

**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  
NRG ENERGY, INC.**

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January 13, 2012

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Consider  
Annual Revisions to Local Procurement  
Obligations and Refinements to the Resource  
Adequacy Program.

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

**PHASE 1 PROPOSALS OF  
NRG ENERGY, INC.**

In accordance with the *Phase 1 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (“Scoping Memo”) issued on December 27, 2011, NRG Energy, Inc.<sup>1</sup> hereby submits these proposals for consideration in Phase 1 of the above-captioned rulemaking.

**I. PROPOSALS**

The NRG Companies offer the following proposals for consideration within Phase 1 of this rulemaking.

**A. The capacity procurement needed to support California’s move towards a  
33% Renewables Portfolio Standard must be better coordinated.**

The Scoping Memo identifies several potential re-examinations of the fundamental nature of the current Resource Adequacy (“RA”) program, notably item (f), the proposal of the California Independent System Operator Corporation (“CAISO”) to incorporate operational characteristics into RA procurement, and item (g), updating RA rules to account for procurement

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<sup>1</sup> NRG Energy, Inc. is the parent of Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, Long Beach Generation LLC and NRG Solar Blythe LLC, each of which owns and operates generating resources in California. Because the focus of this proceeding is on California market issues, NRG Energy, Inc. appears on behalf of these entities, referred to here as the NRG Companies.

intended to help the State meet its goal of having one-third of the energy used to serve load come from renewable resources in 2020.

The NRG Companies concur that the time is ripe for a fundamental re-examination of the RA program and its interactions with the Long-Term Procurement Planning (“LTPP”) process and the energy and ancillary service markets operated by the CAISO. The CAISO’s recent proposal to offer a “risk-of-retirement” designation to a new, efficient, combined cycle facility in order to keep that facility operating so as to provide operating flexibility in the 2018 time frame highlights the misalignment between CAISO-directed and CPUC-directed procurement.

Since its inception, the RA program has largely, though not completely, succeeded in maintaining capacity that is needed to ensure operating reliability in the near term. The LTPP’s track record is far less clear. The LTPP’s ability to orchestrate the kind of procurement that will be necessary to ensure system and local reliability as the state moves towards a renewable-focused bulk power supply system is untested and unproven. Even if the CAISO’s LTPP studies accurately project the operational flexibility needed as 2020 draw nears, it is not yet clear whether the LTPP’s resulting procurement of the needed flexibility will be cost and risk-effective.

The addition of renewable generation to meet the 33% Renewables Portfolio Standard will continue to degrade CAISO energy and ancillary service prices and threaten the viability of the flexible resources needed to maintain reliability. The CAISO’s proposed extra-market approach to retaining flexible generation for future needs cannot be sustained. Now is the time to re-examine and, as possible, integrate, or at least coordinate California’s three “markets” – the operational CAISO markets, the near-term RA procurement market, and the longer term LTPP market. Specifically, the NRG Companies urge the Commission to consider (1) extending the

RA requirements to multi-year forward requirements, and (2) developing market-based mechanisms to ensure the continued development and operation of flexible resources.

In the near term, the CAISO has pledged to initiate a stakeholder process in early 2012 to consider a capacity procurement mechanism that will address system needs over a longer term than that for which its current Capacity Procurement Mechanism (“CPM”) authority provides.<sup>2</sup> The prospects for having five separate capacity procurement mechanisms – (1) a near-real-time CAISO emergency backstop mechanism; (2) an annual RA procurement process; (3) a longer-term CAISO capacity procurement mechanism for renewable integration needs (as contemplated by the CAISO); (4) the LTPP; and (5) the RPS-directed renewable procurement<sup>3</sup> - would all but guarantee conflict and inefficiency. Instead, the Commission and other parties should focus on designing and implementing an overarching, coordinated market structure that (i) identifies the projected renewable and operational needs well in advance; (ii) provides the transparent long-term price signals and durability to guide investment; (iii) provides for transparent nearer-term trading as delivery year conditions change; (iv) minimizes CAISO backstop procurement; and (v) provides the CAISO with the types of generation in the right locations needed to maintain operational flexibility.

**B. Third-party suppliers should be allowed to provide RA capacity.**

Item (e) of the Scoping Memo calls for consideration of how the RA capacity associated with third-party demand response providers should be treated. The NRG Companies propose

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<sup>2</sup> CAISO Report on Basis and Need for CPM Designation for Sutter Energy at pages 9-10. This report is available at [http://www.caiso.com/Documents/Basis\\_Need\\_CapacityProcurementMechanismDesignation\\_SutterEnergyCenter.pdf](http://www.caiso.com/Documents/Basis_Need_CapacityProcurementMechanismDesignation_SutterEnergyCenter.pdf).

<sup>3</sup> While renewable procurement primarily involves the procurement of renewable energy to meet RPS goals, such resources provide some RA capacity value – as highlighted in Section I.B of these comments.

that the scope of this issue be broadened to more generally consider third-party provision of RA capacity.

On December 8, 2011, the California Wind Energy Association (“CalWEA”) submitted a motion in Rulemaking (“R.”) 11-05-005 asking the Commission to consider requiring renewable generation projects to achieve full RA deliverability through transmission network upgrades and to allow them to provide RA capacity by contracting with other parties. The NRG Companies strongly support this proposal. Given that the proposal deals with the provision of RA capacity, it is logical to take up consideration of the CalWEA proposal in this rulemaking in lieu of, or even perhaps in addition to, considering it in R.11-05-005, though clearly considering this proposal in two separate rulemakings would not be efficient and could lead to conflicting results.

As noted in NRG’s comments on this issue in R.11-05-005, CalWEA’s suggestion that renewable entities be allowed to bilaterally contract with resources whose deliverability and RA capacity value has already been established is a win-win-win for renewable developers, existing generators, and ratepayers. The NRG Companies respectfully ask the Commission to consider this proposal in the instant rulemaking.

## II. CONCLUSION

The NRG Companies look forward to discussing these and other proposals at the upcoming workshops.

Respectfully submitted,

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