

**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

R.11-10-023  
(Filed October 20, 2011)

**PHASE 1 PROPOSALS OF  
THE WESTERN POWER TRADING FORUM**

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**WESTERN POWER TRADING FORUM**

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The *Phase 1 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (“Scoping Memo”) issued on December 27, 2011, set this date for interested parties and staff of the California Public Utilities Commission (“Commission”) to submit specific proposals on the Resource Adequacy (“RA”) issues to be decided in Phase 1 of this proceeding. Pursuant to the Scoping Memo, the Western Power Trading Forum (“WPTF”)<sup>1</sup> submits these proposals.

**I. WPTF PROPOSALS**

WPTF’s proposals herein address two issues. First, WPTF offers comments on the need to ensure a close coordination of the issues of to be addressed with respect to item (f): *CAISO Flexible Capacity Procurement* and item (g): *Update Resource Adequacy rules to account for differences in procurement due to the 33% Renewable Portfolio Standard requirement, the electrical system’s operational needs, and related issue*. Second, WPTF notes that the Scoping Memo failed to include consideration of adjustment to or elimination of the waiver trigger price,

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<sup>1</sup> WPTF is a California non-profit, mutual benefit corporation dedicated to enhancing competition in Western electric markets in order to reduce the cost of electricity to consumers throughout the region while maintaining the current high level of system reliability. WPTF actions are focused on supporting development of competitive electricity markets throughout the region and developing uniform operating rules to facilitate transactions among market participants.

as had been suggested by both NRG Energy (“NRG”) and the Independent Energy Producers Association (“IEP”), and supported by WPTF in its November 21, 2011 reply comments. WPTF believes that a waiver trigger price must be re-evaluated at this time.

**A. Modifying the RA requirements to account for flexible capacity requirements and renewable integration will require close coordination between the Commission and CAISO.**

The scoping memo has included two separate tasks, both of which are focused on better defining RA requirements to meet system requirement. The first task – item (f) in the Scoping Memo – calls for consideration of any specific recommendations that the CAISO may make with respect to the operational challenges the CAISO faces due to increasing amount of renewable generation on the grid. The second task – item (g) in the Scoping Memo – is intended to address areas of overlap between the RA program and the Long Term Procurement Proceeding (“LTPP”), how each program defines the RA needs, and how each is structured to meet these requirements. WPTF agrees that both tasks are important and notes that they are highly interrelated; indeed item (f) could be considered a subset of the broader item (g) issues.

Moreover, the CAISO has also indicated that it will be initiating its own stakeholder process to address similar issues associated with how to develop a capacity procurement mechanism that addresses the longer term needs of the system.<sup>2</sup> Modifications to the RA program with respect to how the RA requirements are defined will have far reaching impacts on customers, the suppliers who own and operate the capacity resources, and the load serving entities that must comply with the RA requirements. How the modifications are implemented will also determine whether and how competitive markets will be structured in California.

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<sup>2</sup> See *California ISO Report on Basis and Need for a CPM Designation for Sutter Energy Center* issued on December 6, 2011 and available at the following address: [http://www.caiso.com/Documents/Basis\\_Need\\_CapacityProcurementMechanismDesignation\\_SutterEnergyCenter.pdf](http://www.caiso.com/Documents/Basis_Need_CapacityProcurementMechanismDesignation_SutterEnergyCenter.pdf).

Specifically, the current bifurcated “hybrid” market for capacity in California has resulted in a structure where nearly all the resources that are qualified for the RA program are under long term contracts to the investor owned utilities (“IOUs”) – contracts that carry with them up front guarantees of cost recovery, or are owned by the IOUs and operated as vertically integrated, rate-regulated assets. WPTF has spoken many times about the chilling effect that utility infrastructure investment– with its associated up-front cost recovery guarantee – has on the ability for non-IOUs to secure long term contracts or make investment decisions. Therefore, WPTF fully supports consideration of how improvements to the RA program can help provide adequate market-based, economic signals to existing generation resources which are necessary to maintain reliability in a future that promises extensive renewable integration challenges. Taken to their fullest potential, well-designed modifications to the RA program could even allow the RA and LTPP programs to merge into a single process. With these goals in mind, WPTF urges the Commission (and the CAISO) to maintain a sharp focus on coordinating their efforts to ensure that the RA program meets the original goals for which it was instituted – to “ensure that the infrastructure investment required for reliability actually occurs.”<sup>3</sup>

**B. The waiver trigger price must be re-evaluated**

Despite requests by NRG, IEP, and WPTF to include a review of the current waiver trigger mechanism in this proceeding, the Scoping Memo is silent on this issue. WPTF believes that this omission will create a significant barrier to RA transactions, especially when and if the recently-filed settlement on the CAISO’s Capacity Procurement Mechanism is approved by FERC. If that approval occurs, there will be a significant disparity between the CPM price – the price that the CAISO will pay to procure capacity to make up for specific RA compliance deficiencies – and the waiver trigger price by which LSEs are absolved from procuring RA

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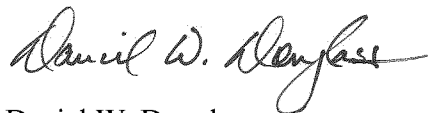
<sup>3</sup> D.05-10-042, at pp. 7-8.

capacity, which could in turn lead to a situation that increases the amount of backstop procurement required by the CAISO. Therefore, WPTF will endeavor to work with other parties in this proceeding in order to present to the Commission a motion on May 12 that addresses this issue.

## II. CONCLUSION

WPTF appreciates the opportunity to submit these proposals, and look forward to working with staff and market participants on these important issues.

Respectfully submitted,



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