

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

Order Instituting Rulemaking to Oversee)
the Resource Adequacy Program, Consider) Rulemaking 11-10-023
Program Refinements, and Establish Annual)
Local Procurement Obligations.)

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON PROPOSED DECISION**

The California Independent System Operator Corporation (“ISO”) respectfully submits these comments on the California Public Utilities Commission (“Commission” or “CPUC”) Proposed Decision Adopting Local Procurement and Flexible Capacity Obligations For 2015, and Further Refining the Resource Adequacy Program, issued by Administrative Law Judge Gamson on May 27, 2014.

The ISO generally concurs with the proposed decision. The ISO provides these comments specifically in support of the following areas:

- 1) Adoption of the ISO’s local capacity and flexible capacity study results for the 2015 resource adequacy year;
- 2) Adoption of the proposed flexible capacity procurement framework,¹ with the exception of the May due date for the ISO to provide the effective flexible capacity values for each resource;
- 3) Revision of the Energy Division’s proposed qualifying capacity and interim

¹ Proposed Decision, Appendix A.

effective flexible capacity calculation methodology for energy storage and supply-side demand response resources;²

- 4) Adoption of the requirements for the investor owned utilities to include cost allocation mechanism resources on resource adequacy showings;
- 5) Deferral of the final development of the effective load carrying capacity methodology for wind and solar resources.

I. COMMENTS

A. Adoption of the ISO's Local Capacity and Flexible Capacity Study Results for the 2015 Resource Adequacy Compliance Year

In the last three CPUC resource adequacy annual proceedings, the ISO has shown the need for sufficient flexible capacity to be available for reliable operation of the grid and achievement of the state's policy objectives, and has supported the adoption of firm flexible capacity procurement requirements. The ISO has collaborated with parties in this proceeding, as well as with stakeholders in the ISO's flexible resource adequacy criteria and must offer obligation stakeholder initiative, to develop the framework that will address potential deficiencies of flexible capacity from resources adequacy resources. The ISO designed a study methodology to determine the ISO's system flexible capacity needs, and used flexible capacity categories to address specific operational needs. The ISO's flexible capacity needs assessment study methodology has now been widely vetted and has broad support from many parties.

The proposed decision correctly adopts the results of the ISO's flexible capacity needs assessment, including the proposed flexible capacity categories and seasonal contributions to each category. The ISO urges the Commission to adopt those results

² Proposed Decision, Appendix B.

and set firm flexible capacity procurement requirements as necessary steps toward ensuring state energy and environmental policy goals are achieved and system reliability is maintained. The ISO also supports that Commission's adoption of the ISO's local capacity requirements study, as recommended in the proposed decision.

B. Energy Division's Proposed Flexible Capacity Procurement Framework

The proposed decision describes the recommended flexible capacity procurement framework in Appendix A. The ISO supports the effective flexible capacity counting conventions in the proposed framework for dispatchable thermal, hydro, and combined heat and power resources. The calculation of the flexible capacity capabilities of these resources is consistent with the ISO's proposal in the flexible resource adequacy criteria and must offer obligation initiative. The flexible capacity categories also mirror those proposed by the ISO. It is important that the ultimate decision issued by the Commission approve these essential aspects of the flexible capacity framework to maintain consistency for CPUC jurisdiction load-serving entities.

As discussed below, there are very minor differences between the flexible capacity framework outlined in the proposed decision and the ISO's flexible resource adequacy criteria and must-offer obligation proposal. The ISO is committed to continue to collaborate with the Energy Division to achieve the greatest alignment possible between the ISO's proposals and the CPUC's resource adequacy program.

Finally, because of the connection with the net qualifying capacity calculations, the ISO will not be able to produce a draft effective flexible capacity by May of any given year, as suggested in the proposed decision. Currently, the ISO relies on the qualifying capacity list provided by the CPUC to calculate the net qualifying capacity for resources,

and may not receive that list until May or June. The ISO will use the same list to compute the effective flexible capacity for flexible resources. Depending on when the ISO receives the list, it may not be possible for the ISO to conduct its analysis and produce a draft effective flexible capacity list until August or September. Accordingly, the ISO requests that the date for the ISO to submit the effective flexible capacity values be modified to reflect that the ISO will provide those values in September each year.

Appendix A to the proposed decision outlines several issues for the 2016 resource adequacy year.³ The ISO specifically supports continued review of the flexible capacity categories (Item 3). The ISO will be conducting its own assessment starting in the first quarter of 2016 to ensure the defined categories are, in fact, providing the flexible capacity needed by the ISO. The ISO assessment will help inform the ISO, the CPUC, and market participants about the potential changes needed to for flexible capacity procurement for the 2018 Resource Adequacy compliance year and beyond. Additionally, the ISO supports the Commission's continued review of the prospect of allowing a resource providing allowing resources to "unbundle" the flexible capacity from the system/generic capacity (item 4). As noted in the ISO's April 17, 2014 comments -- "there are potential market inefficiencies created by prescriptively requiring the two products be bundled. Allowing a resource to sell the flexible and generic attributes separately allows both the LSEs and the resources to make better procurement decisions and could lead to more efficient bilateral market outcomes."⁴

³ Proposed Decision, pp. A12-A13.

⁴ ISO Comments on April 9, 2014 Workshop Presentations and Proposals on Flexible Capacity and Resources Adequacy, p. 23.

C. Energy Division’s Proposed Qualifying Capacity and Effective Flexible Capacity Calculation Methodology for Energy Storage and Supply-Side Demand Response Resources

The Energy Division’s revised proposal to establish qualifying capacity rules and effective flexible capacity identified several differences with the ISO’s flexible resource adequacy criteria and must offer obligation proposal. In workshop comments, the ISO identified two areas in which the Energy Division and the ISO proposals differed.⁵

These issues were:

- 1) Resources with negative operating capability (dispatchable charging or load increase) need not be registered as non-generating resources; and
- 2) Up to 45 minutes of transition time between negative (charging or load increase) and positive (discharging or load curtailment) operational modes is permitted, and does not count towards the three hour period Discontinuity in dispatchable output is also permitted during this transition time (e.g., due to minimum pump loads).

To varying degrees, the proposed decision addresses both of these items and the ISO is supportive of these changes.

First, the proposed decision shares the ISO’s concern that the “45-minute transition time” for storage resources providing flexible capacity could have unforeseen grid reliability impacts and does not adopt that transition time period. The proposed decision, however, encourages the Energy Division, the ISO, and other parties “to further explore this concept so that it can be reconsidered for the 2016 RA compliance

⁵ ISO Comments on April 9, 2014 Workshop Presentations and Proposals on Flexible Capacity and Resources Adequacy, at p. 21-22.

year.⁶ The ISO supports the proposed decision on both points. As part of the continued review, the ISO will work with the Energy Division and the other parties to develop the best approach for determining the transition time for storage resources.

To a lesser degree the proposed decision also addresses the ISO's proposed requirement that a storage resource register as a non-generator resource in the ISO master file in order for the resource's charging capability to count as flexible capacity. While the proposed decision will not require storage resources to register as a non-generator resource, it makes clear that the proposed treatment for storage resources is "interim" and that "extensive revisions in the 2016 compliance year is expected" as the Commission "further explores various issues raised in this proceeding."⁷ As such, the ISO does not oppose the proposed decision's election to not require storage resources to register as a non-generator resource at this time and looks forward to further exploring issues surrounding the flexible capacity provisions for energy storage resources in the next resource adequacy proceeding.

Finally, the ISO believes that the Energy Division proposal for determining the qualifying capacity is consistent with the treatment for determining the qualifying capacity value for other resources. The ISO believes it is also appropriate to extend this treatment to energy storage resources at this time. The proposed decision recommends capping the effective flexible capacity for the discharging capability of the resource at the net qualifying capacity. While this differs from the ISO's flexible resource adequacy criteria and must offer obligation proposal, that difference should not lead to inconsistencies in resource adequacy showings. For example, the ISO and

⁶ Proposed Decision, Conclusion of Law 18, p. 68.

⁷ Proposed Decision, p. 35

CPUC propose similar treatment for charging capabilities of an energy storage resource. Therefore, the CPUC's proposed treatment of the discharge capabilities means the CPUC's calculation of the resource's effective flexible capacity should always be less than or equal to the ISO's calculated effective flexible capacity.

D. Submission of Cost Allocation Mechanism on Resource Adequacy Showings

With the implementation of the ISO's replacement requirement for scheduled generation outages, stakeholders recognized that the cost allocation mechanism ("CAM") program was not designed to enable allocation of the replacement capacity and associated costs. To resolve this issue, the Energy Division and the ISO worked together during 2013 to develop a methodology to both maintain the objectives of the CAM program and enable the ISO to implement the replacement requirement for the CAM resources. The ISO appreciates the Energy Division's collaboration on this matter and supports the proposed decision's determination that requires the investor owned utilities to include all CAM resources in resource adequacy showings. This will ensure that the ISO can apply replacement requirement consistently across CAM and non-CAM resources. As such, the proposed decision addresses the ISO's identified issues and should be adopted by the Commission.

E. Establishing an Effective Load Carrying Capacity Methodology for Wind and Solar Resources

The ISO applauds the efforts of the Energy Division in developing its proposed effective load carrying capacity methodology to comply with SB2 (1X). However, the ISO agrees with the proposed decision's determination that the Energy Division should "further develop its ELCC proposal and address the issues identified above such that an

ELCC-based QC methodology can be considered by the end of 2014.”⁸ The ISO looks forward to continued discussion on this matter in the 2016 resource adequacy proceeding.

II. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the CPUC issue an order consistent with the ISO’s comments.

Respectfully submitted,

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⁸ Proposed Decision, p. 60