

**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)

**COMMENTS OF THE INDEPENDENT ENERGY PRODUCERS
ASSOCIATION ON RESOURCE ADEQUACY WORKSHOP
ISSUES AND PROPOSALS**

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The workshop held on March 30, 2012, focused on two different approaches to addressing the problem of ensuring that California has adequate generation resources, capable of providing the services needed to maintain the reliability of the electric grid, located where they are needed in relation to load and the existing transmission system, and available when they are needed to meet load growth and renewable integration needs. Both proposals are innovative responses to the emerging recognition that ensuring reliability requires something more than merely procuring enough generic capacity to meet peak load and provide a reserve margin. The Independent Energy Producers Association (IEP) offers these comments on these proposals and other topics raised at the workshop.

I. THE TWO PROPOSALS

The Energy Division presented a proposal that was structured as a revision to the existing Maximum Cumulative Capacity requirements, while the California Independent System Operator (CAISO) presented a proposal for defining three new capacity products that load-serving entities (LSEs) would be required to procure as part of their Resource Adequacy (RA)

obligations. The Energy Division proposed to limit LSEs' ability to count, for RA compliance purposes, resources that are not available in all hours or are not dispatchable by the CAISO, while the CAISO took the approach of requiring LSEs to purchase a certain amount of capacity that is flexible enough to respond to swings in load and supply that will become more volatile as more variable renewable resources join the generation fleet. Each proposal raised significant questions that need to be carefully considered and thoroughly answered before either proposal is implemented.

IEP agrees with the apparent consensus reached near the end of the workshop that neither proposal should be adopted as a requirement for RA procurement in 2012 to meet a 2013 RA compliance obligation. The existing requirements should be sufficient to ensure the reliability of the grid for another year. That does not mean, however, that the Commission and the interested parties can sit back and do nothing. On the contrary, the Commission should immediately begin to explore the details of how it can ensure that the right resources are developed and procured to ensure the continued reliability of the grid. The Commission should commit to reach a policy decision no later than December 31, 2012 to guide procurement conducted in 2013 to meet 2014 RA compliance obligations.

Of the two proposals, the CAISO approach has more beneficial attributes and is more aligned with the needs of market reform. The CAISO defines the products it seeks in terms of the operational attributes it needs. Any resource and any technology can compete to provide the defined products. Thus, the CAISO's approach does not discriminate among the technologies or vintages of the resources that can provide the products. The CAISO proposal also fits better with a market-based model. Both potential buyers and sellers will understand exactly what the requirements are, and they can proceed to transact on that basis, through either

bilateral agreements or competitive solicitations. In addition, the CAISO has a stakeholder process on procurement of flexible capacity underway, so its ideas have been exposed to considerable scrutiny. Furthermore, the CAISO approach lends itself to multi-year contracting, which IEP addresses in the next section.

II. DEVELOPMENT OF RULES FOR MULTI-YEAR FLEXIBLE CAPACITY PROCUREMENT SHOULD RECEIVE THE HIGHEST PRIORITY

The CAISO proposal is designed to ensure that LSEs have procured flexible capacity and made that capacity available to the CAISO as needed to maintain the grid's reliability. However, the calendar-year focus of the current RA requirement presents two fundamental problems in light of today's commercial realities and operational needs. First, an annual RA requirement results in the procurement of only existing resources that happen to be available and have the desired operational attributes. The calendar-year focus does not provide revenues or a contractual commitment sufficient to enable existing generators to make necessary capital investments to meet changing environmental laws or to upgrade their plants' capabilities to match the CAISO's need for flexibility. Second, because new generation can typically require 5-7 years to develop and become commercially operable, the current annual RA requirement fails to ensure the availability of flexible resources needed to meet mid-term system or local capacity needs. The current annual approach to RA requirements is insufficient to develop new flexible resources to meet increasing variability of the system or to maintain existing resources that require longer-term commitments to justify upgrades to increase their ability to operate flexibly in response to the needs the CAISO has identified. In short, the evolving needs of the California grid require a multi-year forward, flexible capacity assessment and a forward procurement obligation.

A number of parties, including the CAISO, recognize the need for a more formal forward assessment of RA products and a matching forward procurement obligation. For example, the CAISO has sought the Commission's cooperation in establishing the CAISO's authority to engage in backstop procurement of resources at risk of premature retirement when the resources are found to be needed in the future to maintain the reliability of the grid or to accommodate the integration of increasing proportions of variable resources. Procurement of resources at risk of premature retirement is also being considered in the CAISO's stakeholder process on procurement of flexible capacity.

Proposals for multi-year procurement were also presented in R.10-05-006, the 2010 long-term procurement plan (LTPP) proceeding. Calpine proposed intermediate term (3-5 year) competitive solicitations that would create opportunities for existing resources to secure contracts that would support the continued operation of these resources. Southern California Edison Company proposed that the CAISO would conduct auctions to procure capacity needed to maintain reliability. The efforts to provide the Sutter power plant with an opportunity to continue to operate also underscore the need for a multi-year procurement mechanism.

The two current proceedings that result in the procurement of generating resources—the RA proceeding and the LTPP proceeding—focus on different types of resources and different timeframes in a way that leaves a procurement gap in the middle. The RA proceeding focuses on meeting the system and local reliability needs in the coming calendar year. The LTPP proceeding uses a ten-year planning horizon to determine whether new resources should be constructed to meet the system's projected peak energy demand, recognizing that typically it takes 5-7 years to bring new generation infrastructure on line. As a result, a gap appears 3-7 years forward related to identifying and procuring the resources that will be needed

to maintain grid reliability and to accommodate the integration of increasing amounts of renewable energy during the time before new capacity can reasonably be expected to be built.

IEP agrees with many parties that the development of a multi-year flexible capacity procurement mechanism deserves the Commission's highest priority, and this effort should be completed by the end of 2012. From IEP's perspective, consideration of a multi-year flexible capacity mechanism ought to include (1) a multi-year forward assessment and multi-year forward obligation to procure various reliability products identified as needed during the procurement gap (3-7 years forward); (2) integration of resources at risk of retirement into the mix of resources eligible to provide the reliability products needed to help maintain grid reliability during the timeframe covered by the forward assessment; and (3) mechanisms to ensure the availability of sufficient reserves to minimize the risk to electric generators that CAISO-approved scheduled outages will be rescinded due to a lack of replacement capacity.

In IEP's comments on the preliminary scoping memo in R.12-03-014, the new LTPP proceeding, IEP discussed whether the multi-year flexible capacity procurement mechanism should be taken on in this RA proceeding or in the new LTPP proceeding. IEP concluded that on balance the multi-year capacity procurement structure should be taken up in this proceeding, for two simple reasons. First, the RA proceeding and its decisions encompass the broadest array of affected LSEs subject to the Commission's authority, including the investor-owned utilities (IOUs), energy service providers, and community choice aggregators, whereas the LTPP proceeding directly impacts only the three large investor-owned utilities. Because the development of rules for multi-year flexible capacity procurement to meet local and system needs impacts all LSEs and not merely the large IOUs, the RA proceeding is the more appropriate venue to address these issues. Second, the RA proceeding is less complicated, and

the Commission is more likely to reach a decision on this issue by the end of the year if the issue is kept in this RA proceeding. Further postponement of a decision on this issue will create more requests for expedited emergency action to address looming retirements and more backstop procurement by the CAISO.

Regardless of which proceeding the Commission determines is the forum for consideration of the multi-year capacity procurement structure, however, this matter should be prioritized so that the Commission can render a decision by the end of 2012.

Respectfully submitted this 11th day of April, 2012 at San Francisco, California

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