

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Integrate
and Refine Procurement Policies and
Consider Long-Term Procurement Plans.

Rulemaking 12-03-014
(Filed March 22, 2012)

**COMMENTS OF THE
CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES
ON PRELIMINARY SCOPING MEMO**

April 6, 2012

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The Center for Energy Efficiency and Renewable Technologies (CEERT) respectfully submits these Comments on the Preliminary Scoping Memo included in Rulemaking (R.) 12-03-014 issued on March 22, 2012. These Comments are filed and served pursuant to Rule 13.11 of the Commission's Rules of Practice and Procedure and Section 6 of R.12-03-014.

**I.
CEERT RECOMMENDATIONS ON THE PRELIMINARY SCOPING MEMO**

Section 6 of R.12-03-014, the successor Long Term Procurement Plans (LTPP) rulemaking to R.10-05-006, offers parties the opportunity to comment on the Preliminary Scoping Memo included in R.12-03-014 in Section 5.¹ Comments, while limited to the "specific issues and questions" set forth in the rulemaking, can "identify areas that need clarification" and offer the "addition of specific issues or questions related to the items" set forth in the Preliminary Scoping Memo.²

Among other things, the Preliminary Scoping Memo commits to addressing "broad rule and policy issues related to procurement plans," which include "Multi-Year Flexible Capacity Procurement Rules."³ CEERT believes that this inquiry is a high priority issue, especially given the recent input provided by the California Independent System Operator (CAISO) on the still-

¹ R.12-03-014, at p. 12.

² R.12-03-014, at pp. 12-13.

³ R.12-03-014, at p. 9.

pending System Track I and Rules Track III Proposed Decision issued in the predecessor LTPP Rulemaking (R.) 10-05-006. Specifically, in their Comments on the Proposed Decision, the CAISO urged prompt consideration of the issue of “system capacity needs to help balance supply and demand in the ISO’s balancing authority area” in “2012 and 2013 (as part of the successor LTPP docket) with a decision on system needs issued by year-end 2013.”⁴ In fact, according to its studies to date:

“[I]t has become apparent that there are local area capacity needs for new or repowered flexible generation well before 2020 that are driven by the OTC requirements and the likelihood that existing generation may retire by the end of 2017. The ISO’s OTC studies show that the Commission must authorize procurement of local resources, either new or existing resources, that will comply with the OTC requirements by 2020, on an expedited basis.”⁵

Given these circumstances, CEERT asks that the Commission commit to addressing and developing multi-year flexible capacity procurement rules at the outset of this current LTPP cycle with a final decision issued no later than December 2012. Such rules will proactively ensure that resources with the appropriate operational characteristics are available to meet real time balancing needs. Development of these rules should also be undertaken in conjunction with the Commission’s Resource Adequacy Rulemaking (R.) 11-10-023 and include consideration of the evolving forecasting and real time operational experience of the CAISO in determining the optimal mix of resources needed to balance the generation stack given the increasing penetration of Variable Energy Resources.

There are very real risks of not addressing this issue promptly and in this manner. Namely, if the Commission’s directives on long term procurement fail to achieve the proper balance of system resources, utility customers will be forced to bear the costs either of excessive procured resources, or even more damaging, the consequences of a flexible backstop capacity

⁴ CAISO Opening Comments, at p. 1.

⁵ Id., at p. 4.

procurement invoked by the CAISO under emergency situations to otherwise create a “fix.” By initiating a process that accounts for CAISO needs and coordinates development of these rules between this proceeding and R.11-10-023 (RA), there will be no need to rush deployment of CAISO’s proposed Flexible Ramping Product (FRP).

Further, while CEERT agrees that flexible resources must be constructed and procured in order to be available to the CAISO in the real time dispatch stack, the need for a novel, never-before-tried-anywhere ancillary service like FRP has not been demonstrated. Premature deployment of this experimental service brings great risk of excess capacity payments and potential gaming of the real time dispatch to increase the need for “flexibility,” creating the risk that flexible generators will get paid for solving the problem they create, while still not providing the reliability that all stakeholders require. Avoiding this outcome is significant since, at a minimum, any additional payments for flexible capacity within the CAISO markets represent a double payment. Namely, California utility customers already make capacity payments to generators in order to ensure sufficient resources are available in real time to meet load. Any additional premium for flexibility needs within the CAISO markets would, in turn, result in a double payment.

By having multi-year flexible capacity procurement rules in place by the end of this year, the utilities will have both the needed incentives and guidance to procure sufficient multi-year flexible resources to reliably meet load. Thus, multi-year flexible capacity procurement rules will not only improve the reliable operation of the grid, but will also encourage the least cost, best fit procurement of resources.

In addition, while CEERT recognizes that energy efficiency is being addressed in multiple other proceedings, CEERT believes that Demand Side Management (DSM) can be of

incredibly high value in managing the increasing flexibility needs of the grid. DSM represents a very low cost option for reducing the need for additional generation resources, deferring the need for the development of additional transmission assets, and balancing system needs. Further, in contrast to the time and cost required to build additional fast ramping resources, DSM assets are already in existence and interconnected. All that is missing is the appropriate technology and markets to stimulate the growth of DSM.

However, CEERT has been disheartened by the challenges of effectively coordinating efforts to develop DSM across the various state agencies and is concerned that DSM is the can that keeps getting kicked down the road, from agency to agency. CEERT, therefore, believes that this LTPP cycle can serve as the forum for a more comprehensive and cross-agency approach to developing DSM solutions, which, as the highest, preferred resource in the “loading order,” offers a least cost, best fit approach to managing increasing electric demand.

II. CONCLUSION

CEERT welcomes this opportunity to comment on the issues to be considered in this LTPP cycle and looks forward to further discussion of these issues at the Prehearing Conference on April 18, 2012. In particular, CEERT urges coordination between this rulemaking and R.11-10-023 and prompt consideration and adoption of multi-year flexible capacity procurement rules.

Respectfully submitted,

April 6, 2012

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