

**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
TRACK 2 REPLY COMMENTS**

Pursuant to Administrative Law Judge Allen’s August 31, 2018 e-mail ruling, the California System Operator Corporation (CAISO) provides substantive reply comments regarding the adoption and implementation of multi-year resource adequacy requirements.

Questions:

Issue 1: What resources will be procured?

- 1. If a multi-year requirement only applies to local, then the Commission should confirm that it also has a multi-year resource adequacy *showing requirement* for all capacity types.**

The CAISO supports requiring load-serving entities (LSEs) to procure all capacity types, although certain parties have supported focusing on only local capacity procurement. Adopting 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. Additionally, the CAISO reiterates the argument expressed by San Diego Gas & Electric Company:

[f]rom a technical perspective, if capacity is procured as solely Local or System (i.e., the Flexible attribute is not recognized in the transaction), it is not possible to later amend the transaction to provide Flexible; the procurement of Flexible must occur at the time of the transaction. Thus, procuring only Local RA eliminates the fungibility of the capacity product – capacity that could be used for Flexibility purposes would be stranded since the Flexibility attribute was not recognized in the original transaction. Creating a stand-alone multi-year Local resource

adequacy requirement means that LSEs would procure a multi-year Local-only capacity product, without the Flexible attribute.¹

If the Commission adopts only local requirements in this cycle, it should still require jurisdictional LSE's *to show* all system and flexible capacity procured across the multi-year resource adequacy horizon. Additionally, the CAISO recommends the Commission publish forecasted resource adequacy needs across the multi-year procurement horizon to inform LSE procurement decisions. Even if there is no binding system or flexible resource adequacy capacity procurement requirement, this "showing" requirement will have numerous benefits. First, it will provide the Commission with information regarding the capacity procured beyond the local capacity requirements. Second, the showings will allow the Commission to determine which LSEs are conducting multi-year procurement for system and flexible resource adequacy capacity and at what levels. This will help the Commission and the CAISO better assess procurement behavior and trends, and whether to institute firm forward procurement requirements for system and flexible resource adequacy capacity. Finally, from an implementation standpoint, having a showing requirement will ensure that all LSEs develop the necessary systems and reporting processes at the onset so that there will be no need to develop this capability if the Commission later elects to implement firm system and or flexible resource adequacy capacity procurement requirements in the future.

2. The Commission should establish local capacity procurement requirements for each local area and sub-area.

Many parties agree that local capacity area procurement requirements must be more granular to minimize ineffective procurement. To date, no party has clarified how this procurement would actually be achieved. The CAISO recommends the Commission clarify that procurement requirements will be set for each local area and sub-area and that no LSE can lean on over-procurement in one local area or sub-area to compensate for under procurement in another local area or sub-area. For example, if the Commission sets multi-year local procurement requirements for Year 3 at 90 percent and an LSE has 90 MW and 10 MW local capacity requirements in Local Areas A and B, respectively, the LSE could not meet its local capacity requirement by buying 90 MW in Local Area A and 0 MW percent in Local Area B.

¹ June 11, 2018 SDG&E Comments, <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M216/K330/216330821.PDF>, p. 5.

Instead, the Commission should require the LSE to procure at least 81 MW in Local Area A and 9 MW in Local Area B (*i.e.*, 90 percent of the local resource adequacy requirement in each individual local area and sub-area).²

Issue 2: Who will be the central procurement entity?

- 1. The Commission should confirm that the CAISO will not be designated as the central procurement entity.**

Numerous parties continue to recommend the CAISO as their preferred central procurement entity in the Commission's multi-year procurement framework. However, the CAISO reiterates its comments previously stated in the CAISO's August 8, 2018, Comments. Specifically, the CAISO stated:

[T]he CAISO will not voluntarily accept a role as central buyer, and the Commission should explore other options. The CAISO also cautions against over reliance on its capacity procurement mechanism (CPM) as a central procurement mechanism. The CPM was developed by the CAISO and approved by the Federal Energy Regulatory Commission (FERC) as a backstop procurement mechanism, not a primary procurement vehicle.³

- 2. The Commission should name the utility distribution company (UDC) as the initial central procurement entity for each transmission access charge (TAC) area, but should also establish a transition process to a single central procurement entity within five years.**

One of the most challenging questions before the Commission is determining who should be the central procurement entity. The CAISO has affirmatively stated that it will not act as the central procurement entity. However, the need for such an entity is immediate, and the Commission has limited options in the short-term. The CAISO recommends that the Commission adopt Energy Division's proposal to have the UDC serve as the central procurement entity in the near-term. The CAISO notes that in the long-term, as system and flexible capacity become more constrained, this may not be an optimal solution because multiple procurement entities cannot co-optimize system level procurement. This requires a single procurement entity. Therefore, the CAISO recommends that the Commission establish a proceeding to develop a single central procurement entity for all Commission-jurisdictional LSEs within five years.

² These requirements can be addressed through procurement conducted by the central procurement entity, including ERR procurement.

³ http://www.aiso.com/Documents/Aug8_2018_ReplyComments_Track2_RAProgram_R17-09-020.pdf at p. 5.

Once established, the new central procurement entity would take over the resource adequacy procurement functions from the UDCs.

Issue 3: What resources will the central procurement entity procure?

1. The Commission should institute a residual procurement structure.

The CAISO supports a residual procurement role for the central procurement entity. Establishing a residual procurement structure allows LSEs the greatest flexibility to conduct procurement that aligns with state and local objectives, while still ensuring the Essential Reliability Resources (ERR) are procured and available to the CAISO. As noted in the CAISO's testimony, the CAISO will provide a list of ERRs prior to any procurement showings. If most of the resources in an area are ERRs, the LSEs can defer procurement to the central procurement entity. Alternatively, in areas with relatively few ERRs, LSEs can competitively procure non-ERR capacity and/or develop other alternatives, as appropriate. This approach enables a self-regulating system. The Commission should not foreclose opportunities for residual procurement by establishing a full procurement structure.

While certain parties have argued for full local capacity procurement by the central procurement entity, full central procurement would limit LSEs' autonomy to achieve their own unique local policies and objectives. Given LSEs diverse goals and policy objectives, the Commission should not limit LSE procurement options by establishing a full procurement structure. This will allow LSEs to conduct procurement necessary to meet the needs of their customer base, while relying on the central procurement entity to "smooth around the edges" after LSE procurement. This "smoothing around the edges" is one of the primary benefits and efficiencies that a central procurement entity can provide, especially with the proliferation of smaller LSEs operating in the state. Each of these entities can, and should be allowed to conduct some level of procurement on their own to suit their unique local needs. The central procurement entity need only determine whether and how to address shortfalls not addressed by LSE procurement.

To inform this issue, the CAISO will be conducting a study to determine a preliminary list of ERRs by local capacity area and sub-area and will issue this list of ERRs as soon as it is completed.

- 2. The Commission should clarify that existing LSE contracts with ERRs should be offered to the central procurement entity in order to have the ERR contract costs reallocated to other LSEs.**

Certain ERRs may be under contract to an LSE. To the extent an LSE is able to meet its local capacity requirements using only its proportionate share of an ERR, it should offer that ERR capacity to the central procurement entity so that the cost of that ERR in excess of the LSE's proportionate share can be reallocated to other LSEs.⁴ This ensures that no LSE leans on another LSE's ERR procurement, unless the LSE elects to not offer the resource to the central procurement entity.

Issue 4: When will the central procurement entity procure?

- 1. The Commission should shift the resource adequacy year to begin on April 1 starting for the 2020 resource adequacy year.**

In its testimony, the CAISO recommended the Commission shift the annual resource adequacy timeline by three months so that the resource adequacy compliance year begins on April 1. This shift will allow more time to vet results in Commission process, make any necessary backstop procurement and retirement decisions and ensure the LSEs receive full 12-month credit for year-ahead capacity procurement mechanism (CPM) designations, if required. Originally, the CAISO proposed using a 15-month resource adequacy cycle beginning in 2019 to facilitate this transition. Upon further review the CAISO no longer believes a 15-month resource adequacy cycle is necessary. Instead, the CAISO proposes that the Commission start the 2020 resource adequacy cycle on April 1 and rely on monthly showings for January through March of 2020. This approach has two primary benefits over the CAISO's initial proposal. First, the Commission can implement it in the 2020 resource adequacy compliance year. In contrast, the CAISO's initial proposal likely could not be implemented in 2020 because it is now too late to have a 15-month resource adequacy cycle for the 2019 compliance year. By eliminating the need for a longer initial cycle, the Commission could put the new timeline in place by June 2019 for the 2020 resource adequacy cycle. Second, this approach eliminates the need for an overly complex implementation. Making the shift at the onset of multi-year resource adequacy

⁴ The Commission should establish clear rules that any ERR not provided on an LSE showing will be subject to procurement and cost allocation by the central procurement entity (*i.e.*, ERRs cannot be withheld).

requirements means that all procurement could be done on the same time scale, rather than trying to establish a transition between resource adequacy cycles at a later date.

2. The Commission should clarify that all requirements will be reviewed each year and may be subject to change.

Some parties, such as the Alliance for Retail Energy Markets (AREM), argue that the Commission should fix resource adequacy procurement requirements across the entire three-year forward procurement period. The CAISO interprets this to mean that once established, a resource adequacy requirement cannot change over the entire three-year period. This is not acceptable. Energy Division staff notes that local resource adequacy obligations change year to year. These changes are rarely both large and unpredictable, but rather are normal occurrences caused by the general nature of the transmission system, the mix of available resources, and load forecast changes. Therefore, the CAISO believes it is prudent for the Commission to revisit and reassess resource adequacy needs each year and to make potential adjustments to capacity requirements, as appropriate. As noted above, one of the primary benefits of a central procurement entity is it allows an LSE to conduct as much procurement as it expects to need while the central procurement entity can procure capacity for load that may be subject to migration. Finally, if one of the desired outcomes is to minimize the use of CAISO reliability must-run contracts and to allow for orderly retirement, the Commission, at minimum, should request 100% *ERRs and local resources in non-competitive local areas and sub-areas* be purchased across the multi-year procurement horizon.

Issue 5: How will the Central procurement entity procure?

1. The Commission should initially adopt a Request for Offers (RFO) process for central procurement.

For expediency, the CAISO recommends the UDCs act as the central procurement entities as a transition until a more permanent central procurement entity and function can be established. After this transition period, a single central procurement entity established by the Commission and or through legislation would assume the procurement responsibilities for all capacity types. The CAISO recommends the Commission adopt an RFO process administered by the UDCs to satisfy the multi-year resource adequacy requirements because that process is well understood and a core competency of the UDCs. During the transition, the Commission can

determine if a central procurement entity should pursue alternate procurement options or if there are means to enhance the transparency of the RFO process.

Issue 6: Is there a need for a transition period?

- 1. The Commission should commence multi-year local resource adequacy requirements and system and flexible resource adequacy showing obligation starting in 2020. No transitional period is required.**

As noted above, the CAISO's approach allows multi-year procurement to begin without delay. It notes that some of the functions or methods may transition over time (e.g. transitioning from the UDCs to a single central procurement entity); however, there is no need to delay and ramp-in a multi-year procurement framework over time. It can be accomplished by the 2020 resource adequacy compliance year, understanding it will be refined over time.

Respectfully submitted,

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