

**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)

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT  
SYSTEM OPERATOR CORPORATION**

Roger E. Collanton  
General Counsel  
Anthony Ivancovich  
Deputy General Counsel  
Anna A. McKenna  
Assistant General Counsel  
Jordan Pinjuv  
Senior Counsel  
California Independent System  
Operator Corporation  
250 Outcropping Way  
Folsom California 95630  
Tel.: (916) 351-4429  
[jpinjuv@caiso.com](mailto:jpinjuv@caiso.com)

Date: October 15, 2019

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**I. Introduction**

The California Independent System Operator Corporation (CAISO) hereby responds to comments provided in this proceeding in response to the *Joint Motion for Adoption of a Settlement Agreement for a “Residual” Central Procurement Entity Structure for Resource Adequacy* (Settlement Agreement).<sup>1</sup>

**II. Discussion**

**A. Multi-Year System and Flexible Resource Adequacy Requirements are Necessary and Proper Elements of Any Central Procurement Proposal.**

In addition to outlining the role of the central procurement entity in meeting local resource adequacy requirements, the Settlement Agreement proposes to establish multi-year system and flexible resource adequacy procurement requirements. Establishing multi-year system and flexible resource adequacy requirements is squarely within the scope of this proceeding and is consistent with Rule 12.1(a). In addition, the CAISO asserts that multi-year procurement requirements for system and flexible resource adequacy are necessary to implement efficient and effective procurement.

**1. Multi-Year System and Flexible Resource Adequacy Requirements Are Within the Scope of this Proceeding.**

Several parties suggest the Commission is prohibited from considering multi-year system and flexible resource adequacy requirements in Track 2 of this proceeding. Southern California

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<sup>1</sup> California Community Choice Association, Independent Energy Producers Association, Middle River Power, NRG Energy, Inc., San Diego Gas & Electric Company, Shell Energy North America (US) L.P., and Western Power Trading Forum (Settling Parties) filed the Settlement Agreement Joint Motion on August 30, 2019.

Edison Company (SCE) and Pacific Gas & Electric Company (PG&E) specifically argue that Rule 12.1(a) prohibits consideration of multi-year system and flexible resource adequacy procurement because these issues are “outside the scope of Track 2 of this proceeding.”<sup>2</sup>

Contrary to these assertions, the January 18, 2018 Scoping Memo of Assigned Commissioner and Administrative Law Judge (Track 2 Scoping Memo) explicitly states that the Commission may consider “issues identified by Energy Division or by parties in proposals submitted by June 6, 2018”<sup>3</sup> in Track 2 of this proceeding. Based on the direction in the Track 2 Scoping Memo, the CAISO advocated for multi-year system and flexible resource adequacy procurement requirements in its September 14, 2018 Track 2 comments. The CAISO specifically argued that “[a]dopting a multi-year procurement framework for all three capacity types—system, local, and flexible—provides significant benefits, which include simplifying multi-year capacity allocations, ensuring more optimal and effective resource procurement, and informing the more fundamental challenge of providing for orderly retirement of non-essential gas-fired generation.” As a result of the CAISO’s proposal, multi-year system and flexible resource adequacy procurement requirements are within the scope of Track 2 of this proceeding.

The CAISO further notes that the Commission’s Decision 19-02-022 adopting a multi-year local procurement requirement did not prohibit consideration of multi-year system and flexible requirements in Track 2, as some parties suggest. Instead, the Commission specifically noted that “the [resource adequacy] procurement issues observed thus far pertain to local [resource adequacy] and therefore, expansion to flexible and system [resource adequacy] is premature and needs to be fully explored.”<sup>4</sup> The Commission also pledged to “continue to monitor and evaluate the multi-year [resource adequacy] program to consider expansion to flexible and/or system resource adequacy in the future.”<sup>5</sup>

Since issuing Decision 19-02-022, the need for multi-year system and flexible resource adequacy requirements has grown. In the Integrated Resource Planning (IRP) proceeding procurement track, the Commission recently released a Proposed Decision requiring 2,500 MW

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<sup>2</sup> *Response of Southern California Edison Company (U 338-E) to Joint Motion for Adoption of Settlement Agreement*, (September 30, 2019), p. 14. *Comments of Pacific Gas and Electric Company (U 39 E) in Opposition to the Joint Motion for Adoption of a Settlement Agreement for a “Residual” Central Procurement Entity Structure for Resource Adequacy*, (September 30, 2019), p. 7, (PGE Comments)

<sup>3</sup> Track 2 Scoping Memo, p. 8. <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M205/K706/205706239.PDF>

<sup>4</sup> *Decision Refining the Resource Adequacy Program*, (February 21, 2019), Decision Number D.19-02-022, p 33.

<sup>5</sup> Id.

of electric system reliability procurement to address shortfalls in the 2021-2023 timeframe.<sup>6</sup> The CAISO’s own studies have confirmed this resource adequacy need with deficiencies beginning in 2020 and growing to 2,300 MW by 2021. In addition, the CAISO provided an operational analysis that demonstrated capacity shortfalls up to 4,700 MW by 2022.

These shortfalls could have been anticipated and prevented by a more robust multi-year system and flexible resource adequacy requirements. Given the changing system conditions since it was issued, it is imprudent and inappropriate to argue that D.19-02-022 prohibits the Commission from considering multi-year system and flexible resource adequacy procurement requirements at this time.

**2. The Settlement Agreement Establishes Multi-Year Resource Adequacy Requirements that Promote Reliability and Provide Flexibility.**

Multi-year resource adequacy procurement requirements for local, system, and flexible resources are an integral component of the Settlement Agreement. The procurement levels established by the Settlement Agreement, as reproduced in Table 1 below, will promote reliability while also providing flexibility to change the state’s resource adequacy fleet to meet greenhouse gas emissions goals.

**Table 1:  
Percentage of Collective RA Requirements Requirement Procured on a Multi-Year Basis<sup>7</sup>**

	Year n-1	Year n-2	Year n-3
System RA	100%	75%	50%
Local RA	100%	100%	75%
Flex RA	100%	75%	50%

California Energy Storage Alliance (CESA) asserts the Commission should not adopt the settlement’s proposed 75 percent local capacity procurement for year three, instead should maintain the existing 50 percent requirement. This request is based on a misunderstanding and should be rejected. CESA states that the proposed requirements “would reduce the opportunity

<sup>6</sup> California Public Utilities Commission, Proposed Decision of Administrative Law Judge Fitch, *Decision Requiring Electric System Reliability Procurement for 2021-2023*, Proceeding Number R. 16-02-007, (September 12, 2019).

<sup>7</sup> Settlement Agreement, Table 1, p. 10.

for new preferred resources to address residual procurement needs by locking more resources over the full three forward years without the opportunity to compete for Year 3 needs.”<sup>8</sup> CESA’s comments appear to be based on a fundamental misunderstanding of the Settlement Agreement and the contractual options available to LSEs. The Settlement Agreement does not prohibit avenues for “new preferred resources to address residual procurement” because it does not require three year contracts, but rather three-year procurement obligations. This means that an LSE could, for example, meet its years one and two obligations with a two-year contract for an existing resource, and meet its year three obligation with a new resource scheduled to come on line in three years (*i.e.* when year three becomes the service year.) Additionally, by leaving a 25 percent open position between years two and three—currently equivalent to about 6,000 MW of total local capacity need—LSEs can additionally meet their residual needs between years two and three with new preferred resources. Therefore, the CAISO believes CESA’s concern is without merit and should be dismissed.

As noted in its opening comments, the CAISO believes the three-year procurement requirements are a reasonable first step toward ensuring near-term reliability but recommends that the Commission reserve the right to revisit the procurement requirements if higher levels are necessary to maintain resources needed for reliability. Currently, the sum total of all local capacity requirements for 2020 is 23,643 MW. If, as the Settlement Agreement allows, 25 percent of the total local resource adequacy requirements are not procured for year three, there will be approximately 6,000 MW of capacity that is uncontracted but necessary for local capacity in year three. Adopting CESA’s proposed 50 percent year-three requirement could leave approximately 12,000 MW of existing operational capacity without capacity contracts more than two years into the future. This lack of certainty jeopardizes reliability by creating an increased risk of unit retirement or deferral of needed major maintenance. The Settlement Agreement strikes a reasonable balance between allowing new, preferred resources to address local capacity needs and ensure existing capacity is financially viable and available and able to meet the CAISO’s local reliability needs. However, if the CAISO or the Commission finds that these

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<sup>8</sup> *Comments of the California Energy Storage Alliance on the Joint Motion of California Community Choice Association, Calpine Corporation, Independent Energy Producers Association, Middle River Power, LLC, NRG Energy, Inc., San Diego Gas & Electric Company (U 902-E), Shell Energy North America (US) L.P., and Western Power Trading Forum for Adoption of a Settlement Agreement for a “Residual” Central Procurement Entity Structure for Resource Adequacy*, (September 30, 2019), p. 6.

percentages are not providing the anticipated reliability, the Commission must reassess them.

### **B. The Settlement Agreement Will Not Cause Ineffective Resource Procurement.**

PG&E argues the Settlement Agreement “provides a suboptimal solution to ensure an effective mix of resources” that could result in load serving entities “leaning” on each other due to less effective procurement.<sup>9</sup> PG&E conflates the concept of “effective” with “available.” PG&E noted that “[f]or purposes of this pleading, PG&E defines ‘effective’ as a resource with high availability and ‘ineffective’ as one with low availability.”<sup>10</sup> PG&E’s use of “effective” as equivalent to “available” is not consistent with local capacity resource planning, nor is it consistent with how the Settlement Agreement defines effectiveness. The Settlement Agreement properly defines effectiveness in terms of a local resource’s ability to address the CAISO’s most significant contingency in a given local area. In each annual Local Capacity Technical Study, the CAISO publishes effectiveness factors for resources in specific local areas.<sup>11</sup> PG&E’s use of “effective” to refer to the duration of output or availability is improper and not consistent with the use of “effective” as it relates to local reliability. The availability issues raised by PG&E are properly addressed by the Commission’s Maximum Cumulative Capacity (MCC) buckets, which limit the amount of availability-limited resources that load serving entities can procure.

Regarding actual effectiveness, the CAISO supports using a simple arithmetic counting methodology to meet local resource adequacy procurement requirements, as is proposed in the Settlement Agreement. As noted above, effectiveness, used correctly, measures the impact a specific resource has on the most stringent contingency in a local capacity area or sub-area. As the CAISO noted in its annual Local Capacity Technical Study, a single resource may impact multiple local areas and/or subareas. Additionally, the effectiveness factor is a measure of the resource’s impact on the most stringent contingency. In some instances, the second most stringent contingency may only be slightly less severe than the most stringent but the same resource may be substantially less effective at addressing the second most stringent contingency. Therefore, the effectiveness factors and local capacity requirements identified by the CAISO are important for ensuring local reliability, but they are not definitive metrics that guarantee local

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<sup>9</sup> PGE Comments, p. 10.

<sup>10</sup> PGE Comments, p. 10, fn 27.

<sup>11</sup> See the CAISO’s most recent local capacity requirement study at <http://www.caiso.com/Documents/Final2020LocalCapacityTechnicalReport.pdf>.

reliability. Alternatives to the current methodology of one-for-one MW accounting for local capacity resources to include a more granular effectiveness assessment would add exponential levels of complexity to the central procurement process and would be unlikely to impact overall reliability in local capacity areas.

### **III. Conclusion**

The CAISO appreciates the opportunity to provide these reply comments and supports the Settlement Agreement as a reasonable step forward in improving the resource adequacy program.

Respectfully submitted,

**By: /s/ Jordan Pinjuv**

Roger E. Collanton  
General Counsel  
Anthony Ivancovich  
Deputy General Counsel  
Anna A. McKenna  
Assistant General Counsel  
Jordan Pinjuv  
Senior Counsel  
California Independent System  
Operator Corporation  
250 Outcropping Way  
Folsom California 95630  
Tel.: (916) 351-4429  
[jpinjuv@caiso.com](mailto:jpinjuv@caiso.com)

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