

COMMENTS OF THE CALIFORNIA DEPARTMENT OF WATER RESOURCES

STATE WATER PROJECT

November 16, 2010

The California Department of Water Resources State Water Project (SWP) appreciates the opportunity to comment on the Capacity Procurement Mechanism Draft Tariff Language, dated November 9, 2010 and posted on the CAISO website. SWP respectfully submits following questions and comments:

43.2.6 Capacity At Risk Of Retirement Needed For Reliability, subsection (5) indicates that the resource owner submits request for CPM procurement. Does the CAISO first need to inform this resource owner that its resource would be needed under the risk of retirement CPM prior to the submittal of request for CPM? Would this condition be better if modified to “ISO informs such owner and the resource owner submits the request for CPM”.

43.2.6 Capacity At Risk Of Retirement Needed For Reliability states “The CAISO shall post the report on the CAISO’s Website and allow an opportunity of no less than seven (7) days for stakeholders to review and submit comments on the report”. What happens if the stakeholders do not agree with the CAISO procurement proposal? What steps are contemplated to reconcile stakeholder views with a CAISO decision whether to pursue capacity procurement?

43.4 Selection of Eligible Capacity under the CPM, subsection (5) states that criteria for resource selection include “whether the resource is subject to restrictions as a Use-Limited Resource”. CAISO application of this criterion should be clarified. Does this mean that non-Use Limited Resources (non-ULR) have priority over ULR? Does this also mean that ULRs are not qualified for CPM?

43.8.7 Allocation of CPM Costs For Resources At Risk of Retirement Needed for Reliability indicates that allocation of CPM costs is based on the LSE’s actual TAC area load share percentage. Does the actual load as used for determining this allocation correspond to on-peak period or for the whole month? Given that RA obligations to acquire capacity are based on the need to meet peak loads, on-peak period load would be a better factor for allocation of CAISO-acquired capacity than socialization over total load in a TAC area. Because CAISO tariff provisions establish LSE capacity obligations in terms of contribution to coincident peak (§§ 40.2.2.3, 40.2.3.3), and generators’ capacity requirements are measured in on-peak period performance (e.g., § 40.9.3), allocation based on loads’ contribution to peak would reflect cost causation more accurately.

A decision to avert generator retirement via CAISO backstop capacity purchases is one of system planning. It is not a short term capacity purchase to address an unexpected emergency situation. In this respect, CAISO CPM costs associated with resources at risk for retirement fall into the

same category as Resource Adequacy backstop procurement, which anticipates resources needed to meet coincident peaks of the system.

Allocation of the cost of CAISO capacity procurement from resources at risk of retirement should be based on contribution to coincident peak loads in order to be consistent with the CAISO's allocation of RA local area resources procurement responsibility. This responsibility is applied "to all Scheduling Coordinators for Load Serving Entities that serve Load in the TAC Area in accordance with the Load Serving Entity's proportionate share of the LSE's TAC Area Load at the time of the CAISO's annual coincident peak Demand set forth in the annual peak Demand Forecast for the next Resource Adequacy Compliance Year as determined by the California Energy Commission." (§ 40.3.2)

The CAISO also allocates costs of its backstop procurement to address shortfalls using this coincident peak method (§ 43.7.3). SWP is aware of no reason for a departure from this approach when allocating an anticipated shortfall attributed to generator retirement.

The following are the tariff provisions on allocation of obligation based on coincident peak share:

43.7.3 Collective Deficiency In Local Capacity Area Resources

If the CAISO makes designations under Section 43.1.2 the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs serving Load in the TAC Area(s) in which the deficient Local Capacity Area was located. The allocation will be based on the Scheduling Coordinators' proportionate share of Load in such TAC Area(s) as determined in accordance with Section 40.3.2, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43.1.2.1 on a proportionate basis, to the extent of their additional procurement.

40.3.2 Allocation Of Local Capacity Area Resource Obligations

The CAISO will allocate responsibility for Local Capacity Area Resources to Scheduling Coordinators for

Load Serving Entities in the following sequential manner:

*(a) The responsibility for the aggregate Local Capacity Area Resources required for all Local Capacity Areas within each TAC Area as determined by the Local Capacity Technical Study will be allocated to all Scheduling Coordinators for Load Serving Entities that serve Load in the TAC Area in accordance with the Load Serving Entity's proportionate share of the LSE's TAC Area Load at the time of the CAISO's annual coincident peak Demand set forth in the annual peak Demand Forecast for the next Resource Adequacy Compliance Year as determined by the California Energy Commission. Expressed as a formula, the allocation of Local Area Capacity Resource obligations will be as follows: $(\sum \text{Local Capacity Area MW in TAC Area from the Local Capacity Technical Study}) * (\text{LSE Demand in TAC Area at CAISO annual coincident peak Demand}) / (\text{Total TAC Area Demand at the time of CAISO annual coincident peak Demand})$. This will result in a MW responsibility for each Load Serving Entity for each TAC Area in which the LSE serves Load. The LSE may meet its MW responsibility, as assigned under this Section, for each TAC Area in which the LSE serves Load by procurement of that MW quantity in any Local Capacity Area in the TAC Area.*

(b) For Scheduling Coordinators for Non-CPUC Load Serving Entities, the Local Capacity Area Resource obligation will be allocated based on Section 40.3.2(a) above.