



**Federal Energy Regulatory Commission**  
**October 16, 2014**  
**Open Commission Meeting**  
**Staff Presentation**  
**Item E-5**

"E-5 addresses the California Independent System Operator Corporation's proposal to expand its resource adequacy framework to include flexible resource adequacy capacity requirements. The draft order conditionally accepts, subject to compliance and reporting requirements, CAISO's proposed flexible resource adequacy capacity methodology as a just and reasonable approach.

"CAISO in its filing states that its electric grid is undergoing significant operational challenges, driven by California's energy and environmental policy initiatives, including a renewable portfolio standard of 33 percent by 2020, and various policies encouraging more reliance on distributed generation.

"According to CAISO, managing the increased penetration of variable energy resources and distributed generation has increased supply and net load variability and unpredictability, at a time when California's once-through-cooling requirements will reduce the number of existing resources that are available to manage variability and maintain reliability. Thus, CAISO's need for flexible capacity is increasing.

"CAISO's proposed flexible capacity methodology includes the following elements:

- a system-wide flexible capacity needs determination for the following year;
- the calculation and allocation of the flexible capacity needs in each of three flexible capacity categories to local regulatory authorities—local regulatory authorities are responsible for allocating flexible capacity procurement obligations to their load serving entities;
- a month-ahead and year-ahead showing of flexible resource adequacy by load serving entities and CAISO's cumulative evaluation of these showings;
- a must-offer obligation requiring flexible capacity resources to bid into the CAISO market; and
- an extension of CAISO's authority under its capacity procurement mechanism to procure additional flexible capacity when there is a cumulative deficiency, and an allocation of backstop procurement costs to each load serving entity that failed to cure its deficiency.

"The draft order would largely accept CAISO's proposal. The draft order directs CAISO, on compliance, to revise proposed tariff provisions to remove a barrier for resources that have not submitted prior bids to qualify as flexible capacity resources. The draft order also directs CAISO to submit an informational report, by January 1, 2016, addressing, among other things, information about allocating flexible resource adequacy capacity obligations and backstop costs, and the feasibility of allowing imports to provide flexible capacity.

"While the proposal addresses CAISO's immediate needs for flexible capacity, a more comprehensive framework is under consideration including a multi-year forward resource adequacy mechanism and a market-based backstop procurement mechanism. These mechanisms are currently being assessed through California Public Utilities Commission and CAISO stakeholder processes."