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Submitted by	Company	Date Submitted
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Re: Comments on Temporary Shutdown of Resource Operations, Draft Final Proposal

Earthjustice and Sierra Club submit the following comments on the Draft Final Proposal for the Temporary Shutdown of Resource Operations Initiative (“TSRO Initiative”). The TSRO Initiative would create a new mechanism to determine whether existing gas-fired generation that has not received a Resource Adequacy (“RA”) contract is nonetheless needed to ensure grid reliability. Under the Draft Final Proposal, CAISO would make this reliability determination by applying criteria that appear to exceed that used to determine RA requirements through a process devoid of transparency and any opportunity for public input. In addition, because resources that CAISO determines are needed for reliability under the TSRO Initiative would receive capacity payments far in excess of what the resource would likely receive for capacity under the RA program, the TSRO Initiative creates a significant incentive for gaming.

California’s RA program was created to ensure the availability of the resources needed for grid reliability. By creating a new process where additional reliability analyses are done behind closed doors using a standard that has not been publicly vetted, the TSRO initiative threatens to destabilize the RA program and increase ratepayer cost with little corresponding benefit. To the extent the RA program is not properly capturing the resources needed to meet reliability needs, changes should be considered in that proceeding rather than through the imposition of an additional CAISO process. Notably, the Order Instituting Rulemaking (“OIR”) for the RA Program the CPUC approved in its September 28th Voting Meeting specifically notes that “[g]iven the passage of time and the rapid changes occurring in California’s energy markets, it may be worthwhile to re-examine the basic structure and processes of the Commission’s RA program.” Rather than adopt the TSRO Initiative, CAISO should work with the CPUC to explore improvements to the RA program that better ensure the appropriate suite of resource are contacted with to meet California’s reliability needs.

1) The Criteria CAISO Would Apply to Determine Whether a Resource is Needed for Reliability is Not Clearly Defined and Appears to Exceed Established Planning Standards.

In conducting a reliability assessment for a resource making a TSRO request, the Draft Final Proposal states that CAISO “will also check to ensure that the requested temporary shutdown does not reduce available system capacity to a level below what CAISO operations expects is needed to maintain reliable operation. This additional margin will be based on CAISO’s assessment of expected operating conditions, including up to a 1-in-10 load forecast plus required operating reserves.”¹ The Draft Final Proposal provides no additional specificity on the occasions it may use a 1-in-10 forecast, where that forecast is derived, and what assumptions, such as the extent of additional achievable energy efficiency (“AAEE”), are included within this forecast.

The Draft Final Proposal’s lack of specificity on applicable reliability standards is of significant concern. RA requirements established by the CPUC are based off the 1-in-10 mid-case low AAEE forecast by the California Energy Commission (“CEC”) for local RA and 1-in-2 mid-case mid AAEE for system RA and include a 15% reserve margin. Use of these forecasts was established through a public process that weighed reliability benefit with cost. Yet CAISO’s potential use of a 1-in-10 forecast for all reliability determinations and undefined AAEE assumptions would potentially exceed established capacity standards. In addition, CAISO, the CEC and the CPUC have all agreed to use a common CEC forecast to enable uniform energy planning based off a common set of agreed upon assumptions.² But it is also unclear from the Draft Final Proposal whether CAISO will use its own forecast or one adopted by the CEC. CAISO’s potential use of its own set of planning assumptions and criteria is inconsistent with CAISO’s commitment to the California Legislature and would undermine the CPUC’s use of a 1-in-2 forecast to determine system capacity needs. To the extent CAISO believes use of a 1-in-2 CEC forecast and corresponding AAEE assumptions are insufficient to ensure system reliability, it should raise these concerns in the CPUC’s RA proceeding.

2) Reliability Determinations Under the TSRO Initiative Are Devoid of Transparency and Public Process.

The Draft Final Proposal requires a resource to request that CAISO conduct a reliability assessment at least sixty days prior to its desired suspension date, upon which CAISO will issue its reliability finding at least eight days prior to the proposed date of suspension. CAISO’s reliability finding is not subject to public review or approval by the CAISO Board. It does not

¹ TSRO Initiative p. 14.

² Letter from Steve Berberich, CAISO, Michael Peevey, CPUC, and Robert Weisenmiller, CEC to Alex Padilla, Chair, California State Senate Committee on Energy, Utilities and Communications dated January 31, 2014 (describing how CAISO, CEC, and CPUC “are aligned on the study assumptions each agency will use in their planning and procurement processes.”).

even appear that the outage management system would indicate if the basis for a resource's inclusion was due to a TSRO request.³ There is no legitimate basis to keep reliability findings for a TSRO request, and the analyses and assumptions supporting those findings, from public review. As currently contemplated, the TRSO Initiative has no mechanism to enable accountability and public scrutiny of its implementation.

3) The Significant Additional Value of Compensation for a TSRO Reliability Finding Over Capacity Payments under the RA Program Will Encourage Gaming.

According to the CPUC's 2016 Resource Adequacy Report, the weighted average price for all capacity for RA contracts covering the 2016 to 2020 compliance years was \$3.10 kW-month.⁴ If a resource under the TSRO Initiative is determined to be needed, it would receive payments awarded under the Capacity Procurement Mechanism ("CPM"), currently over \$6.30 kW-month. This price differential creates significant incentive for resources to test the market in hopes of receiving a reliability designation under the TSRO. Were a resource determined to be needed, it would have little incentive to bid into future RA solicitations, knowing it could receive substantially higher prices through the TSRO process.⁵ Indeed, while the origins of the TSRO Initiative stemmed from economic concerns raised by La Paloma due to continued operation, the Draft Final Proposal has no requirement that a resource demonstrate an economic basis for a TSRO request. Absent a requirement to show an economic basis for an outage request, the TSRO initiative would simply serve as a vehicle to maximize generator profit.

4) Tariff Language Should Be Circulated for Comment Prior to Consideration by the CAISO Board.

The Draft Final Proposed contemplates a Final Proposal for approval by the CAISO Board at its November 1st meeting. As an initial matter, the stakeholder process to develop the TSRO initiative has been limited due to the failure to circulate a revised straw proposal in August as originally intended. In addition, the Draft Final Proposal does not include proposed tariff language. The lack of tariff language precludes a full understanding of the potential implications of the TSRO Initiative and the opportunity for stakeholders to identify problematic language prior to Board consideration. A Final Proposal should not be brought to the CAISO Board until draft tariff language has been circulated to stakeholders for public comment.

Thank you for your consideration of these comments.

³ Page 14 of the Draft Final Proposal states that "Approved temporary shutdown outages will be included in the CAISO daily outage report as is currently done for planned and forced outages, with the same information reported as for those other two types of outages."

⁴ CPUC, The 2016 Resource Adequacy Report (June 2017) p. 6.

⁵ While the Draft Final Proposal limits the duration of a single outage request, a resource can submit multiple subsequent requests.

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