

**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 2019 and 2020
Compliance Years.

Rulemaking 17-09-020
(Filed September 28, 2017)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION REPLY
COMMENTS ON ORDER INSTITUTING RULEMAKING**

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Date: November 9, 2017

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I. Introduction

The Commission issued its Order Instituting Rulemaking (OIR) to oversee the resource adequacy program on September 28, 2017. Interested parties filed comments on the OIR on October 30, 2017. Numerous parties supported an effort to re-examine the basic structure of the resource adequacy program. The California Independent System Operator Corporation (CAISO) agrees with those comments and reiterates its proposal to establish a separate track of this proceeding to address fundamental resource adequacy issues (Track 1). Many of the issues raised in parties’ opening comments can be addressed through this re-examination of the resource adequacy program. The Commission should also maintain a separate track to address annual local and flexible resource adequacy requirements (Track 2), but additional refinements to the current resource adequacy program should be limited.

II. Discussion

A. The Need for Re-Examination of the Resource Adequacy Program

There is broad support for a wholesale re-examination of the current resource adequacy construct.¹ The joint investor-owned utilities (IOUs) comments highlighted the need “to begin discussions in this proceeding on the future of [resource adequacy] in which the CAISO market structure, the [resource adequacy] design, and the state’s policy objectives can be considered simultaneously to arrive at an appropriate outcome.”² Similar to the CAISO’s recommendation

¹ See Joint IOUs’ Opening Comments, p. 3; Office of Ratepayer Advocates (ORA) Opening Comments, p. 2-3; The Utility Ratepayer Network (TURN) Opening Comments, p. 2-3.

² Joint IOUs’ Opening Comments, p. 3.

in its opening comments, the IOUs also recommended the Commission pursue a separate track dedicated to the future resource adequacy program. The CAISO concurs that a separate track dedicated to redesigning the resource adequacy program is critical.

Several parties, including the CAISO, cited the recent increase in reliability must-run (RMR) designations as evidence that the resource adequacy program is failing to secure the operation of resources the CAISO requires to maintain grid reliability and needs to be restructured.³ The CAISO agrees that there is an undesirable disconnect between resources procured through the resource adequacy program and those needed to ensure grid reliability. Contrary to TURN's argument, RMR designations do not "pose[] a longer term threat to the [resource adequacy] program."⁴ Rather, the rapid transformation and nature of the resource fleet and other factors are exposing fundamental inadequacies in the current resource adequacy framework. RMR designations, which are cost-of-service based and thus mitigate market power, are a result of these events, not the root cause, and they highlight the need to comprehensively re-examine the resource adequacy program.

B. San Diego-Imperial Valley and Los Angeles Basin Local Capacity Requirements (LCR)

San Diego Gas & Electric (SDG&E) requests the CAISO separately study and report the LCR for the San Diego-Imperial Valley area and the Los Angeles Basin local area. SDG&E correctly noted that in recent years the CAISO's annual LCR study combined the San Diego-Imperial Valley area with the Los Angeles basin local area to establish an overall local capacity requirement for these areas. By necessity, the CAISO has combined for the purpose of establishing an overall LCR since the permanent closure of the San Onofre Nuclear Generating Station (SONGS). With the retirement of SONGS, the San Diego-Imperial Valley and Los Angeles Basin areas are electrically interdependent. The CAISO conducts individual analyses for both local areas in the local capacity study process, but it also studies combined area requirements because of their electrical interdependence. The CAISO described this study process in the 2018 local capacity report as follows:

³ See Cogentrix Energy Power Management LLC (Cogentrix) Opening Comments, p. 4; Joint IOUs Opening Comments, p. 3; Calpine Opening Comments, p. 4-5; ORA Opening Comments, p. 3; Alliance for Retail Energy Markets (AReM) Opening Comments, p. 2-5; Wester Power Trading Forum (WPTF) Opening Comments, p. 5; TURN Opening Comments, p. 2-3.

⁴ TURN Opening Comments, p. 3.

The SDG&E system, being the southernmost electrical area in the [CA]ISO's southern system and smaller of the overall LA Basin-San Diego-Imperial Valley area, is evaluated first for its LCR needs. The LCR needs for the LA Basin and its subareas are then evaluated after the initial determination of the LCR needs for the overall San Diego-Imperial Valley area. The LCR needs in the overall San Diego-Imperial Valley area are then re-checked to ensure that the initial determination is still adequate. This iterative process is needed due to the interaction of resources on the LCR needs in the LA Basin-San Diego-Imperial Valley area. With this process, the LCR needs for the respective areas are coordinated within the overall LA Basin-San Diego-Imperial Valley area.⁵

The 2018 CAISO local capacity report first identifies the requirements for San Diego-Imperial Valley area (4,032 MW) and the corresponding Los Angeles Basin LCR need associated with the same contingency (7,300 MW).⁶ The report then separately identifies the Los Angeles Basin area LCR need (7,525 MW) based on area-specific constraints.⁷ Based on these figures, the report set the overall combined area requirements at 11,557 MW (*i.e.*, 4,032 MW + 7,525 MW). It is unclear exactly what further studies SDG&E is requesting at this time and what information any such additional studies would provide. If SDG&E continues to believe that additional studies are warranted, it should raise that concern in the CAISO's LCR study process.

C. Need to Limit Refinements to the Current Resource Adequacy Program

The Commission should conduct an independent track in this proceeding to address annual local and flexible resource adequacy requirements. However, the scope of this track should be narrow, and any additional refinements to the existing resource adequacy program should be limited. Any discussion of substantive changes to determining local and flexible capacity requirements should occur through the broader re-examination of the RA program, not in a track that is merely addressing the specific requirements for the upcoming year.

⁵ CAISO 2018 Local Capacity Technical Analysis – Final Report and Study Results, p. 55. (<http://www.aiso.com/Documents/Final2018LocalCapacityTechnicalReport.pdf>).

⁶ *Id.* at p. 56. (“The corresponding LA Basin LCR need associated with this contingency and level of LCR need for the San Diego – Imperial Valley is 7,300 MW.”)

⁷ *Id.* at p.

III. Conclusion

The CAISO appreciates this opportunity to provide comments on the scope of this OIR and looks forward to working with the Commission to re-examine the fundamental principles of the resource adequacy program.

Respectfully submitted,

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