

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



To: CAISO

From: Kevin Dudney – kd1@cpuc.ca.gov
Elizabeth Dorman – edd@cpuc.ca.gov

Re: CPUC Staff Comments Regarding Standard Capacity Product Phase II
Straw Proposal

On January 26, 2010 the CAISO held a workshop on their Standard Capacity Product II (SCP II) Straw Proposal, published on January 19, 2009. An issue paper was published on December 4, 2009 and comments were submitted by the CPUC staff on December 21, 2009. On January 27 and 28, 2010 the CPUC held a workshop to discuss recent proposals made in R.09-10-032, the current Resource Adequacy (RA) proceeding. Many of the proposals addressed the SCP replacement obligation issue as well as the SCP for exempt resources, and the CAISO staff presented the SCP II Straw proposal.

The CPUC Staff's comments on the SCP II issue paper requested that the CAISO include the replacement rule obligation for scheduled outages in the scope of the SCP II initiative. Additionally, the CPUC staff suggested that an appropriate fix to the double counting of forced outages issue could be using the 'Historical Output Correction' methodology that was adopted in D.09-06-028 to correct historical data for scheduled outages.

The CPUC staff thanks the CAISO for accommodating stakeholders' suggestions to consider the outage replacement obligation and incorporating the issue into the scope of the SCP II initiative. In the January 27 workshop at the CPUC, parties generally expressed support for the concept of transferring the replacement obligation to RA suppliers via the CAISO tariff. Participants also discussed the alternative concept of

eliminating the replacement obligation all together (i.e. instead of shifting the obligation to suppliers); some parties indicated that this could be done based on the current Planning Reserve Margin while others suggested that the Planning Reserve Margin should be higher in off peak months to allow for scheduled outages. Based on workshop discussions, Staff believes that most parties expressed that transferring the replacement obligation to suppliers is the more viable option.

Staff understands the basic concept of the replacement obligation on suppliers would work as follows:

1. Load Serving Entities continue to submit RA filings, listing specific resources, but are not held to a replacement obligation for outages.
2. An RA supplier requests a scheduled outage, and either:
 - a. Suggests acceptable replacement capacity by noting this replacement on its supply plan, or
 - b. Does not suggest replacement capacity; in which case the CAISO may (at the CAISO's discretion) do one of three things:
 - i. Deny or reschedule the outage,
 - ii. Approve the outage and procure replacement using Interim Capacity Procurement Mechanism (ICPM), or
 - iii. Approve the outage without procuring replacement.
3. The Load Serving Entity's RA filing is not affected by the choices of the RA supplier and the CAISO, regardless of the outcome of these choices.

This decision process raises a number of questions, which were discussed in the workshop:

1. What is the definition of "acceptable replacement capacity" for system RA resources?
2. What is the definition of "acceptable replacement capacity" for local RA resources?
3. Is it possible for LSEs that are long on local RA (and required by the CPUC's decisions requiring LSEs to report all local resources) to designate certain local resources as being "available" for use as replacement capacity, even though they are shown on an RA filing as an RA resource?

4. What timing concerns are raised by this process? Does a resource need to be defined as an RA resource (or not) before scheduled outages can be requested, i.e., can scheduled outages be requested for a period before RA supply plans for that period are due?
5. ICPM may expire during 2011; how will this process work using a different backstop mechanism?
6. If backstop procurement is used to procure replacement capacity for a scheduled outage, how is the cost allocated? Is it allocated exclusively to the original RA supplier? Does this allocation method require Tariff changes? If multiple scheduled outages collectively require replacement capacity, how would the cost be allocated among the suppliers?
7. How will the CAISO make the choice of whether to procure replacement generation? For example, should there be a minimum outage duration for replacement? Will there be local area and/or effectiveness analysis and/or standards?
8. Is it possible for the CAISO to designate cases that do not require replacement capacity in advance to avoid unnecessary procurement?

The CPUC staff suggests that the CAISO should seek to clarify the answers to all of these questions in the February 11 Draft Final Proposal. The CPUC staff believes that in many cases, replacement capacity may not be necessary and encourages the CAISO to develop answers to the questions above that avoid unnecessary procurement. Parties at the CPUC workshop expressed concern about the CAISO's proposal to apply this replacement rule to all RA resources without a grandfathering allowance. Thus, the CPUC staff encourages the CAISO to pursue a grandfathering allowance similar to the FERC-approved grandfathering included in the initial SCP filing. Some parties suggested that intermittent resources (combined heat and power; wind and solar) should not be subject to the replacement obligation. The CPUC staff believes that because of the intermittent nature of these resources, it is less likely that a scheduled outage of one

of such resources would lead to replacement procurement, and the CPUC staff therefore suggests that the CAISO should seek to clarify this point.

Additionally, the CPUC staff thanks the CAISO for deferring the demand response issues from the scope of SCP II and suggesting that they get taken up in another stakeholder process that is more specific in dealing with demand response issues. As the CPUC staff noted in comments on the Issue Paper, the CPUC staff understands that there are many active discussions on demand response topics and that many parties have expressed that some of these other demand response discussions should be resolved before SCP is extended to include demand response resources. The CPUC staff looks forward to continuing to collaborate with the CAISO on this important and complex effort.

The CPUC staff generally supports the Straw Proposal in extending the SCP to cover resources for which their Qualifying Capacity is determined based on historical production data. The CPUC staff suggests that the CAISO continue to explore what outage data is available from these resources to clarify the discussion in Section 4.1.2 of the Straw Proposal. Parties at the workshop and in filings in R.09-10-032 have raised questions about the means of calculating availability for wind and solar resources.¹ The CPUC staff believes that it is critically important that the detailed methodology be specified in the draft final proposal.

Finally, the CPUC staff supports both of the clarifications noted in Section 4.4 of the Straw Proposal. The first clarification is to remove the phrase “non-ambient de-rates” from the existing SCP tariff; this change has been suggested by parties in the R.09-10-032. The second clarification confirms that any SCP charges that are retained by the CAISO after Availability Incentive Payments are paid should be returned to aggregate CAISO load.

¹ See the California Wind Energy Association’s proposal, pg 9.