

4. Load serving entities will not be able to resell between each other the local attribute of a local resource procured initially as system capacity which will lead to the CAISO's increased use of its exceptional dispatch backstop procurement authority.

SDG&E identifies no way in which the CAISO is incurious, indifferent, or oblivious to the likely impacts of its proposal. The CAISO already has addressed and acknowledged in this proceeding the issues SDG&E raises in its November 27 filing.

The CAISO's initial filing in this docket addressed the concern that its proposal may affect existing bilateral capacity contracts.³ The CAISO explained that any existing "bundling" of system and local capacity does not require rejection of the CAISO proposal because resource adequacy (RA) showings can reflect existing contract terms and that a similar issue would have been present when the CAISO transitioned to its RA flexible capacity requirements, yet no systemic problems arose. Regarding a different element of the CAISO proposal, the CAISO also addressed in its initial filing the relationship between regulatory changes and existing contracts.⁴ The CAISO pointed out that changes to the regulatory framework are a known possibility when contracting in a regulated industry and that parties acknowledge the possibility of regulatory change in those contracts. The same factors apply to the CAISO's listed local proposal.

SDG&E's concerns about the possible impact of the CAISO proposal on system capacity prices ignores the motivating factor behind the proposal. The CAISO has explained at length this proposal aims to rectify an existing inequity in its market rules.⁵

³ September 29 filing, at 31-32.

⁴ *Id.* at 13-14.

⁵ *Id.* at 25-26; November 13 answer, at 9-13.

The CAISO also explained in its initial filing that its proposal “will add beneficial transparency . . . to the RA procurement process by lowering artificial barriers for a local resource to transact” outside its local area.⁶ To the extent the CAISO proposal impacts system capacity prices, that impact would be a consequence of addressing existing inequities and increasing market transparency. Additionally, SDG&E has provided no foundation for its claim that any possible price impacts on system capacity would influence the CAISO’s use of its backstop capacity procurement authority and draws no logical or causal connection between these topics.

SDG&E’s statements about how payments made to units procured as backstop capacity flow from its unsubstantiated fear that a load serving entity outside of a local area will procure local resources and then not show them on a resource adequacy plan to restrict the pool of remaining local resources for load serving entities that hold a local requirement in that area. SDG&E views the out-of-area utility as having an incentive to do this because the presence of contracted-but-not shown capacity may trigger CAISO backstop procurement. The funds paid to procure that backstop capacity, in SDG&E’s view, ultimately would flow to the out-of-area load serving entity at the expense of the load serving entities within the local area. The CAISO’s November 13 answer explained why this hypothesized exercise of market power is unfounded, regardless of how backstop procurement revenues might be shared between a supplier and load serving entity.⁷

⁶ September 29 filing, at 31.

⁷ November 13 answer, at 17-19.

Finally, SDG&E suggests that the CAISO has not addressed the possibility that its proposal would lead to increased use of its exceptional dispatch backstop capacity procurement authority. This suggestion is not accurate. The CAISO addressed this point directly in its initial filing and its November 13 Answer.⁸ The CAISO has nothing further to offer on this topic.

The CAISO respectfully requests that the Commission accept this answer to SDG&E's November 27 filing and reaffirms its 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 30, 2017

⁸ September 29 filing, 32-33; November 13 answer, at 20-22.

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 30th day of November 2017.

Is/ Anna Pascuzzo
Anna Pascuzzo