PG&E's proposal, the QC manual should clearly reflect that the definitions should apply only to Qualifying Facility resources.

C. Treatment of Outages Should Not be Deferred or Contingent on Federal Energy Regulatory Commission (FERC) Approval of the CAISO's RA Availability Incentive Mechanism (RAAIM).

WPTF, NRG, IEP, and Calpine assert that the Commission should either defer or condition acceptance of staff's proposal to eliminate the use of proxy data for wind and solar resources on outage on FERC's approval of the CAISO's tariff amendments for the RAAIM. There is no need for the Commission to wait for FERC approval prior to taking action.

Historically, in the RA context, FERC's decisions on RA proposals has typically occurred subsequent to the CPUC's actions on such proposals. In any event, FERC is not ruling on the specific issue before the CPUC, *i.e.*, whether to use proxy data or historical data for wind and solar resources on outage. FERC is only ruling on the different issue of whether wind and solar resources should be exempted from the CAISO's availability incentive mechanism. Indeed, the Proposed Decision recognizes that the need to rely on historical data rather than proxy data arises irrespective of the CAISO's proposal filed with FERC.⁹

⁹ Proposed Decision, p. 24.

D. Current CAISO Data Has Not Demonstrated the Benefits of Two-Hour RA Products.

SolarCity asserts the benefits of two-hour RA products are demonstrable “based on CAISO data.”¹⁰ Although there may be some reliability benefits from RA products that are shorter than four hours, to date, the CAISO has not conducted studies to determine the extent of the possible benefits. Although the CAISO’s net load curves “tend to have shorter duration peak periods than corresponding gross load curves,”¹¹ the RA program, with addition of flexible capacity, is designed to meet both net load and gross load, not one or the other. Further, the RA program was designed based on a four-hour product, in part, to account for the duration of peaks and uncertainty about exactly when peaks will occur. Any benefit from a two-hour RA product must effectively account for these uncertainties.

Respectfully submitted,

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¹⁰ SolarCity Comments, p. 3.

¹¹ Id.