

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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| Order Instituting Rulemaking to Consider |) | |
| Annual Revisions to Local Procurement |) | R.08-01-025 |
| Obligations and Refinements to the |) | |
| Resource Adequacy Program |) | |
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**REPLY COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON ORDER INSTITUTING RULEMAKING**

Pursuant to Rule 6.3 of the Commission’s Rules of Practice and Procedure, the California Independent System Operator Corporation (“CAISO”) submits the following reply comments on the Order Instituting Rulemaking to Consider Annual Revisions to Local Procurement Obligations and Refinements to the Resource Adequacy Program (OIR) issued in the above-referenced rulemaking.

I. Scope of this Proceeding Should Be to Refine the Resource Adequacy Program Not to Permit Relitigation of Decided Matters

The CAISO agrees with several parties that emphasized the need to focus this proceeding on moving forward, not looking backward. This proceeding should not be used as an opportunity to relitigate matters recently decided by the Commission. An example of this is IEP’s desire to reconsider the rules for the Path 26 counting protocols. Since the Path 26 counting constraint only took effect on January 1, 2008, insufficient historical data exists to examine its performance and this deficiency is exacerbated by the absence of available data regarding the 2008 peak summer period. Without the 2008

summer season data, an assessment of the Path 26 counting constraint is unquestionably premature.

In addition, the CAISO does not view the topic of import capability and its applicability to resource adequacy counting rules as something that requires immediate attention. This is especially true with respect to argument raised by Reliant regarding the quantity of, and methodology for determining, import capacity available to LSEs. This topic appears more appropriately considered in a CAISO forum.

AReM suggests that the Maximum Cumulative Capacity (“MCC”) levels should be refined or eliminated. The CAISO objects to eliminating the MCC. The MCC remain valuable in addressing the variability of LSE load curves and the RA resources procured to meet peak demand. However, the CAISO agrees with AReM that it might be helpful to look at the MCC for purposes of possible refinement.

In short, the Commission should not revisit issues for which there is no urgent need for change or there is insufficient practical experience to determine whether refinements are, in fact, necessary. Rather, the Commission should ensure that the instant proceeding remains focused on true refinements that can be expeditiously implemented without disrupting the regulatory rules upon which entities have already relied to meet their near-term resource adequacy obligations.

II. The Commission Should Reject Consideration of Several Local Capacity Requirement Refinement Proposed by AReM

AReM requests several refinements to the LCR process that should be rejected by the Commission or deferred to CAISO processes. First, AReM desire reconsideration of a seasonal LCR and is open to a pilot study in Phase 1 to determine its feasibility. FERC recently approved the CAISO’s authority to conduct its Local Capacity Technical

Analysis and to procure capacity to satisfy its Reliability Criteria, if necessary. In doing so, FERC rejected arguments in favor of a seasonal LCR.¹ Accordingly, to ensure appropriate coordination between procurement obligations of LSEs established by the Commission and reliability procurement needs studied by the CAISO, the CAISO believes fundamental issues regarding local capacity requirements should be first considered in the CAISO's Local Capacity Technical Study process. Such an approach is consistent with the collaborative process contemplated in CAISO Tariff Section 40.3.1.

Second, AReM argues that the Commission should establish incentives to encourage Participating Transmission Owners to build transmission to relieve constraints. This is unnecessary. The CAISO's recently revised Transmission Planning Process expressly provides for the preparation of Economic Planning Studies to assess the viability of transmission upgrades to address Local Capacity Area Resource requirements. Projects that promote economic efficiency will be identified, proposed, and approved by the CAISO. Participating Transmission Owners are required to seek regulatory permitting of such approved projects. Accordingly, further incentives in the context of this proceeding are not required.

Third, AReM requests that the Commission establish a limit on one-year increases in LCRs. The efficacy of this request is questionable given the authority granted to the CAISO to establish, following the collaborative study process, capacity requirements for Local Capacity Areas.² A cap would simply transfer procurement to the CAISO, rather than the LSEs. This may or may not be financially advantageous to the LSEs, but it is contrary to prior Commission policy pronouncements.

¹ *California Independent System Operator Corporation*, 122 FERC ¶ 61,017 (Jan. 9, 2008) at P 44, 48 and 64.

² *Id.*

III. Conclusion

The CAISO respectfully requests that the assigned Commissioner prepare a Scoping Memo consistent with the comments and reply comments filed by the CAISO in this matter.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on February 14, 2008, I served, by electronic mail and United States Mail, a copy of Reply Comments Of The California Independent System Operator Corporation on Order Instituting Rulemaking on all parties in Docket Number R.08-01-025.

Dated at Folsom, California on February 14, 2008.

/s/ Susan L. Montana

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