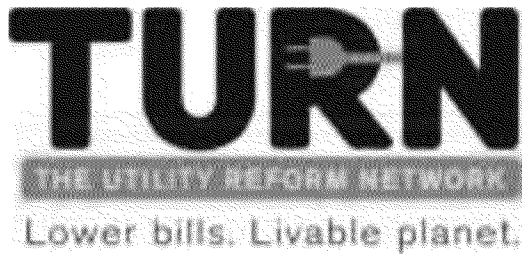


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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local Procurement Obligations.	Rulemaking 11-10-023 (Filed October 20, 2011)
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COMMENTS OF THE UTILITY REFORM NETWORK
ON THE ORDER INSTITUTING RULEMAKING



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November 7, 2011

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COMMENTS OF THE UTILITY REFORM NETWORK ON THE ORDER INSTITUTING RULEMAKING

Pursuant to the October 20, 2011 *Order Instituting Ruling* (“OIR”) and Rule 6.2 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), The Utility Reform Network (“TURN”) respectfully submits these comments.

I. Introduction

TURN focuses these opening comments on two of the topics listed in Appendix A of this OIR (“Candidate Issues and Topics Identified by the Energy Division”):

- ffi the CAISO proposal for “non-generic capacity procurement” (Topic #5), and
- ffi updates to the “RA rules or practices in order to account for differences in renewable procurement” in light of the approval of Senate Bill 2 (1X) (Topic #9).

II. Discussion

A. Non-Generic Capacity Procurement (Topic #5)

The OIR notes that the CAISO proposed (a) that it “provide an annual cycle of studies and reports to inform load-serving entities’ resource adequacy procurement” and (b) that the Commission “expand the five month year-ahead showing to a full years showing for the year-ahead procurement to support the evaluations and assessments of needed non-generic capacity”.¹ Although this language is consistent with the CAISO’s original request to address such matters,² it does not convey the drastic nature of the CAISO’s current proposals or the extent to which the Commission may need to manage these issues reasonably.

The CAISO, for example, very recently accelerated its efforts to procure additional capacity, apparently in quantities above the Commission’s current Planning Reserve Margin (PRM) and for durations beyond the current RA program’s one-year term. In Phase 2 of its Renewable Integration Market Vision stakeholder process, the CAISO sped up its plans to develop new mechanisms for

¹OIR, Appendix A, p. 1.

² See Motion of the CAISO for Expansion of the Phase 2 Scope, R. 09-10-032 (November 30, 2010).

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forward procurement of capacity purportedly needed to meet future flexibility needs.³ Of special concern to the Commission should be the CAISO’s stated intent to implement such forward procurement in January 2013 – coincident with the start of the first year of the RA program that this Rulemaking will address. Key sections of the CAISO’s proposal are provided as Attachment 1.

Further, according to a recently-filed *ex parte* contact notice, provided as Attachment 2, the CAISO is also considering extending “a non-conforming RMR contract, or...a variation of a CPM designation, either of which would allow the designation to be based on a *future* reliability and/or operational need” to Calpine’s Sutter Power Plant in order to prevent Calpine from shutting down that plant (emphasis added).⁴

These recent CAISO actions have *superseded* the comparatively innocuous language of Topic 5 in the OIR’s Appendix A. The Commission must expect to address this issue forcefully in 2012, and in particular make clear that the Commission is responsible for setting the RA obligations of its jurisdictional LSEs. Given that Commission staff has already expressed strong opposition to this aspect of the CAISO’s market initiative,⁵ TURN is hopeful that the Commission will take a deliberate approach to considering these issues and not be persuaded by alarmist stories that the “lights will go out”. To this end, TURN reminds the Commission that the methods for determining potential “needs” for capacity for renewable integration are still quite crude and evolving rapidly. Some of these methods are being developed in another Commission proceeding.⁶ If the Commission investigates these issues in this Rulemaking, the Commission should coordinate its efforts with these other ongoing studies. More generally, the Commission should expect more analysis and deliberation before it can conclude that any such increased and accelerated RA procurement is truly necessary.

3 This process is documented at Item 8 of the CAISO Board’s October 27 meeting, available at <http://www.aiso.com/informed/Pages/BoardCommittees/Default.aspx>.

4 The *ex parte* notice is also available at <http://docs.cpuc.ca.gov/efile/EXP/146255.pdf>.

5 See Commission Staff’s October 21 Comments to the CAISO on this matters, available at http://www.aiso.com/Documents/CPUCComments-RewewablesIntegration-Market_ProductReviewPhase2Vision_Roadmap.pdf, pp. 2-4.

6 These analyses are being conducted pursuant to a multi-party Settlement Agreement still pending in the current Long-Term Procurement Plan docket, which is Rulemaking 10-05-006. These analyses may not be exactly those envisioned by the CAISO’s original proposal in Rulemaking 09-10-032, but are sufficiently similar that the Commission should expect its decisions in this docket to be informed by them.

To protect ratepayers, the Commission should clarify that Load-Serving Entities (LSEs) will receive a proportionate share of RA credits from *any* capacity purchases the CAISO makes pursuant to the actions envisioned in its *ex parte* notice (much as the RA credits from the CAISO's remaining RMR contract are now allocated). Such a policy would serve to limit LSEs' total RA obligations to their current levels. To ensure ratepayers receive such protections during 2013, TURN believes the Commission should implement such a policy in early 2012, well before LSEs need to make their RA compliance filings for 2013.

B. Updates to RA Rules and Practices for Increased Renewable Requirements (Topic #9)

The Rulemaking also states that "updates to the RA rules and practices" may be needed to account for growing renewable procurement, citing in particular the new requirements imposed by SB 2 (IX). Though many issues could reasonably be addressed under this topic, TURN reminds the Commission that SB 2 (IX) specifically directed that:

"...by July 1, 2011, the commission shall determine the effective load carrying capacity of wind and solar energy resources on the California electrical grid. The commission shall use those effective load carrying capacity values in establishing the contribution of wind and solar energy resources toward meeting the resource adequacy requirements established pursuant to Section 380." (Section 399.26(d), Public Utilities Code; *emphasis added*)

The Commission should act on this already-overdue statutory requirement at the earliest possible time.

III. Conclusion

TURN respectfully offers these comments on the scope of topics described in the OIR, and looks forward to contributing to this proceeding.

Respectfully submitted,

_____/S/_____

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Dated: November 7, 2011

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Attachment I



Renewable Integration Market Vision and Roadmap

10/11/2011



and scheduling timeline does not appear implementable any time soon. For the mid-term, the ISO is considering two potential solutions to the issue of pricing and settlement at the interties. The first is to take a NYISO approach, which settles the interties at the real-time prices, but provides imports with bid cost recovery to ensure they receive at least their bid value for energy sold into ISO markets. The second is to require interties to settle at the ISO real-time price and hourly schedules settle as price takers without any cost recovery, but to implement this only during off-peak periods, and leave the on-peak settlement as it is today.

The ISO will launch the Intertie Pricing and Settlement stakeholder initiative in October.

ffi Pay for Performance Regulation

ffi *Begin policy development: TBD based on FERC response*

ffi *ISO Board review: TBD based on FERC response*

On February 17, 2011, FERC issued a notice of proposed rulemaking to address undue discrimination in the procurement of frequency regulation service (regulation) in organized wholesale electricity markets. The rules proposed by FERC would change how the ISO compensates resources providing regulation. The ISO submitted its response to FERC on proposed compensation for regulation to align incentives with performance. The ISO supports the notion of pay for performance regulation which could include a mileage payment along with an accuracy adjustment. The ISO expects a response from FERC soon and is, therefore, including this enhancement in the mid-term period.

ffi Forward Procurement of Flexible Capacity

As recently presented to the Board, ISO renewable integration studies make clear that to accommodate increased variable energy resources with increased intermittency, the ISO requires flexible resources be available in the real-time market. The ISO's research also indicates conventional, thermal resources will see a decrease in energy market revenues at the same time they will see an increase in the number of start-ups. The mandated elimination of once-through-cooling resources will require many conventional thermal plants to either repower or retire. If conventional, thermal resources retire due to insufficient revenues, the ISO will be left with limited flexible capacity to address future dynamic supply and demand conditions.

It is imperative that a forward procurement mechanism be developed to ensure sufficient flexible capacity is available to maintain grid reliability in a more dynamic operating environment. In anticipation of the future, the ISO is considering developing a forward procurement mechanism for resource capacity that is capable of providing required flexibility, i.e. ramping and balancing capacity. This proposed procurement mechanism is not intended to replace the CPUC's resource adequacy program, but, instead, to supplement the CPUC's existing resource adequacy procurement program, where such flexible capacity would qualify as RA capacity under the CPUC's RA program.

The ISO originally proposed this market enhancement as a long term initiative. However, after further discussion and stakeholder input, the ISO understands that developing a forward flexible capacity mechanism will be complicated and time consuming. This, together with a clear need for flexible capacity in the future, the ISO and certain stakeholders support starting this initiative sooner rather than later. In this spirit, the ISO is proposing a two-phased approach.

Phase One: Interim Flexible Capacity Procurement

ffi Begin policy development: October 2011

ffi ISO Board review: Spring 2012

ffi Projected implementation: January 2013

The ISO proposes to create an interim mechanism that administratively procures flexible capacity resources. This mechanism will use the existing Capacity Procurement Mechanism (CPM) as a starting point, but will specify attributes needed to qualify as flexible capacity. Additionally, the ISO may consider extending the procurement duration. Using the CPM as a starting point should enable the ISO to reach an interim solution more quickly to ensure that adequate flexible capacity is retained for the short-term while a permanent market-based mechanism is designed.

Phase Two: Flexible Capacity Procurement Market Mechanism

ffi Begin policy development: Spring 2012

ffi ISO Board review: Spring 2013

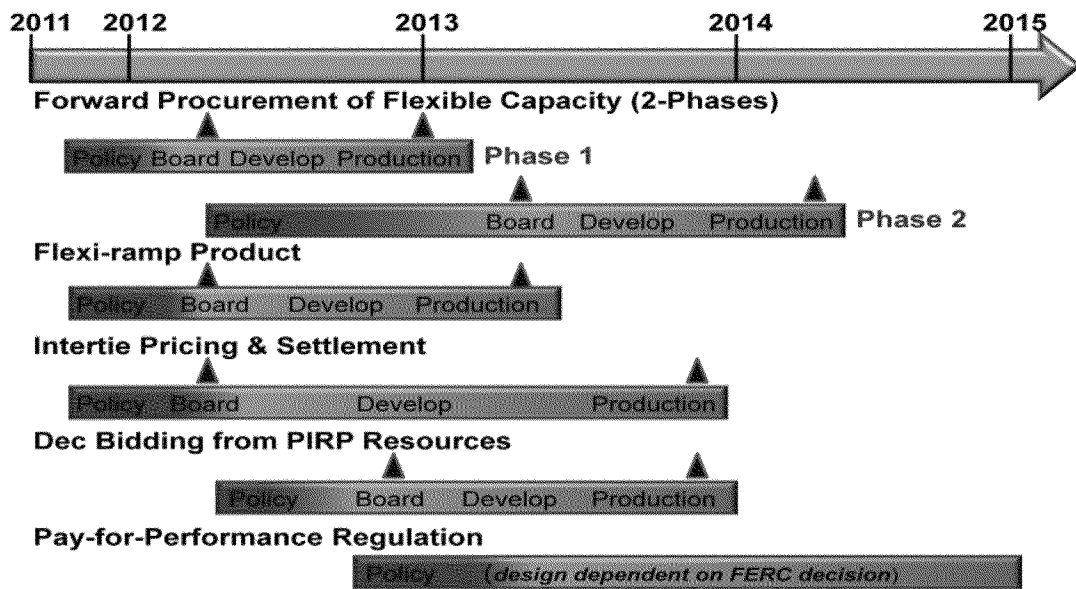
ffi Projected implementation: Spring 2014

Phase two of this initiative will focus on a permanent, market-based solution, replacing the interim solution developed in phase one. In this second phase, the ISO will identify the full-set of attributes the ISO will need to operate reliably under a 33% RPS. This procurement mechanism will be used to meet future flexibility needs three to five years into the future.

Again, this procurement mechanism is not designed to replace the CPUC's resource adequacy program. And in an effort to minimize the costs of procuring both sufficient flexibility and resource adequacy capacity, the ISO will work with stakeholders and the CPUC to design a product that is compatible with resource adequacy requirements and avoids over procurement of capacity by load-serving entities.

3.3 Roadmap of Mid-term Market Enhancements

Illustrated below is the projected mid-term (2013 – 2015) market enhancements roadmap.



3.4 Long-term Enhancements

The initial straw proposal was a much more comprehensive set of enhancements to the ISO markets. Based upon stakeholder comments and internal discussions, the ISO determined that accomplishing such a large change in such a short time was not supported by stakeholders. The ISO is proposing to take more time to consider comprehensive design enhancements so as to provide an adequate period to research, discuss and vet the ISO's original proposals further. Additionally, the more incremental and evolutionary market design approach in the short and mid-term will provide experience to inform future, more comprehensive market design enhancements. With this experience, the ISO and its stakeholders can consider whether more extensive market enhancements are warranted, including, for instance, implementing a 15-minute real-time market and creating a new real-time imbalance service product as was discussed in the initial straw proposal. Other market enhancements that may be needed in the long-term are a frequency response product, which may include inertia. However, given other priorities in the short and mid-term, these products will not be immediately considered for design and development.

4 Next Steps

The ISO will be commencing several new stakeholder initiatives to develop detailed design proposals for the mid-term market design enhancements. The ISO will also continue to work with stakeholders to refine the Renewable Integration Market and Product Review Roadmap as new information becomes available. Such revisions are likely to include the identification of new design enhancements as well as a reprioritization of previously identified enhancements. The ISO will provide periodic status reports to the Board in an effort to keep the board apprised of the planned evolution of the market design to facilitate the state's renewable energy goals while maintaining reliable grid operation and stable, efficient spot markets.

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Attachment 2



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