

2. Adjusting the timeline for the monthly RA process.
3. Capping a load serving entity's monthly local RA requirement at its system requirement.
4. Creating a deadline for local regulatory authorities that elect to allocate flexible capacity needs to inform the CAISO of that election.
5. Providing that capacity in a local area procured by a load serving entity as system capacity and not shown as Listed Local Capacity has a system, rather than local, substitution obligation.
6. Modifying and streamlining the RA reporting obligations for small load serving entities.

Regarding the first change, SDG&E recommends that the Commission require the CAISO to amend the proposed tariff provisions governing the deadline for RA capacity to provide substitute capacity to avoid RAAIM charges. On the third change, PG&E urges the Commission to reject the CAISO's capping proposal, claiming it is an inappropriate solution to existing problems regarding how local capacity requirements are set across the year. On the other hand, SDG&E supports the capping proposal. Finally, the CPUC, SDG&E, and PG&E, object to the fifth change—relieving local RA capacity of a local substitution obligation unless it is Listed Local RA Capacity. They argue that the CAISO proposal would: not address an existing inequity or flaw that requires resolution; create an unnecessarily complicated alternative to the status quo; impact the bilateral RA market negatively; increase the CAISO's use of backstop procurement; increase ratepayer costs; and harm reliability. PG&E also offers what it claims is a more appropriate alternative to the CAISO's Listed Local proposal. NRG, in contrast, supports the Listed Local aspect of the September 29 filing because it "better align[s] the capacity substitution process with the category of capacity procured." No

other parties protest or comment upon the September 29 filing, nor does anyone object to the other three distinct proposals contained in the CAISO's six-part filing.

Neither SDG&E, PG&E, nor the CPUC has identified a flaw or gap in the CAISO's September 29 filing, or otherwise demonstrated that the CAISO's proposed tariff amendments are unjust and unreasonable amendments. The Commission should approve the CAISO proposal as filed on September 29.

II. Answer to Comments on Streamlining Outage Evaluation Process for RA Capacity

The CAISO's proposal to streamline the outage evaluation process for RA capacity includes two high-level enhancements: (1) eliminating the often confusing distinction between substitution and replacement capacity when there is an outage on RA capacity; and (2) adjusting the outage coordination process for RA capacity so the scheduling coordinator for the supplier will be responsible for providing substitute capacity regardless of when the outage request is submitted to the CAISO.

SDG&E generally supports these enhancements but expresses concern about one aspect of the proposed new RA outage coordination process. Under the CAISO proposal, the logistics of reviewing proposed maintenance outages will depend on whether the supplier submits the outage to the CAISO more than 25 days before the start of the RA month or less than 25 days before the month. Although some aspects of the outage evaluation process will differ (as described in the September 29 filing), the CAISO proposes in sections 40.9.3.6.1 and 40.9.3.6.2 that in both situations a supplier would have until a deadline established in the Business Practice Manual to provide any substitute capacity needed to avoid RAAIM charges. In the September 29 filing, the

CAISO explained its intent to set the deadline in both cases at eight days before the planned start of the outage.

SDG&E suggests, instead, that the deadline for a supplier to provide substitute capacity where the maintenance outage is submitted at or before 25 days before the start of the month should be specified in the tariff at eight days before the start of the month and proposes to amend section 40.9.3.6.1 accordingly. SDG&E offers two bases for its requested amendment. First, SDG&E claims that proposed section 40.9.3.6.1 (applicable to outages submitted at or before 25 days before the start of the month) “is a significant departure from the CAISO’s proposed policy during the stakeholder process.”⁴ SDG&E constructs a hypothetical example that is meant to show potential problems with the CAISO’s approach and support the conclusion that the load serving entity in their “hypothetical may be unable to procure the sufficient substitute capacity by the deadline”⁵ SDG&E offers an example of a supplier that submits an outage forty days before the start of the RA month. That outage is scheduled for the 10th through 20th day of the RA month. SDG&E is concerned that if the outage is expanded nine days before the start of the month, then there would only be one day left to secure substitute capacity to cover whatever additional substitution may be needed as a result of the expanded outage. Second, SDG&E expresses confusion regarding the “T minus” terminology the CAISO frequently uses to denote deadlines and suggests the CAISO has used it in an inconsistent manner.

⁴ SDG&E protest and comments, at 15.

⁵ *Id.* at 14.

The CAISO addressed SDG&E's first point—that the CAISO proposal is inconsistent with the outcome of the stakeholder process—in detail in its September 29 filing.⁶ The CAISO explained in that initial filing why: it is appropriate to have a single substitution deadline; setting the deadline outside of the tariff provides greater flexibility thus benefitting all parties; the deadline is not a rate, term, or condition that must be identified in the tariff; and the CAISO's proposed deadline is consistent with the policies identified in the stakeholder process.

Further, SDG&E's hypothetical reflects two fundamental misunderstandings of the CAISO proposal. The first misunderstanding is that under the CAISO's proposal the obligation to provide substitute capacity (and the risk of failing to do so) falls in all cases on the supplier, not load serving entity. No suppliers (*i.e.*, the market participants directly affected by this change), or any other party, objects to the CAISO's proposal. The second misunderstanding is that in SDG&E's own example, the supplier (not the load serving entity) that submits an expanded outage nine days before the start of the RA month would still have until eight days before the start of the outage, not the start of the month, to secure substitute capacity. SDG&E's hypothetical is grounded in concern over the time required to negotiate a substitute capacity agreement. Their requested modification, however, provides less time, not more time, for the initial supplier to negotiate a substitute capacity agreement with another supplier. Thus, SDG&E's hypothetical does not support its argument.

SDG&E's second point—that the CAISO has used confusing terminology—is equally unavailing. The nomenclature SDG&E complains of only appears in two section

⁶ September 29 filing, at 14-15.

titles, is used appropriately in those instances, and is not used in any tariff text. By operation of the CAISO tariff's rules of interpretation as set forth in section 1.3.2, those section titles "have no bearing upon the interpretation of any of the rates, terms, and conditions of this CAISO Tariff." In the actual tariff provisions the CAISO explicitly defines the relevant deadlines without using the so-called "T-minus" nomenclature.

In addition to its concerns over the substitution deadline, SDG&E also proposes a clarifying amendment to section 40.9.3.6.1. Regarding an outage submitted at or before 25 days before the start of a month that increases in scope after the 25-day cut-off, San Diego requests that the tariff include the following additional sentence: "The evaluation and substitution requirement of the new outage request will be analyzed under section 40.9.3.6.2." However, section 40.9.3.6.2 is the proposed tariff provision applicable to assessing outages on RA resources submitted less than 25 days before the start of the month. San Diego's proposed amendment changes the evaluation process, and the Commission should reject it. Proposed section 40.9.3.6.1 already states that where the outage increases in scope, the CAISO will treat it "as a new outage request and will assign a new priority date based on when the request to change the outage or derate was submitted to the CAISO." Thus, where the supplier changes the outage less than 25 days before the start of the month, the assignment of the new outage date automatically results in the outage being analyzed under section 40.9.3.6.2. However, where the supplier submits both the outage and the change before the 25-day cut-off, there is no reason to evaluate the outage as if it were submitted less than 25 days before the month. San Diego's proposed amendment would conflict with the above-quoted tariff provision in section 40.9.3.6.1 stating that the new outage priority

date corresponds to the date the change is submitted to the CAISO. It would be counterintuitive and inappropriate to assign an outage priority date at, say 28 days before the start of the month (to correspond with the date the supplier submitted the outage change request) but then evaluate the outage as though it were submitted 24 days before the start of the month.

III. Answer to Comments on Capping Local RA Requirement at the System Requirement in the Monthly RA Process

In proposed section 40.3.2, the CAISO seeks to cap the local capacity a load serving entity must show on its monthly RA plan for a month at its peak demand and reserve margin requirement for that month. The CAISO proposed this change because it agreed with certain load serving entities that argued during the stakeholder process that no reliability need requires load serving entities to demonstrate procurement of additional local capacity in the monthly RA process beyond the level of their peak demand and reserve margin requirements. PG&E is the only intervenor that objects to the CAISO's proposal. PG&E argues that the CAISO's proposal is not justified because it purportedly fails to address the fundamental flaw in how local RA requirements are set. In PG&E's view, this flaw "is the unreasonableness of having a single local RA requirement across all months of the year."⁷ PG&E notes that it "has proposed in the CPUC's RA proceeding to have seasonal Local RA requirements" and requests that the Commission reject the CAISO proposal and provide time "to allow the CPUC to consider this proposal before approving the CAISO's proposal to cap local requirements."⁸ SDG&E on the other hand supports the CAISO proposal and "agrees

⁷ PG&E comments, at 5.

⁸ *Id.* at 17.

with the CAISO that there is no reliability reason why LSEs should be required to procure local capacity beyond the peak demand and reserve margin requirements”

PG&E’s request for more time so the CPUC can consider its proposal ignores the fact that the CPUC already has adopted the CAISO proposal.⁹ Accordingly, rejecting the CAISO proposal would result in a discrepancy in the RA rules, and the potential confusion could be problematic. PG&E is free to raise issues as it sees fit in the CPUC’s annual RA proceeding. If the CPUC changes its rules on local RA nothing would stop the CAISO from proposing further tariff modifications in the future. But that potentiality should not preclude the Commission from approving tariff amendments now that the CPUC approved and supports and that the CAISO has demonstrated are just and reasonable. In any event, even with seasonal local requirements, a load serving entity still could face a circumstance where its system RA requirements exceed its local RA requirements in a given month.

Nothing in PG&E’s comments calls into question the rationale for the CAISO’s capping proposal. As explained in the September 29 filing, the capping proposal addresses an existing flaw that could require a load serving entity to procure more local RA capacity than its entire system-wide procurement requirement. For the reasons stated in the September 29 filing, the Commission should approve the CAISO’s capping proposal as filed.

⁹ *Decision Adopting Local Procurement and Flexible Capacity Obligations for 2016, and Further Refining the Resource Adequacy Program*, Cal. Pub. Util. Comm’n D.15-06-063, at 51-54 (June 25, 2015).

IV. The Commission Should Allow Capacity in a Local Area that is Procured as System Capacity to Provide System Substitute Capacity when on Outage

The CAISO's Listed Local RA Capacity proposal addresses an existing inequity in the RA rules in which a supplier of capacity located in a local area is required to provide substitute or replacement capacity from the same local area regardless of whether a load serving entity procured the resource as system or local capacity. Under these circumstances, capacity in a local area is required to take on the responsibilities of a premium product even if it was procured as a more basic system capacity product. The CAISO's narrowly targeted solution is that capacity in a local area that a load serving entity procures as system capacity will now have the same outage substitution obligations as system capacity. Only capacity that is procured as local capacity will have an obligation to provide a substitute to match the premium product it sold. The CAISO proposes no changes to its backstop procurement authority. Further, the CAISO proposes no changes to its RA validation processes except that where a load serving entity does not meet its local capacity obligation with capacity that has a local substitution obligation, the CAISO will have authority to notify the local regulatory authority of that fact.

The CPUC, SDG&E, and PG&E all oppose the CAISO proposal. These parties argue that the CAISO proposal is an inherently flawed solution for a non-existent problem. They also argue that the proposal will create harmful secondary impacts such as distorting incentives in the bilateral RA markets, increase the CAISO's use of its backstop procurement authority, jeopardize system reliability, and increase ratepayer costs. As explained in the September 29 filing, and as further described below, the concerns over these collateral impacts are misplaced. None of these arguments

supports rejecting the CAISO proposal, which is a reasonable and appropriate response to a legitimate existing flaw in the RA rules.

PG&E offers an alternative proposal it argues the Commission should order the CAISO to use as the starting point of a new stakeholder process to address the issues the CAISO proposal raises. This alternative, which PG&E did not propose during the extensive stakeholder process that preceded this filing, does not bear on the justness and reasonableness of the CAISO proposal and, therefore, the Commission should not consider it.

A. Changing Substitution Rules for Local RA Capacity Appropriately Responds to a Legitimate Equity Issue under Existing Rules

1. *To the Degree it Holds a Burden to do so, the CAISO Has Demonstrated an Existing Inequity under the Status Quo*

SDG&E, PG&E, and the CPUC deny that suppliers face any significant equity issue. SDG&E states that generators in local capacity areas are not forced “to sell their capacity as system capacity, and therefore any alleged ‘inequity’ is produced by supply and demand within local capacity areas and choices made by the sellers.”¹⁰ PG&E frames the absence of an equity issue differently, arguing that the status quo “simply [presents] a higher risk of unavailability penalties for Local RA resources,” which is “consistent with the value Local RA resources provide in addressing transmission constraints.”¹¹ The CPUC states that “the current local replacement requirements are [not] materially flawed but rather that they have functioned and continue to function in a

¹⁰ SDG&E protest and comments, at 3.

¹¹ PG&E comments, at 12-13.

just and reasonable manner.”¹² The CPUC even questions the premise that local capacity is a premium product, stating that the CPUC Resource Adequacy Reports the CAISO cites in its transmittal letter “do not unequivocally support the generators’ and CAISO’s position.”¹³ According to the CPUC, the CAISO has not demonstrated that local resources procured as system “are systematically paid less than other local resources”¹⁴

Contrary to the suggestions of these intervenors, in a section 205 filing the CAISO is not required to show that the existing tariff provisions are unjust and unreasonable; its only burden is to demonstrate that the proposed tariff provisions are just and reasonable.¹⁵ The CAISO clearly has met this burden. That the current rules are unfair to suppliers of local capacity is merely context as to the CAISO’s motivation for presenting its tariff amendments. The relevant question is whether the CAISO’s proposed change is just and reasonable.

Setting that point aside, the CAISO respectfully disagrees with the SDG&E, PG&E, and the CPUC on the equity of the existing rules. The current rules require resources physically located in a local area to take on a higher and more restrictive substitution obligation regardless of whether they have been compensated to do so. As NRG described in its comments, the current rule “effectively turns the lower-priced

¹² CPUC protest, at 1.

¹³ *Id.* at 4.

¹⁴ *Id.*

¹⁵ See *Maine v. Fed. Energy Reg. Comm’n*, 854 F.3d 9, 24-25 (2017) (recognizing that a “dual burden” of establishing an existing rate is unlawful and the new rate is lawful applies under section 206 but not section 205).

system RA capacity into higher-quality, higher-priced local RA capacity.”¹⁶ SDG&E incorrectly states that the only inequity arises from supply and demand in the bilateral market; however, bilateral contracts do not dictate the CAISO tariff rules on capacity substitution. SDG&E, PG&E, and the CPUC seem to support the status quo based on the notion this is the outcome the current rules mandate and that local resources sell their capacity knowing of this obligation. Whether or not the rules are operating as designed says nothing as to whether the rules are designed fairly and correctly. The CAISO posits they are not.

The CAISO acknowledged in its September 29 filing that the CPUC report it cited is based on a limited data set but noted that it was the only data it had available to it to use in a Commission filing.¹⁷ Even though the data set is limited, the data unequivocally demonstrates notable price discrepancies between system and local capacity in Southern California. Further, although the CPUC notes that the limited data set reflected in the report shows the weighted average price of system capacity in northern California to be higher than local capacity, it fails to acknowledge that the average price of local capacity is higher than the average price of system capacity in that region.¹⁸

Even assuming *arguendo* that the data did not show that system and local capacity transact at systematically different prices, that fact still would not negate the

¹⁶ NRG comments, at 2.

¹⁷ September 29 filing, at 25-26, n.50 (*citing* ENERGY DIVISION, CAL. PUB. UTIL. COMM’N, THE 2016 RESOURCE ADEQUACY REPORT (June 2017)). The CAISO possesses more granular data pursuant to a non-disclosure agreement with the CPUC but, under the terms of that agreement, the CAISO is not permitted to utilize the data in support of Commission filings. The CPUC made no attempt in its comments to show that this more granular data undermines the points the CAISO made in the September 29 filing.

¹⁸ *Id.*

reasonableness of the CAISO proposal. Under the existing tariff, a local resource can only substitute with capacity in the same local area. There are significantly fewer options for providing substitute capacity in a local area than there are for providing substitute system capacity from anywhere in the CAISO's footprint.¹⁹ Thus, a local capacity RA resource faces a significantly greater risk of incurring charges under the CAISO's Resource Adequacy Availability Incentive Mechanism when it goes on outage than does a system RA resource. NRG drives home this point in its comments, noting that there are times it has been unable to substitute capacity in a local area when its resources have faced outages.²⁰ The CAISO proposal remedies this situation by better aligning substitution obligations with the type of capacity procured.

2. *The Opponents do not Identify Flaws with the CAISO's Solution*

In some form, SDG&E, PG&E, and the CPUC suggest that the CAISO's existing tariff provisions recognize unit characteristics and the reliability benefits provided by local capacity, but the CAISO proposal ignores those characteristics and benefits. SDG&E erroneously claims that under the CAISO proposal, any local capacity in excess of the local capacity requirement inappropriately loses its local characteristics²¹ and that the CAISO proposal changes the status quo by determining a resource's operational characteristics "based on how successful a seller is in the bilateral market."²² SDG&E refers to this approach as "divorcing a resource's substitution obligations from" its unit

¹⁹ A more restricted product in shorter supply should command a higher price.

²⁰ NRG comments, at 3.

²¹ SDG&E protest and comments, at 5 ("CAISO's proposal assumes that once Local Capacity Area Requirements have been satisfied, any remaining capacity from Local Capacity Area Resources loses its 'local' character").

²² *Id.* at 6.

characteristics.²³ PG&E similarly suggests that the CAISO has created or exacerbated a market design flaw by separating a local unit's substitution obligation from the local reliability benefit it provides.²⁴ The CPUC suggests that the current rules create alignment because any local capacity that is procured as system is treated in the planning timeframe as local capacity through the RA showing process and also treated as local capacity in the operational timeframe because it has a local substitution obligation.²⁵ The CPUC argues that CAISO's proposed change disjoins the present alignment by changing the substitution obligation for some local capacity resources.²⁶

Suggestions that the CAISO ignores a resource's true characteristics either misunderstand or mischaracterize the CAISO proposal. The CAISO proposal in no way ignores a generating unit's physical location or deems a local resource system based on bilateral contracting. For purposes of determining whether there are any deficiencies in local RA procurement, the CAISO will continue to recognize all capacity in a local area as local capacity. As long as a local unit is operating, it retains its local characteristics. The CAISO's proposal does nothing to change that. Thus, as the CAISO made clear in its September 29 filing, the CAISO is not proposing to change its backstop procurement for local RA deficiencies under its CPM authority. The CAISO's proposal merely allows for a different substitution obligation depending on how the resource is shown in the RA showings. A resource shown in the RA showings as Listed Local will have a local

²³ *Id.* at 6.

²⁴ PG&E comments, at 10 ("If adding more 'deemed' system RA leads to improved local reliability, this clearly indicates a market design flaw where resources are providing local reliability but the CAISO's substitution capacity rules do not view these resources as providing a local capacity benefit").

²⁵ CPUC protest, at 5.

²⁶ *Id.* at 5.

substitution obligation; if it is not shown as Listed Local, the resource will not have a local substitution obligation. The CAISO's proposal does not change the resource's operational characteristics; it merely changes a resource's substitution obligations under the tariff depending on how it is shown on RA plans.

PG&E also criticizes the CAISO's proposed departure from the status quo as unnecessarily complex, confusing, and unreasonable.²⁷ The basis of PG&E's complaint is the CAISO's proposal in section 40.7(a) to evaluate local capacity demonstration in two phases – Phase 1, which is based on a unit's physical location and the Phase 2, which is based on whether a local resource also has a local substitution obligation. Importantly, and as explained above, the first phase reflects the status quo and will remain the sole basis of any backstop procurement for RA deficiencies. The only function of the second phase analysis is to determine whether the CAISO should notify the relevant local regulatory authority that one of its utilities met part of its local capacity requirement with local capacity that holds a system substitution obligation. Because the Phase 2 analysis only triggers a potential notification to the local regulatory authority, it is unclear how PG&E can contend that this presents undue complexity, let alone complexity to a degree that renders the CAISO proposal unjust and unreasonable. In any case, complexity or additional burden associated with the CAISO'S Phase 2 analysis would fall solely on the CAISO, not on any other market participant. By submitting this proposal, the CAISO does not believe the Phase 2 process imposes undue burdens or complexity on it. If a local regulatory authority chooses to establish rules regarding Phase 2 deficiencies, and a load serving entity is concerned that such

²⁷ PG&E comments, at 4, 8, & 9.

rules add complexity to the RA process, then any such complexity is not a question of the CAISO tariff's complexity. Furthermore, any such concerns are purely speculative.

B. The CAISO Proposal Will Not Harm the Bilateral RA Market

All three opponents of the CAISO proposal indicate concern that it will impact the bilateral market for local capacity. PG&E expresses vague concerns about “unintended consequences to negotiations between LSEs and generators in the bilateral RA capacity market”²⁸ but offers little insight into the sort of consequences to which it refers. SDG&E explains its concern in more depth, suggesting that a load serving entity without a local requirement in a given local area intentionally will procure capacity in that area as system capacity in an effort to reduce the remaining pool of local capacity to the detriment of the load serving entities that would need to procure that capacity as Listed Local. SDG&E characterizes this as stranding the resource's local attribute. In San Diego's view, when the local capacity procured by an out-of-the-local-area load serving entity is “not included in a year-ahead showing,” the CAISO will assume it is not procured and “would direct LSEs within the local capacity area to procure” that capacity.” Further, in San Diego's account, because the CPM revenues “would go to the original purchasing LSE” there is an incentive to strand local capacity “to exert market power by procuring it as System only capacity and triggering the CAISO to CPM” the procured-but-unshown local capacity. SDG&E argues that a local resource in a constrained area would sell its capacity as system because “in the event of a forced outage, any replacement capacity also would only need to be system capacity. A seller of capacity may rationally take a lower price on the front end if it mitigates a potentially

²⁸ *Id.* at 16.

large cost exposure later.” Separately, SDG&E suggests another reason that local resources would be motivated to sell their capacity as system load serving entities outside of that local area. SDG&E argues that “no one entity knows when sufficient capacity has been procured,”²⁹ so sellers of local capacity fearful of not receiving a RA contract at all once sufficient local capacity has been procured “should be motivated to compete to sell the capacity to other LSEs outside of the Local area rather than receiving no revenue at all.”³⁰

Although the CAISO is unable to respond to PG&E’s unspecified fears of unintended consequences, it can respond to SDG&E. Addressing SDG&E’s hypotheticals raises two key question: (1) could the feared harmful conduct occur under the current rules; (2) would the CAISO proposal increase the likelihood of such conduct. The conduct SDG&E fears, while quite unlikely, could occur under existing rules, and SDG&E has not made a credible case for how the CAISO proposal would increase the risk of that purportedly nefarious conduct occurring. An out-of-area load serving entity today could procure local capacity as system RA. So long as that load serving entity shows the resource on its RA plan, the local attribute would not be stranded because, as is currently the case, the CAISO would account for that capacity before determining whether or not a collective local deficiency exists that justifies a CPM designation. Under these circumstances, the out-of-area load serving entity’s procurement actually benefits the other load serving entity because it reduces the likelihood that there will be a collective local deficiency in the local area that requires the CAISO to procure

²⁹ SDG&E protest and comments, at 5.

³⁰ *Id.* at 5.

backstop capacity. To the extent that a load serving entity procures the capacity with the intention of never showing it on a RA plan, that too can happen today. However, SDG&E fails to explain credibly why its hypothetical load serving entity would have an incentive to squander such out-of-area local capacity. If a load serving entity procures such local capacity as system capacity and makes sure that such capacity is not shown on its RA plan and the supplier does not show it on a supply plan, then that capacity conceivably would be eligible for a later CPM designation. But if such designation were to occur, the payments for the CPM would go to the supplier, not to the load serving entity. SDG&E's hypothetical does not explain how the CPM payments would flow from the supplier back to the load serving entity. Even if that issue were accounted for, SDG&E still fails to explain how the mere possibility that a resource might secure a future CPM designation if a reliability problem arises in the local area would justify the upfront investment of securing such a local unit for an entire year. SDG&E's example also ignores that once a load serving entity has procured sufficient local capacity, any remaining capacity in its local area still holds value as system capacity. SDG&E's and other parties' concerns about withholding of local capacity are pure speculation; no party identified how the CAISO proposal increases the incentive for a supplier holding a portfolio of units in a given local area to withhold some of that capacity to create artificial scarcity. SDG&E also ignores that under the CPUC's RA rules, a load serving entity can seek a waiver of the requirement to satisfy its local capacity obligation if a supplier seeks a price for its capacity in excess of \$40/kW-year.³¹ The CAISO proposal provides

³¹ *Opinion on Phase 2 – Track 1 Issues*, Cal. Pub. Util. Comm'n D.07-06-029, at 38 (June 21, 2007); *Opinion on Local Resource Adequacy Requirements*, Cal. Pub. Util. Comm'n D.06-06-064, at 71-74 (June 29, 2006).

sellers of local capacity more optionality, more alternatives, and allows for greater balance between buyers' and sellers' influence on prices.

C. Intertwined Concerns of Reduced Reliability, Increased Backstop Procurement, and Higher Costs are Misplaced

As anticipated in the September 21 filing, SDG&E, PG&E, and the CPUC raise the intertwined arguments that the CAISO proposal will increase reliance on backstop procurement, reduce reliability, and increase costs to ratepayers.³² The CAISO explained that such fears were not only speculative but also were misplaced and did not justify rejection of the CAISO proposal. Nothing these parties offer in their comments changes that conclusion.

These parties suggest that the CAISO proposal will increase the likelihood that the CAISO will need to use its Exceptional Dispatch CPM authority because some load serving entities will not procure local capacity as Listed Local. They state that when that local capacity goes on outage and is substituted for with system capacity the CAISO is more likely to face a shortage of local capacity in the operational timeframe which the CAISO will have to remedy by issuing an Exceptional Dispatch CPM. Both PG&E and the CPUC express concern that this increases the potential for “leaning” because the costs of such CPM designations will be spread evenly across a broader range load serving entities and not just to the utilities that neglected to procure sufficient Listed Local capacity. The CPUC is concerned these costs will be “primarily borne by the larger investor owned utilities and their bundled service customers.”³³ PG&E argues

³² September 29 filing, at 32-33.

³³ CPUC protest, at 6.

that the “the CAISO is placing undue reliance on the fear of backstop costs . . . because costs of “Exceptional Dispatch CPMs are allocated evenly between LSEs.”³⁴

These claims are speculative. For the possibility to even arise, a resource that is not Listed Local would have to go on outage and be replaced with a system resource. Next, an actual reliability problem would have to occur, and that reliability problem would have to be the result of the local resource being replaced with a resource located outside of the local area. Also, it is speculative that load serving entities will opt not to procure Listed Local Capacity because the cost of any Exceptional Dispatch CPMs will be spread across all load in the applicable TAC area. Such argument ignores that load serving entities still must procure sufficient capacity in the local area to avoid any local RA deficiency or collective local deficiency procurement by the CAISO. Further, to the extent a load serving is allocated costs of an Exceptional Dispatch CPM, it likely would risk paying more in total costs than if it simply had procured sufficient Listed Local capacity to begin with, particularly because the CPM soft offer cap (\$6.31/kW-month) far exceeds even the 85th percentile cost of local RA (\$4.19/kW-month).³⁵ Thus, load serving entities that seek to save on RA procurement costs risk paying more in total if they are allocated Exceptional Dispatch CPM costs in addition paying the costs of the RA they procured.

The leaning concerns expressed by the CPUC and PG&E also ignore that deference to local regulatory authorities is an organizing principle of the CAISO's RA

³⁴ PG&E comments, at 5.

³⁵ ENERGY DIVISION, CAL. PUB. UTIL. COMM'N, THE 2016 RESOURCE ADEQUACY REPORT, at 23 (June 2017).

tariff provisions. This is seen, for example, in the areas of establishing a planning reserve margin,³⁶ setting criteria for “determining qualifying resource types and the Qualifying Capacity from such resources,”³⁷ and assigning Flexible RA Capacity requirements to individual load serving entities.³⁸ In these areas of the RA program, the Commission already has accepted that different local regulatory authorities within the CAISO balancing authority may adopt different approaches for their respective jurisdictional utilities. The centrality of the local regulatory authority in the CAISO’s RA tariff provisions is further reflected by the use of the term “Local Regulatory Authority” approximately 50 times in section 40. If it were not an established precept that the CAISO recognizes the role individual local regulatory authorities play in administering the program there simply would be no reason for the tariff to use the term repeatedly. The CPUC and PG&E have offered no evidence to show that this existing principle of deference has created the sort of problems over which they now express such grave concern. Leaving it to individual local regulatory authorities to determine the extent to which their jurisdictional utilities will have to meet local capacity requirements with Listed Local RA Capacity is thus entirely consistent with the existing architecture of the RA program.

SDG&E and the CPUC question whether Exceptional Dispatch is a sufficient tool to maintain reliability where a local resource is substituted for with a system resource.³⁹

³⁶ CAISO tariff, section 40.2.2.1.

³⁷ CAISO tariff, section 40.2.2.2.

³⁸ CAISO tariff, sections 40.10.5.1(b)(1) & 40.10.5.1(c)(1).

³⁹ SDG&E protest and comments, at 6 (“SDG&E believes that divorcing a resource’s substitution obligations from these factors will make it more difficult—and hence, less likely—to ensure that all Local RA capacity that the CAISO is counting upon to meet reliability needs is actually maintained.”); CPUC

Presumably, they do not trust that the Exceptional Dispatch tool sufficiently maintains reliability in the operational timeframe. There is no basis to such concerns. For years the CAISO has exercised its Exceptional Dispatch CPM authority where necessary to maintain reliability, and there is no reason why it cannot continue to do so successfully.

Finally, these arguments about the alleged harms of the CAISO proposal ignore two key points. First, the primary purpose of the CAISO proposal is to remedy the inequitable status quo. Assuming *arguendo* that some of these problems occur, they must be evaluated in light of the existing problem the CAISO proposal remedies. Second, as the CAISO indicated in the September 29 filing, it will monitor Listed Local RA showings actively and stands ready to immediately commence a new stakeholder initiative to address any systemic issues that may arise.⁴⁰

D. PG&E's Newly-Revealed Alternative Proposal Has No Bearing on the CAISO Proposal

While stating unequivocally that the issues the CAISO proposal seeks to address pose “no inherent equity issue,”⁴¹ PG&E confusingly concedes that the status quo is “clearly restrictive” for suppliers of local capacity.⁴² To address what PG&E presumably considers *equitable over-restrictions* on local capacity resources, PG&E offers up an alternative proposal, not previously shared with the CAISO or the larger stakeholder community during the extensive stakeholder process that preceded this tariff

protest, at 6-7 (“CAISO has argued that its local replacement requirements proposal would not compromise reliability because it can obtain non-RA capacity through its backstop procurement mechanism. However, this does not ensure reliability in the first instance and would not be an efficient means of ensuring reliability in the second, as explained above.”).

⁴⁰ September 29 filing, at 33.

⁴¹ PG&E comments, at 8.

⁴² *Id.* at 7.

amendment filing. PG&E requests that the Commission order the CAISO to use this alternative proposal as the starting point of a new stakeholder process to address the issues the CAISO proposal raises. PG&E describes its proposal as “an alternative proposal that applies a prioritization of outages concept to forced outages that is similar to the CAISO’s current approach to planned outages.”⁴³ PG&E argues that its counter-proposal “greatly limits the potential unintended consequences to negotiations between LSEs and generators in the bilateral RA capacity market.”⁴⁴

It is unquestioned that a party filing a proposed rate under the Federal Power Act need only demonstrate that its proposed rate is just and reasonable; it need not demonstrate that it has proposed the best choice across the range of possible options.⁴⁵ As demonstrated in the September 29 filing and in response to the concerns already discussed above, the CAISO has established that its listed local proposal is just and reasonable. PG&E’s alternative proposal, which PG&E never even raised in the stakeholder process, in no way speaks to the justness and reasonableness of the CAISO proposal, which is the only proposal before the Commission in this proceeding. Further, the CAISO does not understand how PG&E can attack the CAISO’s targeted

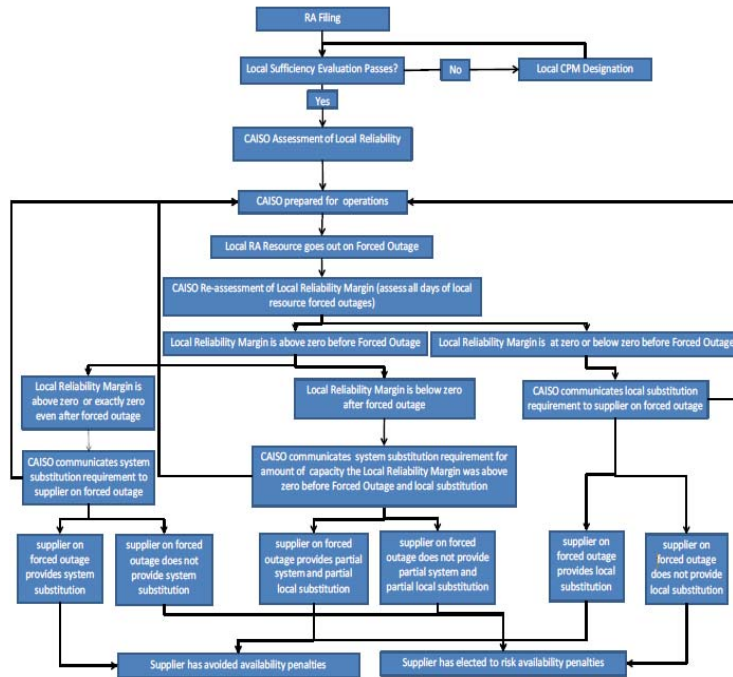
⁴³ *Id.* at 13. PG&E states that its “proposal is similar in concept with SDG&E’s proposed alternative, as described in their protest to this instant proceeding.” PG&E comments, at 13. The CAISO, however, does not see the SDG&E protest and comments as proposing any such newly-developed second alternate proposal.

⁴⁴ *Id.* at 16.

⁴⁵ *Cities of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1981) (“FERC has interpreted its authority to review rates under the FPA as limited to an inquiry into whether the rates proposed by a utility are reasonable — and not to extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs”), *cert denied*, 469 U.S. 917 (1984); *OXY USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (“[T]he Commission may approve the methodology proposed in the settlement agreement if it is ‘just and reasonable’; it need not be the only reasonable methodology or even the most accurate.”).

proposal as being unnecessarily complex, while offering an “Outage Substitution Requirement Assessment” methodology it summarizes in its own diagram as follows:⁴⁶

A proposed flow chart of an Outage Substitution Requirement Assessment



Similar to PG&E’s plea that the Commission delay the CAISO’s capping proposal while the CPUC considers PG&E’s preferred approach, this never-before-seen alternative approach represents nothing more than PG&E’s attempt to delay consideration and adoption of a CAISO proposal it does not prefer, but cannot demonstrate represents an unjust and unreasonable change to the CAISO tariff.

V. CONCLUSION

None of the comments or protests filed in response to the CAISO’s September 29 filing provide a reason for the Commission to reject the CAISO proposal as filed.

⁴⁶ PG&E comments, at 14.

The CAISO proposal represents a just and reasonable modification to the RA program. Accordingly, the CAISO reiterates its respectful request that the Commission issue an order by December 15, 2017, accepting the tariff changes proposed in this docket to be effective February 15, 2018.

Respectfully submitted,

By: /s/ David S. Zlotlow

Roger E. Collanton

General Counsel

Anthony J. Ivancovich

Deputy General Counsel

David S. Zlotlow

Senior Counsel

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

Tel: (916) 608-7007

Fax: (916) 608-7222

dzlotlow@caiso.com

Counsel for the California Independent System
Operator Corporation

Dated: November 13, 2017

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 13th day of November 2017.

Is/ Anna Pascuzzo
Anna Pascuzzo