

**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

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**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
REPLY COMMENTS ON MAY 27, 2014 PROPOSED DECISION**

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The California Independent System Operator Corporation (“ISO”) respectfully submits these reply comments on the Proposed Decision in the captioned proceeding, which California Public Utilities Commission (“Commission” or “CPUC”) Administrative Law Judge Gamson issued on May 27, 2014. The ISO supports the Proposed Decision and offers the following reply comments:

- 1) There is no record support for deferring flexible capacity requirements until 2016;
- 2) The request to establish a two-hour Maximum Cumulative Capacity bucket for local or system resource adequacy has not been adequately developed;
- 3) The requested modification with respect to the counting rules is unnecessary;  
and
- 4) The CPUC flexible capacity procurement obligation should not be interim.

**I. THERE IS NO RECORD SUPPORT FOR DEFERRING FLEXIBLE CAPACITY REQUIREMENTS UNTIL 2016**

ORA’s comments suggest that the Commission should defer adopting flexible capacity requirements “because (1) it is unlikely that the CAISO’s FRACMOO tariff will

be adopted by FERC in time to allow implementation by load serving entities (LSEs) for the 2015 procurement period, and (2) flexible capacity procurement obligations are unnecessary for the 2015 procurement period.”<sup>1</sup> AReM asserts that the Commission should defer flexible capacity requirements because it “is convinced that the policies and systems necessary for efficient implementation of these new requirements are not yet at a stage of readiness that allows for effective or efficient procurement of flexible capacity for the 2015 RA year...”<sup>2</sup>

The record does not support the arguments made by ORA and AReM. As discussed in the Proposed Decision, the CAISO’s Flexible Capacity Needs Assessment for 2015 establishes “a need for flexible capacity procurement; due to ramping requirements arising from an influx of variable energy resources in the generation fleet.”<sup>3</sup> The Proposed Decision also correctly recognizes that there may not be sufficient flexible capacity in 2015 because not every resource with flexible attributes may opt to sell flexible capacity or be subject to the applicable must-offer requirements.<sup>4</sup>

In addition, the Commission’s decision in the last RA proceeding rejected arguments similar to those made by ORA and AReM. The Commission found that:

The ISO has clearly demonstrated that over the next several years changing system conditions, specifically increased levels of generation from intermittent sources of power, will cause an increasing requirement for flexible capacity to enable the ISO to reliably operate the grid. . . . The ISO has shown that flexible capacity needs are likely to increase year after year, as more inflexible resources come onto the system. As flexible capacity needs increase, the necessity for flexible resources increases. While we do not know exactly when flexible capacity needs may exceed currently-available flexible capacity resources (although this will almost

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<sup>1</sup> ORA Comments on the Proposed Decision, p. 1.  
<sup>2</sup> AReM Comments on the Proposed Decision, pp. 2-3.  
<sup>3</sup> Proposed Decision, pp. 17-18.  
<sup>4</sup> *Id.* at 17.

certainly not occur in 2014), it is necessary to take proactive steps now to ensure that system needs are available to ensure safe and reliable service. Starting in 2015, we find there is a reasonable likelihood that additional flexible resources will need to be available to the ISO through a new RA requirement. The amount of flexible capacity needed for 2015 (and beyond) will be determined in future proceedings.<sup>5</sup>

In response to AReM's comments about the timing of the FRAC-MOO filing, the ISO clarifies that the ISO will submit the filing to FERC within the next few weeks. FERC will have 60 days to rule on the filing, which means that FERC's decision should be issued more than two months in advance of the first flexible capacity showings, which will be due in mid-November for the resource adequacy compliance month of January 2014.

## **II. SCE'S REQUEST FOR A TWO-HOUR MAXIMUM CUMULATIVE CAPACITY BUCKET HAS NOT BEEN ADEQUATELY DEVELOPED**

SCE believes "it is feasible for a resource that is available for two consecutive hours, rather than the current four-consecutive hour RA requirement, to meet the LCR need identified by the CAISO."<sup>6</sup> Further, SCE asserts "[r]esources which meet the local need inherently meet the system need, and as such, should count as both local and system RA within this proceeding."<sup>7</sup>

The ISO submits that these recommendations have not been adequately developed, in concept or in the record. There was little discussion of these changes during the workshops or in comments. The ISO has not conducted the necessary studies to analyze the recommended change to the resource adequacy program and is not, at this time, taking a position as to whether or not such a change should ultimately

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<sup>5</sup> Decision 13-06-024 (June 27, 2013), pp 41-42.

<sup>6</sup> SCE Comments on the Proposed Decision, p. 2.

<sup>7</sup> SCE Comments on the Proposed Decision, p. 3.

be adopted. The ISO supports deferring SCE's proposed modification to a future RA proceeding where parties can develop an adequate record.

### **III. THE REQUESTED MODIFICATION WITH RESPECT TO FLEXIBLE RA CAPACITY COUNTING RULES IS UNNECESSARY**

PG&E's request that the Proposed Decision "make clear that the Commission expects the CAISO to defer with respect to flexible RA capacity 'counting rules'" is unnecessary. The ISO has stated in its FRACMOO stakeholder initiative that it will use its effective flexible capacity criteria (1) as a default in the event a local regulatory authority does not adopt specific counting criteria, and (2) to assess the need for backstop procurement. Neither of these criteria interferes with CPUC jurisdiction over the RA program. Item (1) is consistent with the ISO's tariff provisions regarding default planning reserve margins, and item (2) pertains solely to the ISO's backstop procurement authority that is subject to FERC's jurisdiction. PG&E identifies no specific need for its proposal. Further, the ISO and CPUC have coordinated efforts and reached mutually agreeable compromises to arrive at the Energy Division's proposals in this proceeding and ISO's proposal in its FRACMOO stakeholder initiative.

### **IV. THE CPUC FLEXIBLE CAPACITY PROCUREMENT OBLIGATION SHOULD NOT BE INTERIM**

In its initial comments on the Proposed Decision, ORA states that "a flexible capacity requirement as an ongoing part of the RA program is, for several reasons, preferable to creating a program with a short-term sunset date."<sup>8</sup> The ISO concurs. While the flexible capacity concept may evolve in future years, the ISO does not foresee a time when flexible capacity procurement will not be needed, given

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<sup>8</sup> ORA Comments on the Proposed Decision, p. 7.

the evolving needs of the system. The Commission already has the ability to update and adjust the RA program year-to-year as appropriate. The ISO supports ORA's recommendation to remove the "interim" tag from the flexible capacity procurement obligation and provide load serving entities with "the regulatory certainty needed to procure flexible capacity in a cost effective manner via long-term contracts."<sup>9</sup>

## **VI. CONCLUSION**

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

Respectfully submitted,

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<sup>9</sup> ORA Comments on Proposed Decision, p. 7.