

**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)	Rulemaking 11-10-023
Local Procurement Obligations.)	
_____)	

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
REPLY COMMENTS ON WORKSHOP ISSUES**

The California Independent System Operator Corporation (“ISO”) respectfully submits its reply comments in response to the initial comments submitted by other parties on the proposals and issues discussed workshops held by the California Public Utilities Commission (“Commission” or “CPUC”) on January 23, 2013 and March 20, 2013.¹ In these reply comments, the ISO addresses the issues raised in the other parties’ comments and explains why they should not deter or delay the Commission from adopting a flexible capacity requirement in this proceeding. The ISO continues to recommend that the Commission incorporate a flexible capacity procurement obligation into its resource adequacy program for the 2014 compliance year, consistent with the ISO’s proposal.

I. SUMMARY

The initial comments submitted by the parties to this proceeding generally recognize that there is an operational need for flexible capacity to provide ramping

¹ The ISO submits its reply comments pursuant to the Phase 2 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge, issued on December 6, 2012 (“Phase 2 Scoping Memo”), as modified by the Administrative Law Judge’s Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference, issued on March 11, 2013, and as further discussed at the Prehearing Conference held on March 20, 2013.

capability to balance swings in load net of variable generation. The initial comments of the Joint Parties, Pacific Gas and Electric Company (“PG&E”) and California Wind Energy Association (“CalWEA”), and the revised proposal of the Energy Division, support the adoption and implementation of a flexible capacity obligation for 2014 in order to ensure that the resource adequacy program provides the flexible capacity needed for grid reliability. However, other comments question the timing of the need for flexible capacity and suggest that the Commission, in this proceeding, should only make a policy decision on a flexible capacity framework or should defer taking any action until 2015 or later, when a quantifiable need for flexible capacity exists.

The ISO is concerned that the parties are focused on trying to too precisely calculate the timing of the need, and are missing the importance of the fundamental need itself. The need for flexible capacity is inevitable. The ISO’s proposals and comments in the last resource adequacy proceeding and in this one addressed this matter at length.² The Commission has already acknowledged that the grid is changing in ways that will require new types of resource adequacy capacity:

No party disputes that grid operations and reliability may suffer without sufficient generation capable of being flexibly dispatched. We agree that we need to define flexible attributes for local reliability purposes in order to ensure ongoing reliability in a changing load and supply environment.³

In fact, the ISO presentation at the March 20, 2013 workshop showed that the system conditions that require flexible ramping response are already starting to occur, based on

² See ISO Proposal on Phase 1 Issues, Docket No. R.11-10-023 (January 13, 2012); ISO Submission of Supplemental Information to Proposal, Docket No. R.11-10-023 (March 2, 2012); ISO Comments on Phase 1 Issues Docket No. R.11-10-023 (April 11, 2012); ISO Reply Comments on Phase 1 Workshop Issues, Docket No. R.11-10-023 (April 23, 2012); and ISO Initial Comments on Workshop Issues, Docket No. R.11-10-023 April 5, 2013.

³ Decision 12-06-025 (June 21, 2012), p. 17.

actual load and net load data for February 24, 2013. These ramps will only become steeper and more frequent as more wind and solar resources are added to the grid. In these real and already developing circumstances, it would be imprudent for the Commission to only set policy and take no immediate action in this proceeding, as some parties suggest.

To highlight this point, imagine that the product at risk of shortage is water rather than flexible capacity. When the snow pack is well-below average and the weather pattern is expected to cause abnormally low precipitation throughout the next few years, these conditions will certainly lead California into a period of severe and growing drought. Although the reservoirs may currently appear to be full, the time for the responsible governmental agencies to implement water conservation activities is before the state or locality is actually in dire need of water. Delaying the implementation of all water conservation measures to address the looming drought until every new storage option is developed and the full panoply of water conservation measures and environmental constraints are considered would be irresponsible. Such delay will only exacerbate the water shortage.

A construct similar to taking preemptive action to ameliorate the threat of drought is applicable to flexible capacity. California is certainly transitioning into a period where the need for flexible resources will increase while the resource fleet flexibility is expected to decrease. Although there is sufficient flexible capability in the fleet today, and perhaps in 2014, there is no guarantee that capability will be procured as resource adequacy capacity and made available to the ISO in 2014. Nor does sufficiency today justify delaying implementation of a flexible capacity obligation for 2014 while ongoing

consideration is given to refinements that will advance accounting for use-limited thermal units, preferred resources, storage devices, and other resource types as flexible capacity. If implementation of a flexible capacity obligation is delayed, there is no assurance that sufficient flexible capacity will be operationally available to the ISO at that point in the future when the need has grown to proportions that the timing of its existence is no longer disputed. Delaying the implementation of a flexible capacity requirement increases the risk that existing flexible capacity will leave the system in the meantime. Like preparing for a drought, it is prudent and sound public policy for the Commission to take advance action to secure the right resource capabilities from the existing fleet to ensure that it will be available when and where needed.

To the contrary, simply adopting reporting measures, as suggested in some comments,⁴ is not enough. Reporting and documentation are unlikely to motivate changes in procurement or guarantee the availability of sufficient flexible resources. However, changing the paradigm by instituting an explicit flexible capacity requirement is exactly what is needed starting in 2014 to secure and show, by requirement, the right types of capacity with the right operating characteristics so that the balancing area is well prepared to meet the growing challenges of a more variable and less predictable supply fleet. The resource adequacy program has already evolved from generic capacity to include consideration of the capacity needed in local areas. Now is the appropriate time for the Commission to act and enhance the resource adequacy program to recognize the operational characteristics that must be maintained.

The ISO recommends that the Commission implement a flexible capacity

⁴ See e.g., Department of Ratepayer Advocates Comments, p. 15; The Utility Reform Network Comments ("TURN"), pp. 2-3; Comments of Western Power Trading Forum, pp. 3-4.

obligation for the 2014 resource adequacy compliance year based on the Joint Parties' Proposal, as enhanced with the addition of the proposal by PG&E for the treatment of hydro resources, and as modified by Energy Division's revised proposal, with the minor clarifications offered by the ISO in its initial comments. With these new resource adequacy provisions in place, the Commission may then in the resource adequacy proceeding for 2015 consider enhancements to those provisions, as well as establish counting rules, criteria, and qualifications that are specific to and advance use-limited resources, demand response, and storage devices to meet system flexible capacity requirements, and develop penalties and enforcement provisions applicable to jurisdictional load serving entities that are deficient in meeting their flexible capacity procurement obligations.

II. NEEDS ASSESSMENT AND ASSUMPTIONS

A. The ISO's Assumptions Are Conservative And The Data Is Reliable

The initial comments of many parties focus on slide 19 of the ISO's presentation from the March 20, 2013 resource adequacy workshop as evidence that there is no need for a flexible capacity procurement obligation for 2014. The purpose of slide 19 is to show that the calculated effective flexible capacity of the resource adequacy fleet is not the amount of flexible capacity that will be operationally available to the ISO. In fact, the ISO expects that the amount of flexible capacity made operationally available to the ISO will be far less than the calculated effective flexible capacity.

Parties have either misunderstood or misrepresented the meaning of this slide. As the ISO noted at the March 20 workshop and in its initial comments, the flexible capacity deficiency assessment was a very simplified and conservative assessment.

Specifically, the ISO's efforts to show conservative reductions to the calculated effective flexible capacity were small relative to what the ISO actually anticipates will occur. Based on the initial comments,⁵ it appears that some parties have assumed that the ISO put forward a worst case scenario where 2,000 MW of flexible capacity would be self-scheduled in the real-time market. In actuality, the ISO's assessment more closely resembles a best case scenario than a worst case scenario. For example, as shown in the data the ISO released in advance of the March 20 workshop, it is extremely common for the ISO to see over 10,000 MW of self-schedules from the flexible capacity range of resource adequacy resources, which is five times greater than the ISO's conservative assessment of 2,000 MW. Based on these numbers, the ISO could have asserted there would be potential deficiency of flexible capacity from the resource adequacy fleet based on self-scheduling of flexible capacity resources alone. However, the ISO elected to take a conservative approach in assessing potential reductions and impacts to the amount of available effective flexible capacity.

The ISO's deficiency assessment is based on conservative reductions in the availability of the calculated flexible capacity the ISO expects can, and likely will, happen on any day. Additionally, the ISO assumed only 500 MW of existing flexible capacity would be "crowded out" by 6,000 MW of new installed intermittent resources. Both of these assumptions show that the ISO's assessments of available effective flexible capacity were very conservative.

In an effort to ensure the data used to generate the 3-hour net load ramping needs represents a reasonable and accurate data set, the ISO looked more closely at

⁵ DRA comments, p. 9; CLECA comments, p. 7, CalWEA comments, p. 8, Clean Coalition comments, p. 8, DECA comments, p. 7.

the minute-by-minute load changes using the 2014 net-load data provided to parties by the ISO. The ISO used a threshold of 500 MW net load difference (positive or negative) to identify data points that fall outside of normal load deviations. This assessment yielded 312 outliers from a data set of 525,599 observations, or 0.06 percent of the observations. Of the 312 data points, 254 occurred on November 4, 2014 and are attributable to the daylight savings time change. Importantly, the largest three hour net-load ramp for November occurred on November 12. If November 4 is completely removed from the data set, there are 524,099 observations and 58 outlying data points. The final results are that 99.98 percent of all minute-by-minute data points are within a 500 MW differential. Further, 98.62 percent of the total data set (including November 4) is within two standard deviations of the mean. This assessment of the data shows that the data set the ISO used to set the maximum 3-hour net load ramp is a sound foundation for the ISO's assessment.

B. Treatment Of New Capacity

Some parties argue in their comments that the ISO's assessment fails to recognize the 3,000 MW of new capacity that is scheduled to come on line in 2014.⁶ This argument is a red herring. The 2014 procurement target is a static number. This means that 3,000 MW of new capacity will replace 3,000 MW of some other capacity from being procured as resource adequacy capacity.⁷ However, without any explicit flexible capacity procurement obligation, there is no valid basis to assume that all 3,000 MW of new capacity will, 1 for 1, displace inflexible capacity. While there may be some

⁶ TURN's comments, pp. 5-7; and CLECA comments, pp. 6-7.

⁷ The ISO agrees with NRG that "CAISO should [not] be allowed to count any attribute, including flexibility or capacity, which has not been explicitly procured and compensated, towards meeting any operational or procurement requirement." NRG comments at p. 12.

net gain in flexible resource adequacy capacity procured from these new resources, there is no guarantee that it will be a gain of 1 for 1. Further, because there is no bidding history for these new resources or current flexible capacity requirement, there is no way to estimate how much, if any, of this new capacity will be procured as flexible capacity and be operationally available to the ISO as a flexible resource. Thus, 3,000 MW of new capacity does not translate to 3000 MW of new flexible capacity.

C. Treatment of Pump Resources

In initial comments, a question was raised about the ISO's treatment of pump resources.⁸ The ISO treated the pump resources as pump turbines (not as hydro resources), consistent with their availability and economic bidding behavior for 2012.

III. RESOURCES PROCURED AS FLEXIBLE CAPACITY MUST BE OPERATIONALLY AVAILABLE

The counting rules suggested in the Joint Parties' Proposal and the Energy Division's revised proposal are a representation of the amount of flexible capacity the ISO requires to meet ramping and variability needs of the grid. The real benefit flexible capacity provides, however, is not meeting the counting rules, but being operationally available for dispatch by the ISO.

Some parties seem to be struggling with the notion that a resource with effective flexible capacity may elect not to sell flexible capacity or may not have all of its effective flexible capacity shown as flexible in resource adequacy showings for a particular month. There are also indications in the comments that parties seem to believe a flexible capacity procurement obligation is either just a counting rule or that every single MW of capacity that could be flexible will be operationally available to the ISO. For

⁸ CLECA comments at p. 7. TURN comments at p. 7.

example, TURN has asserted that

[T]he major players in CPUC-jurisdictional markets – the Investor-Owned Utilities (IOUs) – have procured substantial quantities of flexible capacity for several years ahead.[footnote omitted] In fact, the amount of flexible capacity the IOUs have already procured substantially exceeds the “need” shown in the CAISO’s slides through 2016.⁹

However, TURN has provided no evidence or data to allow for independent verification of this assertion nor have they attempted to determine what amount of the procured capacity will be shown as flexible in the resource adequacy showings.

As noted above, and in the ISO’s presentation at the March 20 workshop and the ISO’s initial comments, there is a difference between the calculated effective flexible capacity for each resource and the capacity that will be procured and shown as flexible in the resource adequacy showings. It is not sufficient for a load serving entity simply to count the MWs of effective flexible capacity in its resource adequacy showing, presume there is enough flexibility, and then self-schedule these resources in the real-time market.

IV. THE TREATMENT AND ELIGIBILITY OF RESOURCE TYPES TO PROVIDE FLEXIBLE CAPACITY

The initial comments of several parties cited to two resources types, storage and demand response, as being excluded from providing flexible capacity under the proposals by the Joint Parties and the Energy Division, and as being a primary reason for the Commission to reject a flexible capacity requirement for 2014.¹⁰ These statements are inaccurate and/or reflect a misunderstanding of current regulatory policies, or lack thereof. Additionally, no party to the proceeding, other than Distributed Energy Consumer Advocates (“DECA”), offered a competing or alternative flexible

⁹ TURN Comments, p. 8.

¹⁰ See e.g., EnerNOC Comments, pp. 14-16; and Sierra Club Comments, pp. 4-7.

capacity proposal and/or counting conventions for the Commission's consideration.

A. The Joint Parties' Proposal Does Not Exclude Preferred Resources

The initial comments of Southern California Edison Company ("SCE") summarized the ISO's position and the Joint Parties' Proposal regarding the flexible capacity treatment of preferred resources and non-conventional resources, as follows:

As such, the CAISO and the Joint Parties have generally offered that any resource providing the reliability service should qualify to provide flexible RA. If non-emitting resources are capable of meeting the reliability need, then those resources could provide such capacity and, if then dispatched by the CAISO, would have a diminished impact on GHG when compared to a fossil fuel fired plant. As the technology and availability of low to zero emission resources develops, SCE recommends that such technology be evaluated for its ability to meet the reliability need for flexible ramping. If the resource meets such requirements, then it too should be allowed to provide such service."¹¹

Although this summary is accurate, numerous parties have wrongly criticized the Joint Parties' Proposal and the Energy Division revised proposal for discriminating against, or outright not allowing, preferred resources to qualify as flexible capacity in 2014.¹² These allegations are false. The Joint Parties' Proposal expressly states that:

If preferred resources can provide flexible capacity consistent with the counting conventions in this interim flexible capacity proposal, then they should be eligible to count toward an LSE's flexible capacity procurement obligation.¹³

The Joint Parties' Proposal and the Energy Division's revised proposal, in the same way, accommodate non-conventional, non-fossil fired resources to offer flexible capacity according to the counting and bidding rules outlined in the proposals.

¹¹ SCE comments, p. 5-6.

¹² For instance, Sierra Club states that "[d]espite the paramount importance of these concerns, the Proposals are highly dependent on fossil fuels to meet renewable integration needs and exclude demand response and energy storage. Sierra Club comments, p. 2.

¹³ Joint Parties' Proposal, October 29, 2012, p. 23.

Importantly, the Joint Parties have repeatedly said that there should be further discussion about modifying the counting and bidding rules, as necessary and in alignment with operational needs, for use-limited resources such as storage and demand response. These rules could be developed for the 2015 resource adequacy compliance year similar to what the Joint Parties developed for use-limited hydro resources, should regulatory policies, such as resource adequacy eligibility for storage devices, be timely addressed. Likely, most parties understand that all resource types are eligible to offer flexible capacity in 2014, but disagree with application of the 2014 flexible capacity counting convention to their particular resource or technology.

Although certain parties request special treatment or consideration for their particular resource or technology, regardless whether the resource or technology can satisfy required operational needs,¹⁴ it is important to note that the ISO remains technology neutral. Fundamentally, resource adequacy resources, and resource adequacy resources with flexible capability, must be made available to the ISO to meet the balancing area's operational needs, regardless of the resource type or technology. These flexible operational needs have been spelled out in this proceeding, which are the need for regulation, load following, and maximum continuous ramping.

The ISO welcomes further discussion about how preferred or use-limited

¹⁴ "The CSPA believes that there exists sufficient data on the prospective operations of CSP with TES [Thermal Energy Storage], in California and surrounding states, such that the Commission and the CAISO should: 1) affirm that CSP with TES plants, subject to minimum conditions, will be eligible for FCRA and 2) commit to work with stakeholders to appropriately design FCRA parameters for CSP with TES" (CSPA comments, p. 4, footnotes omitted); "Before the end of 2013, the Commission should adopt a category of flexible RA capacity, in collaboration with the CAISO, that specifically takes into full consideration all of the flexible capabilities of energy storage resources." (CESA comments, p. 4); and "Among other things, EnerNOC took exception to the rigid definition of "flexibility" and other requirements imposed by the Joint Parties' Proposal that would limit eligibility to specific generation types and exclude demand response and resulted in the proposal failing to meet the RA guiding principle of "technology neutrality" or fairly considering the attributes and characteristics of DR to meet this need." (EnerNOC comments, pp. 3-4, footnotes omitted).

resources could address super-peak ramps, for example, which could limit the number of hours these use-limited resources must be available as flexible capacity. However, limited availability does not alter the fundamental operational needs for flexible capacity, which means capacity that is available for dispatch by the ISO to balance loads and resources in real-time.

B. Regulatory Policies Prevent The Counting Of Certain Preferred And Non-Conventional Resources As Flexible Capacity In 2014

In the opening comments, certain parties suggested that the Commission delay or defer a decision adopting a flexible capacity requirement in 2014 unless and until preferred and certain non-conventional resources are fully accommodated as flexible capacity resources.¹⁵ As the Commission is aware, demand response and storage devices, in particular, are not currently qualified to provide resource adequacy capacity.

Regarding storage, the Commission has yet to qualify storage as a resource adequacy resource, and, therefore, storage does not have a CPUC determined qualifying capacity value. Although several parties have advocated in this and other proceedings that the Commission establish qualifying capacity rules for storage, no such rules have been established. Thus, it is premature to consider storage as a resource adequacy resource. Accordingly, the participation of storage as flexible capacity is also premature, and is not a reason to delay a decision on a flexible capacity obligation for other resources for 2014.

Similarly, demand response cannot yet participate as a dispatchable resource in the ISO markets. It is waiting for the Commission to issue a final ruling on Electric Rule

¹⁵ See EnerNOC comments, p. 9, Clean Coalition comments, p. 4, and CESA comments, p. 3.

24.¹⁶ By its very nature, flexible capacity must be available to, and dispatchable by, the ISO. Unless and until demand response is integrated into the ISO markets as a resource, as enabled by Commission adoption of Electric Rule 24, it will not be possible for demand response to provide flexible resource adequacy capacity as proposed. Thus, like storage, demand response cannot be considered as a flexible resource adequacy resource for 2014 without further Commission action, and, therefore, is not a reason to delay a decision on a flexible capacity requirement for 2014 in this proceeding.

C. Distributed Generation Resources Will Be Eligible For NQC in 2014

The ISO is now partway through the first annual implementation cycle of the new distributed generation deliverability process, which was developed with stakeholders during the first half of 2012 and received conditional approval by the Federal Energy Regulatory Commission (“FERC”) on November 16, 2012.

The distributed generation deliverability process entails two sequential components. First the ISO performs a distributed generation deliverability study to determine MW quantities of deliverability at various nodes on the ISO grid that can be assigned to distributed generation resources without requiring any additional delivery network upgrades or adversely affecting the deliverability of existing supply resources or projects in the interconnection queue. FERC’s order fully approved this component of the proposal without any changes, and the ISO has now completed the first annual study and posted the results on March 22, 2013. The results indicate nearly 1,200 MW of distributed generation deliverability available for distributed generation resources,

¹⁶ For an explanation of proposed Electric Rule 24 and the process outlined to resolve this new Rule, See D.12-11-025, Decision Adopting Policies for Demand Response Direct Participation (November 29, 2012).

comprised of 745 MW on the SCE system and 452 MW on the PG&E system. The study found no distributed generation deliverability available on the San Diego Gas and Electric system due to binding transmission constraints.

The second component of the process, which is now getting underway, is for utility distribution companies to assign deliverability status to specific distributed generation resources. FERC's conditional approval required the ISO to make certain changes to this part of the proposal, for which the ISO filed compliance provisions on April 15, 2013. Under the April 15 filed compliance provisions, FERC-jurisdictional utility distribution companies – i.e., the IOU participating transmission owners – will establish first-come-first-served order among the distributed generation resources connected to or seeking to connect to their distribution systems, and will assign deliverability status to the resources in this order until the amount of available distributed generation deliverability at each node is used up. Both Rule 21 (non-net energy metered) and WDAT projects will be eligible to participate in this assignment process.

Municipal utility distribution companies and metered subsystems that operate distribution facilities connected within IOU distribution systems will also have quantities of distributed generation deliverability available to them for assigning deliverability status to distributed generation resources that interconnect to their distribution facilities. As non-FERC jurisdictional utility distribution companies they will not be required to follow the first-come-first-served order.

The ISO is working with the utility distribution companies to resolve any implementation questions, so that the second component can be completed by approximately the end of May of this year. The utility distribution companies will then

report to the ISO in early June regarding the specific distributed generation resources to which they have assigned deliverability status under this new process. Such resources that expect to reach commercial operation no later than September 1, 2014 will be eligible to participate in the ISO's net qualifying capacity assessment for the 2014 resource adequacy compliance year.

D. Treatment of the Interties

Certain parties assert that interties should reduce the need for flexible capacity. In order to understand the ISO's treatment of interties in the deficiency assessment, it is important to understand the nature of the needs being addressed by the single attribute flexibility attribute proposed by the Joint Parties. The Joint Parties agreed to use a single three-hour ramp attribute as a means to maximize the probability that the ISO will have the resources it needs to simultaneously address short, steep 5-minute ramps and long, multi-hour continuous ramps, while still fitting within a bilateral contracting framework. The ISO had originally proposed multiple flexible capacity products that would procure unique and individual flexible capacity attributes. However, the ISO received feedback that bilaterally procuring multiple resource attributes was not feasible. Within this "ease of contracting" parameter, the Joint Parties' proposed a 3-hour net load ramp as the best, compromise metric to address the system's overall flexible capacity need. However, the proposed single 3-hour net load ramp attribute is simply an interim measure to fit into the existing resource adequacy program paradigm, but it is not robust enough, nor does the ISO believe it will have sufficient longevity to address the balancing area's long-term flexible capacity needs.¹⁷ The ISO's actual ramping needs require some faster-ramping dispatchable capability as well as slow

¹⁷ The ISO discussed this point in its initial comments, p. 13, footnote 15.

ramping over a longer time period than 3 hours.

Some parties have argued that interties do provide ramping capability over three hours. The ISO agrees with that point. However, intertie resources that are not able to adjust for 5-minute dispatch instructions are only able to respond to part of the ramping needs of the ISO. Therefore, intertie resources that are not dispatchable by the ISO at 5-minute increments do not satisfy the flexible capacity 3-hour attribute, which was a compromise resource performance attribute reached in the Joint Parties' Proposal to secure and satisfy flexible capacity needs in the interim period.

E. No Alternative Or Competing Flexible Capacity Solutions Or Counting Conventions Were Proposed Except By DECA

No competing or alternative flexible capacity proposal to the Joint Parties' Proposal and the Energy Division's revised proposal, or even different resource counting conventions, were recommended by any party in this proceeding, other than DECA. Some comments were critical that preferred resources did not have a unique counting convention like the Joint Parties worked out with PG&E for use-limited hydro resources. EnerNOC's comments are very critical of the Energy Division and Joint Parties' Proposal regarding the ability for demand response to count as flexible capacity.¹⁸ Yet, EnerNOC failed to proffer any alternative solution detailing how demand response could be configured and counted to offer flexible capacity. Even in response to question 17 in the December 6, 2012 scoping memo of the Assigned Commissioner and ALJ, Appendix B, about what metrics and characteristics could be used for the flexibility of demand response and storage resources, EnerNOC provided no detail, criteria, or content that could have helped guide the Commission on the

¹⁸ EnerNOC comments, pp. 3-4 and 9.

counting of demand response resources as flexible capacity. To the ISO's knowledge, in the time since the Joint Parties' Proposal was submitted, EnerNOC has not launched a discussion or working group to develop a counting solution for demand response for consideration by the Commission and other parties.¹⁹ The ISO has recommended that counting demand response resources as flexible capacity be discussed in the next resource adequacy proceeding. In the meantime, EnerNOC's criticism of the Joint Parties' Proposal, without factual foundation or a recommended alternative, is not a valid basis for the Commission to defer taking action in this proceeding.

F. DECA's Critical Assessment Does Not Align With Actual System Operations

In its opening comments, DECA describes as the "single most important problem with the demonstration of flexibility need" is commingling a resources' flexible capability with a separate obligation to provide energy.²⁰

DECA does not appear to understand real-time operations and the fundamental need to ensure the system is balanced through real-time energy dispatches. In the resource adequacy context, the interim flexible capacity proposal is simply ensuring that dispatchable resources are available in real-time to deliver energy to balance loads and resources based on an ISO dispatch instruction. Since consumption and resource output vary continuously, the task of the ISO is to attenuate these variances and ensure resources are available to move up or down per ISO instructions or via the ISO's automatic generation control signal. The ISO cannot balance the system by merely relying on the scheduled hourly ramps of resources. The system must remain balanced

¹⁹ Comments of EnerNOC, Inc., on Resource Adequacy and Flexible Capacity Procurement Joint Parties Proposal (December 26, 2013), p. 16.

²⁰ DECA comments, p. 7.

in accordance with NERC and WECC reliability standards. Saying this, hourly scheduled resources, like inerties and certain generators, are important and essential to ensuring sufficient energy is on-line to meet scheduled load, but without real-time five-minute dispatchability and regulation, the ISO cannot balance the system and maintain intra-hour load and resource variability. The system requires different resource attributes that, in combination, provide the reliability needed to reliably operate the system. Not every single resource must possess the universe of operating characteristics needed to manage the system.

V. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission issue an order adopting a flexible capacity procurement obligation in the 2014 resource adequacy compliance year.

Respectfully submitted,
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