

**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
(October 20, 2011)

**PROPOSALS OF THE INDEPENDENT ENERGY PRODUCERS
ASSOCIATION ON PHASE 1 ISSUES**

**INDEPENDENT ENERGY PRODUCERS
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As directed in the Phase I Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge issued on December 27, 2011, the Independent Energy Producers Association (IEP) presents its proposals on Phase I issues. IEP anticipates that a number of parties will submit detailed proposals on Phase I issues, and IEP looks forward to reviewing and considering the various proposals in this Rulemaking.

The issues the Commission will address in Phase 1 take on increased significance in light of recent developments. On December 6, 2011, the California Independent System Operator (CAISO) issued its report on the “Basis and Need for CPM [Capacity Procurement Mechanism] Designation for the Sutter Energy Facility.” In that Report, the CAISO stated that it “has determined that it must take immediate action to avoid . . . reliability and operational issues in the future.”¹ IEP views the need for corrective action and the CAISO’s proposed remedy as a reflection of fundamental structural problems in the California energy markets that have persisted too long. At this early stage of this Resource Adequacy (RA) proceeding, it is critical

¹ Report, pp. 2-3.

for the Commission take a broader perspective and to articulate a series of principles or goals to help frame the evaluation and consideration of the various proposals in relation to this broader perspective. In this regard, IEP offers the following principles and goals to help guide the Commission's review and evaluation of the proposals and issues that will be considered in this proceeding.

1. Seek to Lower Consumer Costs Through Timely and Cost-effective

Procurement. The RA obligation is implemented through a showing that load-serving entities (LSEs) have procured their required amount of qualifying capacity for a calendar year. This structure creates an incentive for "just in time" procurement to meet the annual RA obligation. This emphasis on last-minute purchases may not result in the highest value to consumers. To assist in more rational RA planning and the timely procurement of RA capacity to meet the annual obligation, IEP recommends that each jurisdictional LSE should submit to the Energy Division, as a supplement its Annual RA Compliance Report (and consistent with the Commission's rules on confidentiality), a separate section in which the LSE details its perspective on RA need and procurement plans over a multi-year timeframe (*e.g.*, 5 years) to illuminate the LSE's strategy for meeting its annual obligations at the lowest feasible cost. This showing should be designed to demonstrate to the satisfaction of the Energy Division and any other party with access to the report that the LSE is not unreasonably forgoing longer-term commitments in favor of less cost-effective commitments of one year or less.

2. Incent Sellers to Develop RA Capacity at the Most Appropriate and Cost-effective Locations. Generation, whether interconnected at transmission or distribution voltages, provides the highest value to consumers at the lowest cost when it is installed at

sites that do not required extensive grid upgrades. Similarly, the standard capacity product used to transact RA capacity provides the highest benefit to consumers if it is tradable in a liquid and flexible market. To maximize benefits of RA at the lowest feasible cost, IEP recommends the following:

a. Improve siting decisions through enhanced transparency about available transfer capability at specific locations on the transmission and distribution systems. Developers need to better understand the locations where new generation capacity may be interconnected at the lowest cost. To minimize costs to developers and ultimately to consumers, this information needs to be available ahead of need to influence private and public decisions about where new generation development will be located.

b. Allow greater flexibility and additional options for delivering capacity to meet an RA obligation. Both buyers and sellers should have greater flexibility to obtain capacity to meet RA needs and additional options for delivering that capacity at the appropriate location, while respecting the CAISO's need to maintain overall grid reliability. This increased flexibility could take the form of delivered capacity directly from seller's generation facilities, or delivered capacity procured by seller from a third-party as means to defray unnecessary and costly transmission and distribution upgrades.

3. Seek to Eliminate the Need for CAISO Backstop Capacity Procurement.

Except during emergency or multiple contingency conditions, the CAISO's procurement of backstop capacity ought to be viewed as a sign that the Commission's forward procurement approach has faltered in one form or another. The overall goal of the

Commission's procurement strategy generally, and RA procurement specifically, ought to be to acquire sufficient resources in a timely and cost-effective manner so that the CAISO need not exercise its authority to procure backstop capacity as a last resort. When CAISO backstop procurement occurs, that action reflects a lack of forward planning and procurement to maintain overall grid reliability in a timely and cost-effective manner.

IEP appreciates the Commission's consideration of these principles and goals as an integral part of the RA program, and IEP looks forward to developing an RA program that ensures overall grid reliability at the lowest feasible cost for consumers.

Respectfully submitted this 13th day of January, 2012 at San Francisco, California.

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