

**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 2016 and 2017 Compliance Years

Rulemaking 14-10-010  
(Filed October 16, 2014)

**COMMENTS OF THE  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
ON DRAFT STAFF WORKING PAPER**

**I. Introduction**

Pursuant to the January 27, 2017 Administrative Law Judge’s Ruling (Ruling), the California Independent System Operator Corporation (CAISO) files these comments regarding the Energy Division Draft Staff Working Paper titled “An Assessment of Capacity Under Contract” issued on December 22, 2016 (Working Paper). The Ruling established the timeline for comments on the Working Paper and related proposals. These comments are submitted in accordance with that timeline.

**II. Discussion**

Long-term revenue adequacy that allows resources to make informed investment and retirement decisions is an essential component of ensuring long-term resource adequacy (RA). Currently, there is insufficient information available to market participants to make informed decisions regarding long-term revenue adequacy prospects. The Working Paper represents an important step towards reducing the information gap and the CAISO appreciates Energy Division’s efforts to produce it. The Working Paper significantly expands on the information provided in a similar report produced by Energy Division in an October 2014 report (2014 Report) by adding critical local and flexible capacity assessments. The CAISO believes that the Working Paper is a much needed element of RA reporting that sheds light on the current state of forward procurement. The CAISO’s comments will focus on: (1) the frequency with which the Working Paper should be produced; (2) the granularity of the local capacity reporting; and (3) a

comparison of forward procurement in the 2014 Report versus the Working Paper and the current assessment

**A. Energy Division Should Continue to Produce the Working Paper on an Annual Basis.**

The information provided in the Working Paper provides resource owners with a basic foundation upon which they can make informed decisions about whether or not they should invest in major maintenance, resource upgrades, or retire a resource because it is unlikely to receive an RA contract. The CAISO believes that this types of forward reporting should become a regular part of the RA proceeding and should be conducted annually.

**B. Energy Division Should Provide More Granular Detail Regarding Local Capacity Procurement.**

The CAISO appreciates Energy Division’s efforts to mask specific local RA net short positions. However, in masking that locational granularity, Energy Division also removes important information regarding where additional resource procurement is needed. Energy Division’s efforts to avoid exacerbating market power in local RA procurement is understandable, but it must be weighed against the benefit of ensuring that local resources are maintained. Furthermore, the local market power is already mitigated by the Commission’s local capacity waiver price. As such, going forward the CAISO recommends that Energy Division provide a more detailed report regarding forward procurement of local capacity based on specific local capacity areas.

**C. Downward Trends for Forward Procurement Cause Concern and Warrant Close Monitoring.**

The Working Paper shows a consistent decline in forward procurement from the October 2014 Report. As shown in Table 1 below, the percent of the forecasted RA requirement procured for a forecast period of two years out fell from approximately 81 percent in the 2014 Report to about 65 percent in the 2016 Working Paper.<sup>1</sup> This leaves significantly more uncertainty for generating resources, and it increases the risk of inefficient resource retirement and long-term reliability issues. There may be numerous reasons for this reduction, but the CAISO believes that it is a cause for concern and warrants additional discussion.

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<sup>1</sup> All numbers in this section and Table 1 are estimates based on Figure 8 of the 2016 report and Figure 3 of the 2014 report.

**Table 1. Comparison of Forward Procurement  
(2014 Report versus 2016 Working Paper)**

| Years forward | Estimated RA Requirement (2016 Working Paper) | Estimated Forward Procurement (2016 Working Paper) | Estimated RA Requirement (2014 Report) | Estimated Forward Procurement (2014 Report) | Percent of Estimated RA Requirement Procured (2016 Working) | Percent of Estimated RA Requirement Procured (2014 Report) | Difference of Percent Procured (2014 minus 2016 Percent) |
|---------------|---|--|--|---|---|--|--|
| T+1 year      | 49500   | 39000  | 45000                                  | 39500                                       | 79%   | 88%  | 9%   |
| T+2 years     | 49000   | 32000  | 45500                                  | 37000                                       | 65%   | 81%  | 16%  |
| T+3 years     | 49000   | 29500  | 45500                                  | 31000                                       | 60%   | 68%  | 8%   |
| T+4 years     | 49000   | 28000  | 46000                                  | 31000                                       | 57%   | 67%  | 10%  |
| T+5 years     | 48000   | 27000  | 46500                                  | 29500                                       | 56%   | 63%  | 7%   |
| T+6 years     | 48000   | 27000  | 46500                                  | 28500                                       | 56%   | 61%  | 5%   |
| T+7 years     | 48000   | 25000  | 47000                                  | 27000                                       | 52%   | 57%  | 5%   |
| T+8 years     | 47500   | 22000  | 47000                                  | 21000                                       | 46%   | 45%  | -2%  |
| T+9 years     | 47000   | 21000  | 47500                                  | 20500                                       | 45%   | 43%  | -2%  |

Respectfully submitted,

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