KIRKWOOD MEADOWS
PUBLIC UTILITY DISTRICT

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California Independent System Operation Corporation (CAISO)
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Re: Comments on CAISO's Executive Appeals Committee Hearing - Business Practice Manual Proposed Revision Request 1280

Kirkwood Meadows Public Utility District (Kirkwood) provides these comments as an interested stakeholder in the proposed revision request (PRR) 1280 process and a service provider that would be disproportionately impacted by this broad-brush revision. For the past several months, Kirkwood has been working with CAISO staff to determine a method of accommodating Kirkwood's unique situation. Kirkwood requests that, if the CAISO Executive Appeals Committee (Committee) chooses to implement PRR 1280 that the Board 1) recognize a narrow exception for entities that pose no risk to the bulk electric system and 2) provide CAISO staff and stakeholders with sufficient time to craft this exception prior to implementation of PRR 1280.

Since well before Kirkwood began providing electrical service in 2011, the Kirkwood Valley has been electrically self-reliant. Electric service was provided through on-site diesel generators; however, this resulted in extremely high, unstable electric rates and high levels of particulate matter and nitrogen oxide emissions. Despite these impacts, Kirkwood remained entirely separate from the grid until a fire destroyed the diesel generation facility in 2011.

Following the fire, Kirkwood pursued a two-prong approach to provide power to its community involving replacing the diesel generation and interconnection to the CAISO grid. First, Kirkwood rebuilt a new diesel generation facility capable of supplying 100% of the current and expected power needs for the Kirkwood community. The cost of the new diesel facility, completed in 2012, was $12.5 million.

Second, Kirkwood completed the Out Valley Transmission Line Project. This interconnection project interconnected Kirkwood with the CAISO grid through a radial tap line connected to 115kV lines near Salt Springs Reservoir owned by Pacific Gas and Electric Company (PG&E). All of this was also coordinated with the CAISO, which was going to be the new source of energy for the day-to-day services of Kirkwood customers. But this came at great expense. The cost of the electrical interconnection project - $33.5 million - is born entirely by Kirkwood's approximately 760 customers through their electric retail rates. This results in the highest electric

rates in the state (perhaps in the country); effectively $0.67 per kilowatt hour. The rates are expected to remain remarkably high until the interconnection is paid off in December of 2052.

After interconnection in 2014, Kirkwood's diesel facility was converted to an emergency back-up facility. This facility remains able to provide 100% of Kirkwood's peak power needs in the case of grid interruption. Since Kirkwood sits at the end of a radial line, it is often forced into island mode in the summer months due to PG&E operations, weather events, or maintenance operations, necessitating that the diesel generation facility remain operational and able to provide for Kirkwood's power needs.

Until PRR 1280, Kirkwood has operated under an arrangement with CAISO that permitted Kirkwood's unique situation to satisfy Kirkwood's resource adequacy (RA) obligations. This arrangement recognized that Kirkwood's system permitted complete islanding and effectively posed no risk to the electric grid. If PRR 1280 terminates this arrangement, Kirkwood would be forced to procure capacity.[1] This would put the consistency of CAISO's RA rules ahead of mutual agreements that have operated for several years without incident and ahead of the practical realities of Kirkwood's system. Moreover, it would do so for no cognizable benefit, either to Kirkwood or to the CAISO.

Requiring Kirkwood to procure RA resources is impractical. First, Kirkwood is a winter-peaking system, so Kirkwood's demand does not coincide with the times of peak system strain. Additionally, during summer months, Kirkwood's load is 0.5 MW and Kirkwood already expects periods of grid interruption and can electrically separate from the CAISO-controlled grid at CAISO's direction. Thus, Kirkwood's demand poses absolutely no threat to the bulk electrical system generally, or even more immediately to the CAISO. Furthermore, purchasing such small quantities of capacity is difficult and expensive. In investigating this option, Kirkwood has found limited availability and prohibitively high prices. A recent estimate found that purchasing the required capacity could result in a 20% per kW-hour price increase to Kirkwood's already high retail rates.

Since PRR 1280 requires capacity to be shown on supply plans and bid into the CAISO markets, Kirkwood reviewed this option for its diesel generation, either bidding directly or permitting Kirkwood to receive capacity value through demand response facilitated by the back-up generation. The radial line and the PG&E Interconnection Agreement that governs operation of the line were designed specifically to prevent Kirkwood from back feeding electricity into the grid. This was due to concerns about the expense of generating power at the Kirkwood facility and environmental concerns about producing power with diesel. A recent estimate by Kirkwood's electrical engineer estimates an additional cost of $5.8 million to upgrade the power line and substations to allow export of Kirkwood's generation to the grid. While the back-up generation

[1] See *ISO Staff Statement, PRR 1280 August 9 Appeal Committee Hearing*, at 5.

permits Kirkwood to effectively separate from the CAISO grid, Kirkwood does not have the ability to do so within time constraints required to participate in the CAISO market.[2]

Kirkwood's understanding of how CAISO was crediting Kirkwood's system, reflected by the agreement between CAISO and Kirkwood and CAISO's long-standing practice, has resulted in Kirkwood designing its system with those principles in mind. Whatever the merits of PRR 1280's changes for the majority of the CAISO system, CAISO should recognize the disproportionate impact of this change on Kirkwood and Kirkwood's unique system that allows Kirkwood to be completely self-reliant. Kirkwood requests that CAISO consider a narrowly-crafted exemption to recognize Kirkwood's prior understanding with the CAISO and Kirkwood's substantial investments based on that understanding. Such an exemption is rooted in common sense. Indeed, Kirkwood is not part of the problem PRR 1280 set out to resolve. It poses absolutely no threat to CAISO reliability. As such, there must be a recognition that in some instances, exemptions are needed to prevent an unjust or overly-burdensome result. This is clearly the case with respect to the application of PRR 1280 to an entity like Kirkwood.

If this exemption cannot be accomplished in the time before the planned implementation of PRR 1280, Kirkwood agrees with others who have asked that the implementation of PRR 1280 be delayed until issues can be worked through.

Kirkwood appreciates the Executive Appeals Committee's review of these comments and looks forward to further engaging with CAISO staff on developing a narrow exemption recognizing Kirkwood's system characteristics.

Respectfully submitted,

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[2] As part of Kirkwood's Participating Load Implementation Plan, in support of its Participating Load Agreement with the CAISO, Kirkwood requires 60 minutes of notice (24/7) to physically open the 12.47 kV breaker at its KM Blue Substation (KM Blue). KM Blue is unmanned and physical conditions, such as snow, may require this amount of time to perform the manual separation. Reclosure requires the same 60-minute window.