

**California Department of Water Resources State Water Project
Comments on
California ISO Report on Basis and Need for
CPM Designation for Sutter Energy Center**

December 16, 2011

California Department of Water Resources State Water Project (SWP) appreciates the opportunity to provide comments on the California Independent System Operator (CAISO) proposal entitled, “California ISO Report on Basis and Need for CPM Designation for Sutter Energy Center” dated December 6, 2011. SWP respectfully submits following comments to the CAISO on its proposal:

Planning in advance for grid reliability is prudent

SWP supports the CAISO efforts in enhancing grid reliability for current and the future years. SWP understands, with the 33% RPS goal in California by 2020, maintaining the grid reliability could be challenging to the CAISO because of a need for more unconventional reserves to address variable resources’ output following needs.

Proposed process to procure capacity for 2017 is inconsistent with tariff authority

The current Resource Adequacy (RA) mandate requires capacity procurement only one year in advance. There is no multi year RA commitment requirement in the existing provisions, and particularly no authority to use customer monies to pay a generator a high, non-cost-based rate for energy or capacity that is not currently needed.

The proposed capacity procurement of Sutter Plant for 2017/2018 as a part of RA process is a flawed approach. According to the proposal, the Sutter Plant would be paid for Capacity Procurement Mechanism (CPM) designation under risk of retirement, initially for 2012 RA compliance year with an expectation of a need for its availability in 2017/2018. The CAISO will reassess, in the subsequent years, its need for 2017/2018, and may

procure under CPM designation for risk of retirement, for all subsequent years (2013-2017/2018), should the Sutter Plant meet criteria under tariff section 43.2.6. This approach would have the CAISO make a non-market capacity purchase for all the subsequent years, making it a multiyear commitment.

SWP acknowledges the need to identify resource needs for future years in accordance with Federal and State energy policies. However, SWP opines that such future need of resources should be procured through an appropriate and recognized process. Resources needed for next 10 years are determined by the Long Term Procurement Planning (LTPP) under California Public Utilities Commission (CPUC) and procurement of such resources should be done through the same process.

Proposed procurement process could produce unintended results

The CAISO states in its proposal, “The ISO has determined that if the Sutter plant shuts down in 2012, there will be a capacity gap of 3570 MW by the end of 2017, which will pose significant challenges to the reliable operation of the CAISO grid. The CAISO has determined that it must take immediate action to avoid these reliability and operational issues in the future.”

Establishment of this procurement as a precedent would incentivize other generators that similarly lack capacity contracts to assert the intention to retire plants unless they receive high, non-competitive and non-cost-based CPM payments.

Instead, the CAISO should promote an efficient market mechanism for such capacity procurement. And if market mechanisms are unavailing, the CAISO should ensure just and reasonable rates through a cost-based rate determination, consistent with regulatory requirements.

Capacity needs should be clearly defined and established as “upfront standard”

The CAISO makes following statements:

“The Sutter plant can be dispatched by the CAISO and has *flexible ramping capability* that allows discrete portions of its capacity to be dispatched as needed to satisfy demand.”

“The CAISO has conducted analysis, including technical assessments that project that the Sutter plant will be needed for reliability purposes, specifically for its *operational characteristics*, in the 2017/2018 time frame.”

“The CAISO’s analysis does address operational flexibility requirements with specific consideration to the *non-generic operating characteristics* of the Sutter plant and how that plant is needed for system reliability.”

The Sutter plant is described as having attributes of flexible ramping capability, operational characteristics or non-generic operating characteristics, et cetera. The results of the CAISO’s analysis on page 8, indicates “Flexibility” representing Load Following, Upward A/S and Load Following shortages. CAISO should clearly define what the “generic” and “non-generic” capacity mean and establish such capacity need as “upfront standard” for each type by years in the 10 year planning horizon under the CPUC’s LTPP process.

The CAISO should rely on the CPUC’s LTPP process to identify operational characteristic needs and procure needed capacity

The scope of CPUC’s LTPP Phase I of R.08-02-007 included:

- (1) **Track I** will identify California Public Utilities Commission (CPUC)-jurisdictional needs for new resources to *meet system or local resource adequacy* and to consider authorization of IOU procurement to meet that need, *including issues related to long-term renewables planning and need for replacement generation infrastructure to eliminate reliance on power plants using once-through-cooling (OTC)*.
- (2) **Track II** will address the development and approval of individual IOU "bundled" procurement plans consistent with §454.5.
- (3) **Track III** will consider rule and policy changes related to the procurement process which were not resolved in R.08-02-007,

The CAISO states, “In the case of the 2017/2018 assessment the assumed availability of resources is based on the California Public Utilities

Commission (CPUC) Long-Term Procurement Plan (LTPP) planning assumptions rather than the RA resource procurement.” This clearly indicates that the requirement to procure capacity from Sutter for 2017/2018 should have been a part of the LTPP Track I. Moreover, the main driver of such procurement is the 33% RPS goal by 2020 which is an element of Track I. To the extent Track I did not capture Sutter inadvertently, Track I should be revisited and Sutter should be enrolled, if needed, rather than through an inconsistent RA process.

Efficient market mechanism for backstop is a must

Should the CAISO adopt backstop procurement not captured in the long-term planning process, a long term capacity market mechanism would benefit all stakeholders. SWP recognizes that the CAISO is committed to this initiative. Further, SWP’s standpoint is that both, short and long term, planning processes should identify temporal needs and allocate costs based on temporal use.

SWP recognizes that LTPP process Evaluation Metric Calculator defines 36 Market Balancing Periods consisting of peak, off-peak, and shoulder for 12 months. Procurement costs due to a capacity need during these time periods should be allocated based on the usage during the same time period.

Costs of special operating characteristics needed for renewable resources should be allocated to those resources—and not socialized to loads

The CAISO should not make loads bear the costs to integrate renewable resources, but rather should adhere to its own Department of Market Monitoring conclusion, in its annual report to FERC, that

the costs of any additional products needed to integrate different resources should . . . be allocated in a way that reflects the reliability and operational characteristics of different resources. This will help ensure proper price signals for investment in different types of new resources. For example, if new ancillary services or other products are specifically procured to mitigate the impacts of intermittent renewable

resources, the cost of these additional products should be allocated to these intermittent resources.”