

150 FERC ¶ 61,138
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, Tony Clark,
Norman C. Bay, and Colette D. Honorable.

California Independent System Operator Corporation Docket No. ER14-2574-001

ORDER INITIATING BRIEFING PROCEDURES

(Issued February 25, 2015)

1. In this order, we order briefings to obtain additional information that will assist the Commission in its consideration of a request by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (Six Cities) for rehearing of the Commission's October 16, 2014 order conditionally accepting the California Independent System Operator Corporation's (CAISO) proposed tariff revisions to implement flexible resource adequacy capacity requirements.¹

I. Background

2. The California Public Utilities Commission (CPUC) and other local California regulatory authorities have established resource adequacy programs to ensure that sufficient resources are offered into the CAISO markets to maintain reliable grid operation. The CPUC resource adequacy program includes one-year forward and monthly demonstrations by load serving entities that they have procured sufficient capacity to meet the resource adequacy requirements approved by CPUC in its annual resource adequacy proceeding. These requirements have historically consisted of a system-wide component, which is calculated based on the load serving entities' system peak load plus a 15 percent planning reserve margin, and a local component, which is based on CAISO's local capacity technical analysis.²

¹ *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,042 (2014) (October 2014 Order).

² CAISO August 2, 2014 Application at 12 (CAISO Proposal).

3. Through a series of annual rulemaking proceedings, CPUC has expanded the resource adequacy program to include a flexible capacity framework, within which resources with certain ramping and start-up/shut-down capability are procured to manage system variability. In June 2014, CPUC issued a final decision that adopted firm flexible capacity obligations for its jurisdictional load serving entities for the period of 2015 through 2017.³

4. On August 1, 2014, CAISO submitted proposed tariff revisions to implement a flexible capacity framework designed to work in conjunction with the resource adequacy programs of CPUC and other local regulatory authorities to ensure the successful integration of renewable resources and the availability of resources necessary to address the related operational challenges. CAISO stated that the purpose of the proposed tariff revisions was to ensure that resources necessary to meet flexible capacity needs submit economic bids into the CAISO markets and therefore are available for dispatch by CAISO.⁴

5. CAISO's flexible resource adequacy capacity proposal included, among other things: tariff revisions related to CAISO's determination of the need for flexible resource adequacy; the establishment of three categories of flexible resource adequacy capacity to address base, peak, and "super peak" ramping needs; a methodology for allocating needs in those three categories to local regulatory authorities; and must-offer obligations associated with each of the three flexible resource adequacy capacity categories.⁵

6. The Commission conditionally accepted CAISO's proposal in the October 2014 Order, finding that the revisions "constitute an appropriate set of measures for ensuring that CAISO has access to the flexible capacity it needs to operate the grid reliably."⁶ In relevant part to this order, the Commission rejected a request by Six Cities to require CAISO to modify the must-offer obligation for two combined use-limited resources that can, as a pair, satisfy the certain eligibility and availability requirements required for flexible resource adequacy capacity categories, but would not meet those requirements on

³ CAISO Proposal at 11-14 (citing CPUC, *Decision Adopting Local Procurement and Flexible Capacity Obligations for 2015, and Further Refining the Resource Adequacy Program*, Rulemaking 11-10-023 (June 27, 2013)).

⁴ CAISO Proposal at 2.

⁵ *Id.* at 3-4.

⁶ October 2014 Order, 149 FERC ¶ 61,042 at P 30.

an individual basis.⁷ Under CAISO's proposal, which was accepted by the Commission, two use-limited resources that are paired to provide flexible capacity are each required, under the must-offer obligation, to offer their designated flexible resource adequacy capacity amounts, but the amount of allowable flexible resource adequacy capacity for use by CAISO, in the combination would be less than or equal to the lowest designated flexible capacity value for one of the resources in the pair.⁸

7. Six Cities argued that this requirement would impose an unreasonable obligation on combined use-limited resources because the resources would be required to offer an amount of capacity at least double the level of resource adequacy credit received by the pair. Thus, Six Cities contended that CAISO's proposal could expose both resources to the risks of violating use limitations or being exposed to non-availability penalties and requested that the Commission direct CAISO to modify the must offer obligation such that combined use-limited resources could satisfy the must-offer obligation by submitting economic bids for either resource in the pair up to the level of flexible resource adequacy credit received.⁹

8. The Commission found that Six Cities' requested modification could defeat the purpose of combining the resources to provide flexible resource adequacy capacity. The Commission noted that if either resource in the combination could satisfy the requirements on its own, then forming a combination would not be necessary. Thus, the Commission found CAISO's proposed must-offer obligation to be reasonable "because it ensures that the combined flexible capacity of both resources is available to CAISO."¹⁰

9. On November 14, 2014, Six Cities filed a request for rehearing of the October 2014 Order.

⁷ For example, in order to be eligible to provide base ramping flexible resource adequacy capacity, a resource must (1) be able to provide a minimum of six hours of energy per day; (2) must be capable of being available seven days per week, and (3) must be able to provide a minimum of two starts per day, every day of the month, or 60 starts per month. CAISO Tariff, § 40.10.3.2(a).

⁸ *Id.* P 21; *see also* CAISO Tariff, § 40.10.3.2(b)(3).

⁹ *Id.* P 97.

¹⁰ *Id.* P 101.

II. Rehearing Request

10. In its rehearing request, Six Cities renew their objection to the must-offer obligation for combined use-limited resources that provide flexible resource adequacy capacity. In addition to the alleged risks of violating use limitations or non-availability penalties previously raised by Six Cities, Six Cities caution in their rehearing request that the must-offer obligation, as implemented by CAISO, dilutes the benefits of permitting combined resources and narrows the universe of use-limited resources capable of meeting flexible resource adequacy capacity requirements. Six Cities claim that, as currently structured, the must-offer obligation limits the operational flexibility and provides CAISO with significantly more flexible capacity than is recognized. Moreover, Six Cities assert that, under the current requirements, CAISO could use up all the available starts for the combined units well before the end of any given month, leaving CAISO without needed flexible capacity for the remainder of the month.¹¹

11. Six Cities acknowledge that CAISO's concern regarding the ability of a combined resource to fulfill the flexible resource adequacy requirements may apply where one of the resources has a daily start limit of one start per day because the requirements specify at least two starts per day. Absent a daily start limit, however, Six Cities argue that there should be no obligation for both resources in the combination to offer the entirety of their flexible resource adequacy capacity at the same time. Thus, Six Cities contend that CAISO's prior objections to Six Cities' requested modification were invalid and the Commission erred by relying on those objections.¹²

12. Six Cities reiterate their assertion that the must-offer obligation should be commensurate with the level of flexible resource adequacy credit received by a combination of resources and the scheduling coordinator for such resources should be able to satisfy the obligation by submitting economic bids for either resource up to the designated level of flexible resource adequacy credit received. Accordingly, Six Cities request that the Commission grant rehearing of the October 2014 Order and require CAISO to modify the flexible resource adequacy must-offer obligations as described by Six Cities.

¹¹ To illustrate its point, Six Cities provide an example where a 15 MW and a 20 MW use-limited resource combine to provide flexible capacity. Under the current tariff, the combined resources would be afforded 15 MW flexible capacity credit, but would be required to bid the entire 35 MW of their combined capacity. Six Cities November 14, 2014 Request for Rehearing at 4-7 (Six Cities Rehearing Request).

¹² *Id.* at 7-8 (citing CAISO September 5, 2014 Answer at 29).

III. Discussion

13. We believe that the Commission would benefit in its further consideration of this matter by the receipt of briefs from parties in this proceeding addressing the matters raised in Six Cities' rehearing request with respect to the must-offer obligation for combined use-limited resources who provide flexible resource adequacy capacity. Accordingly, pursuant to Rule 713(d)(2) of the Commission's Rules of Practice and Procedure,¹³ we will permit briefs to be submitted by any party to this proceeding on these issues.

14. Specifically, the briefs should discuss, as applicable to the submitting parties, along with any other relevant information, the following topics:

(1) whether CAISO has the ability to call the total amount of MW bid into the markets by the combined use-limited resources, or only the amount of flexible resource adequacy capacity credited to the pair of resources;¹⁴

(2) whether CAISO's master file is updated to include information on use limitations of the combined pair, or whether the CAISO market software continues to rely on existing information in the master file on the individual resources;

(3) any potential reliability impacts of modifying the must-offer obligation as requested by Six Cities;

(4) the extent of software modification by CAISO that may be required to accommodate Six Cities' request;

(5) any other burden to CAISO that would result from modifying the must-offer obligation as requested by Six Cities; and

(6) the extent and nature of harm that has been or could reasonably be expected to be suffered by combined use-limited resources as a result of the must-offer obligation at issue, including, but not limited to, opportunity costs associated with existing must-offer obligations, competitive disadvantage, undue discrimination,

¹³ 18 C.F.R. § 385.713(d)(2) (2014).

¹⁴ In other words, keeping with the example offered by Six Cities in their rehearing request, does CAISO view the combined 35 MW of flexible resource adequacy capacity that are subject to must-offer obligation as available for dispatch, or is CAISO limited to using the 15 MW of credited flexible resource adequacy capacity?

violations of use limitations or other penalties, and restrictions on operational flexibility.

15. Initial briefs should be filed within 30 days of the date of this order. Reply briefs should be filed 21 days thereafter.

The Commission orders:

(A) The Commission hereby initiates briefing procedures pursuant to Rule 713(d)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.713(d)(2), as discussed in the body of this order.

(B) Any party to this proceeding desiring to submit additional information with respect to CAISO's must-offer obligation for combined use-limited resources providing flexible resource adequacy capacity shall submit initial briefs within 30 days of the date of this order and reply briefs within 21 days thereafter, as discussed in the body of this order.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.