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

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
REPLY COMMENTS ON PROPOSED DECISION

Pursuant to Article 14 of the California Public Utilities Commission ("CPUC") Rules of Practice and Procedure, the California Independent System Operator Corporation ("ISO") respectfully submits these reply comments to the initial comments by other parties on the Proposed Decision of Administrative Law Judge Gamson issued on May 22, 2012 ("PD").

I. THE PD ADOPTS A REASONABLE PATH FOR FLEXIBLE CAPACITY

Several parties object to the PD's ruling that a flexible capacity requirement should be established by 2014. SCE believes that there is no actual need for specific flexible capacity requirements until at least 2015, if not later. The ISO strongly supports the PD and urges the CPUC to proceed without delay to develop and implement a flexible capacity requirement starting with the 2014 RA compliance year.

Stakeholders generally agree with the PD that a flexible capacity requirement is needed. The debate centers on when a flexible requirement is needed, not if it is needed. Certain participants claim that there is no need for a flexible capacity requirement until 2015 or later; so, there is no corresponding need to establish a flexible capacity RA framework in 2014. The ISO disagrees.

It is erroneous to assume, based on a single snapshot today, that there is no

need for a flexible capacity requirement until several years in the future and that we should not even make the effort to assess the need for flexible capacity requirements prior to that time. SCE's argument to delay a flexible capacity requirement is flawed. Over the next several years, conditions will continually change as new intermittent resources interconnect to meet the 33% RPS goal, and the impacts of once-through-cooling regulations become clearer. The build-out is ongoing, and new intermittent resources will come on-line at irregular intervals between now and 2020. Thus, the need for flexible capacity will grow year to year. The need will not simply "appear" in a future year and then suddenly we must protect flexible capacity when options will be more limited. We need to preserve flexible capacity now within the confines of the CPUC's annual RA program while options exist. Given these rapidly changing conditions, the prudent course of action is to implement a flexible capacity requirement starting in 2014, and allow for updated studies each year using forecasted conditions and new resource additions. The CPUC cannot simply accept a "snapshot" from today and assume that sufficient capacity that will exist in the future. If the existing fleet of resources is sufficient to ensure the flexibility needs of the grid, it is difficult to see how instituting flexibility requirements could result in a dramatic increase in costs.

Also, by starting this process in 2014, the CPUC can ensure that needed flexible capacity is procured, thereby stemming the risk of resources retiring and not being available when needed to support grid reliability. We cannot afford to take a myopic, short-term view of flexible capacity requirements. From a reliability perspective, it is necessary to evaluate needs over a longer horizon so we can ensure that flexible resources will be there when needed. We cannot afford to simply wait until we are at the edge of the cliff before we determine whether we can stop in time to prevent a reliability crisis. Thus, the CPUC should affirm the PD's ruling that flexible capacity requirements should be assessed and adopted starting with the 2014 RA compliance

year.[1]

II. CAC FAILS TO JUSTIFY CHANGING THE EXISTING QUALIFYING CAPACITY CALCULATION FOR CHP RESOURCES

In Decision D.10-06-036, issued on June 24, 2010, the CPUC adopted the Qualifying Capacity Methodology Manual to describe the rules for calculating the net qualifying capacity of a resource for RA counting purposes. Under Section 9 of the manual, certain non-dispatchable generation resources receive monthly qualifying capacity values based on a three-year rolling average of production during specified hours – the same hours used for wind and solar facilities, which vary seasonally and are based on the time of system peak demand.

CAC filed a Petition for Modification claiming that the definition of system peak demand undervalues the RA capacity from combined heat and power ("CHP") resources.[2] CAC proposed that the definition of system peak demand applicable to CHP resources be modified to exclude weekends and holidays. CAC made the same argument below and in its initial comments on the PD, which rejected CAC's proposal.

The ISO agrees with the PD. The peak hour range used in the qualifying capacity calculation for non-dispatchable resources is appropriate because extremely high loads can and do occur on weekends.[3] The counting rules include weekends and holidays in calculating qualifying capacity for all other resources, not just non-dispatchable resources. While CAC asserts that the applicable qualifying capacity

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1 DRA and SCE ignore the need to meet mandatory reliability standards and the fact that, if reliability is threatened due to the lack of a flexible capacity requirement, the ISO will need to exercise its backstop authority to procure the flexible resources necessary to maintain reliability. This would result in the incurrence of additional costs above and beyond the costs LSEs incur to meet their RA obligations. These additional costs could be avoided if there was a flexible capacity requirement. Stated differently, failure to have a flexible capacity requirement could increase the overall cost of procurement considering the costs of reduced reliability or backstop costs to maintain existing levels of reliability. The CPUC should not simply consider the cost of RA procurement; it must consider the overall cost of procurement which includes backstop capacity that the ISO would have to procure if not procured first by the LSEs.

2 By Ruling dated September 7, 2011, the Commission deferred the issue raised in CAC's Petition for Modification to the instant proceeding for consideration.

3 For instance, Saturday, July 22, 2006, was the 13th highest load hour of the year out of 8,760 hours.

calculation undervalues CHP qualifying capacity, it presented no compelling evidence to substantiate its claim and did not provide a reasoned basis why CHP resources should be counted differently than other resources. CAC provided no evidence that all CHP resources operate similarly and that they never operate on weekends or holidays. CAC's comments confuse the methodology used to determine the capacity of a resource qualified to count toward meeting the monthly resource adequacy obligation of a load serving entity, which runs 24/7 throughout the month, with the calculation of availability under the Standard Capacity Product ("SCP") which is a financial incentive measure. They are not analogous. Qualified capacity reflects the capability of the resource for RA purposes; the SCP assessment looks at actual availability for purposes of appropriate incentive payments or charges. Accordingly, the CPUC should retain the existing qualifying capacity counting rules for CHP resources.

III. THE CPUC SHOULD NOT EXTEND PG&E'S AMP CONTRACT EXEMPTION

The ISO understands there are challenges to re-negotiating contracts, but re-negotiating a local dispatch capability provision in AMP contracts should not come as a surprise to the involved parties. For years, the CPUC has strongly supported development of more flexible, dispatchable, and price-responsive demand response. This summer's planning for the loss of the San Onofre Nuclear Generating Station (SONGS), and its effects on southern Orange County, south of Lugo, and San Diego, has heightened awareness of the need for demand response that is dispatchable by location. Contrary to PG&E, to the extent demand response is located in a particular area but must be dispatched everywhere at once, that may not be helpful and, in fact, may be harmful if activated in non-affected areas, altering flows and creating load and resource imbalance issues. This is currently the case in Southern California without SONGS, where there is a need to avoid the dispatch of resources, including demand response, north of Lugo under certain conditions. The PD already gives PG&E leeway

on local dispatchability by directing PG&E to implement local dispatchability for its CBP, DBP and AMP as late as May 1, 2013. It is unclear why PG&E needs another year to develop a local dispatch capability for its AMP contracts when demand response providers, like EnerNOC, have been publicizing their ability to offer dispatchable, generation-comparable demand resources. Recently EnerNOC stated its:

> "…new "Utility Portal" will help load-serving entities take DR from a passive program that resides in a marketing or customer-facing organization to its system operators. It will help utilities treat the MWs from a DR program just like those produced by a peaking power plant."[4]

Given the sophisticated demand response capabilities that exist in the competitive marketplace, it is unclear why another year's delay is required before PG&E's AMP contracts can be dispatched locationally. The ISO supports the PD's findings that May 1, 2013 is a reasonable date to ensure that PG&E's AMP contracts can be locationally dispatched.

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[4] Restructuring Today, June 13, 2012, at pg. 1. EnerNOC further explains how "[t]he firm collects data on energy use in five-minute intervals from over 12,500 sites worldwide, which translates into millions of data points each day. The quality of data has to be perfect, for the firm to help customers implement their DR and energy savings plans to the best of its ability."[4]