

**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.)	
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**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
REPLY COMMENTS ON PROPOSED DECISION**

The California Independent System Operator Corporation (“ISO”) respectfully submits its reply comments to the initial comments filed by other parties on the Proposed Decision Adopting Local Procurement Obligations For 2014, A Flexible Capacity Framework, And Further Refining The Resource Adequacy Program (“Proposed Decision”), which California Public Utilities Commission (“Commission” or “CPUC”) Administrative Law Judge Gamson issued on May 28, 2013.¹

The ISO continues to support the Proposed Decision and the adoption of a flexible capacity requirement in 2015 for jurisdictional load serving entities. Several parties submitted comments suggesting that the Commission should modify the Proposed Decision. The ISO anticipated most of those suggestions and addressed them in its initial comments. These reply comments will be limited to (i) explaining why the Commission should not delay adoption of the flexible capacity procurement framework for 2015 and (ii) clarifying the must offer obligation for flexible capacity resources.

I. THE FLEXIBLE CAPACITY REQUIREMENT SHOULD NOT DELAYED BEYOND 2015

In its comments, TURN suggests that the Commission modify the Proposed Decision to avoid committing to adopt a flexible capacity procurement obligation for 2015. TURN claims that the Commission should reserve judgment on whether to initiate the

¹ The ISO submits these comments pursuant to the CPUC’s Rules of Practice and Procedure, Article 14.

procurement obligation in 2015 because there is insufficient evidence to show a need for flexible capacity in 2015 and because parties have questioned the assumptions used in ISO studies that estimate future flexible capacity needs.²

TURN's argument does not align with the intent of the resource adequacy program or the record in this proceeding which supports the adoption of the flexible capacity procurement obligation for 2015.

The primary objective of the resource adequacy program is to ensure that sufficient resources are planned and available when and where needed by the ISO to reliably operate the grid. Adopting flexible capacity requirements through the resource adequacy program is fully in alignment with this objective. As the ISO has demonstrated in this proceeding, and the Proposed Decision has recognized, significant changes on the system are occurring. As a result of these changing conditions, sufficient flexible capacity must be retained, available and operationally available to the ISO so that the ISO can maintain reliability in its balancing authority while supporting achievement of state policy goals. Further, as the ISO demonstrated at the workshop on March 20, 2013, the system conditions underlying the operational need for flexible capacity are already occurring. The ISO presented data showing that three-hour net load ramps exceeding 7,500 MW are being experienced in 2013. It is therefore important for the Commission to act in this proceeding and incorporate flexible capacity into the resource adequacy program.

TURN offers no tangible basis or support for its assertions that the ISO's assumptions are flawed and that there is no need for a flexible capacity requirement in 2015. Accordingly, TURN's assertions do not constitute a valid basis to delay adopting the flexible capacity procurement obligation. The ISO's methodology incorporates assumptions from the CPUC and the California Energy Commission, uses the most current data available, and includes reasonable assumptions regarding load and renewable output. The

² TURN comments, pp. 1, 2-3.

ISO described its methodology in presentations and discussions during the workshops, and provided the data underlying the assessment to the parties in this proceeding. While some parties questioned the assumptions the ISO used in the studies, no party demonstrated in the record that the ISO's formula inaccurately measures flexible capacity requirement needs for the ISO balancing authority area. Further, no party presented specific alternative assumptions, or an alternative methodology or study for assessing flexible capacity requirements. The ISO's methodology, as reflected in the Joint Parties' Proposal, is fully supported by the record.

DRA's comments generally support the Proposed Decision and concur with adoption of a flexible capacity framework as an important enhancement to the resource adequacy program. DRA, however, suggests that it is premature to definitively state that the flexible capacity procurement obligation will go into effect in 2015. DRA suggests that the Commission modify the Proposed Decision to provide that adoption of the flexible capacity procurement obligation will not occur until after the ISO has implemented tariff provisions for an enhanced must offer obligation for flexible capacity.³

The ISO submits that the change DRA suggests is unnecessary. In its initial comments, the ISO outlined the stakeholder initiative it has commenced that will ultimately lead to a FERC filing to amend the ISO tariff to incorporate the flexible capacity requirement and must offer obligation. The ISO's timeline for these actions will allow for FERC to issue a decision and the new tariff provisions to become effective in spring of 2014, in advance of the load serving entities' procurement activities for 2015.

II. THE MUST OFFER OBLIGATION WILL TAKE INTO ACCOUNT THE CHARACTERISTICS OF PREFERRED RESOURCES

The comments of CESA and EnerNoc share a concern about how the must offer obligation will apply to flexible capacity from preferred resources and energy storage

³ DRA comments, pp. 1-3.

resources. CESA suggests that further discussion should occur to refine eligibility criteria, asset evaluation, and other aspects of flexible capacity procurement in a way that properly allows for full and fair participation of energy storage and other procured assets.⁴ EnerNoc suggests that the Commission modify the Proposed Decision to order the commencement of workshops to explore preferred resource eligibility for flexible capacity well in advance of a June 2014 RA Decision.⁵

In its initial comments on the Proposed Decision, the ISO committed to work with the Energy Division staff and other parties to establish appropriate flexible capacity counting criteria for use-limited and preferred resources. The ISO's revised straw proposal, issued on June 13, 2013, in the flexible capacity stakeholder initiative reinforces this commitment. The proposal makes it clear that the ISO will collaborate with demand response providers and owners of use-limited resources to identify resource operating characteristics so that they will be taken into account in developing the appropriate must offer obligation for these resources.

DECA's comments confuse the three-hour ramping capability criterion for a resource to be eligible to provide flexible capacity with the ISO's proposed 17-hour must offer obligation. DECA claims that the must offer obligation will, in effect, turn the three-hour ramping capability into a requirement that a resource be able to provide energy 17-hours a day even if it is operationally limited.⁶ That is not correct.

The ISO's proposed must offer obligation will require flexible capacity resources included in resource adequacy plans to submit economic energy bids into the ISO's day-ahead and real-time markets from 5:00 a.m. through 10:00 p.m.⁷ in addition to the existing availability requirements for generic resource adequacy capacity. The ISO anticipates that

⁴ CESA comments, pp. 2-4.

⁵ EnerNoc comments, pp. 5-6.

⁶ DECA comments, pp. 3-4.

⁷ These are the hours in which significant ramps and intra-hour variability are most likely to occur.

the majority of use limitations for thermal, hydro, and demand response resources can be managed, while still requiring bidding during all of these hours, through constraints modeled in the ISO market or through appropriate default energy bids or start-up costs that reflect these constraints. For demand response resources, the ISO is seeking comments from stakeholders regarding the best way to manage the use-limitations based on the hours in which they can be called. The key point that DECA has overlooked is that once a dispatched resource reaches its use limitation, it will no longer be subject to the flexible capacity availability requirement.

III. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission issue an order consistent with these reply comments.

Respectfully submitted,

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