

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  
(Filed October 20, 2011)

**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES  
ON PHASE 1 WORKSHOP ISSUES**

**PETER H. SPENCER**  
**YAKOV LASKO**  
Analysts for the Division of Ratepayer  
Advocates  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-2109  
E-mail: [phs@cpuc.ca.gov](mailto:phs@cpuc.ca.gov)

**MATT MILEY**  
Attorney for the Division of Ratepayer  
Advocates  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-3066  
Fax: (415) 703-2262  
E-mail: [mm2@cpuc.ca.gov](mailto:mm2@cpuc.ca.gov)

April 11, 2012

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  
(Filed October 20, 2011)

**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES  
ON PHASE 1 WORKSHOP ISSUES**

Pursuant to the Administrative Law Judge's Ruling on a Revised Comment Schedule, the Division of Ratepayer Advocates (DRA) submits these opening comments on Phase 1 issues discussed at the workshops held on January 26- 27 and March 30, 2012.

**A. Background for Flexible Capacity**

Load Serving Entities (LSEs) are required to submit resource contracts that fulfill their capacity obligations. To ensure that the California Independent System Operator (CAISO) receives the capacity in the amount and time needed, resources with limited hours of operation were restricted by MCC bucket rules. Four bucket categories were created for differing hours of operation and resources were placed into one of these four bucket categories. In the prior Resource Adequacy (RA) proceeding, proposals were offered by several parties to solve the problem of limited use Demand Response (DR) resources not fitting into any of the existing MCC buckets. Specifically, in Decision (D.)11-10-023, issued in the last RA Rulemaking (R.)09-10-032, the Commission ruled that "[a] new Maximum Cumulative Capacity bucket is created for demand response resources, subject to the parameters of the bucket to be determined by the Commission for the 2013 Resource Adequacy year."<sup>1</sup>

---

<sup>1</sup> D.11-10-023, Order 1-b, p. 34.

Additionally, in R.09-10-032, the CAISO introduced a proposal on non-generic capacity that addressed procurement of specific categories of capacity. Many parties recognized a future need to address the integration of the rapidly expanding renewable resources in California. In its current MCC bucket redesign proposal, Energy Division (ED) introduced a unique solution that includes DR resources and addresses the larger issue of redefining capacity requirements based on operational characteristics and hours of operation.

**B. Energy Division Proposal for Redesign of Maximum Cumulative Capacity (MCC) Buckets**

DRA is generally supportive of the ED proposal. In the proposal, four buckets are created with new definitions and Load Serving Entity (LSE) requirements. The need for flexible capacity is addressed by creating dispatchable and non-dispatchable resource bucket categories which are defined by ED on page 6 of its Energy Division Report, RA Workshop, January 26-27, 2012. The definition of dispatchability includes three characteristics: ramp rate over 4 MW/min; cooling time of less than one day or minimum start up time of less than 10 hours; and a contractual obligation to be available for CAISO dispatch. In a presentation at the March 30 workshop, ED provided supportive data used to analyze its proposal.

DRA finds that the ED proposal has merit and may offer the best method to address flexibility needs; however, some questions remain unanswered regarding specifics of the proposal. Accordingly, DRA recommends that the RA program adopt the ED Revised Redesign of MCC Bucket proposal as a trial run for the 2013 RA compliance year without mandatory LSE requirements. No party has presented compelling information to demonstrate an urgent need to obtain greater flexibility in the resource fleet in 2013. In its March 30 workshop presentation, even the CAISO no longer took the position that there is a need for increased flexible operating capacity in 2013. In Phase 2 the Commission will have the benefit of a more informed proceeding with stakeholder input and experience, and the Commission can make any necessary modifications prior to implementing enforceable requirements. With the trial run proposal, the ED can provide

new bucket classification information to resources, the CAISO can evaluate whether its flexible needs are adequately addressed, LSEs can determine if and what additional types of resources they may need to procure, and the resource owners can evaluate their bucket classification and assess their potential market opportunities. Additionally, more clarity can be provided to evaluate potential impacts on ratepayer costs and market power issues prior to full implementation.

The ED proposal responds to the order in D.11-10-023 calling for a new bucket to include DR. To receive RA credit, resources must fit into one of the MCC buckets. The revised buckets will allow for inclusion of resources which comply with a definition of dispatchable. In order to specifically allow for DR resource inclusion in the revised buckets, the ED proposal states that DR resources will be considered dispatchable even if they do not strictly fit into the criteria.<sup>2</sup> This will allow DR resources to fit into the redesigned buckets without creating a DR specific bucket. DRA's recommended trial run of the ED proposal for 2013 should allow DR resources to qualify for RA credit as the small size of these programs for 2013 makes it very unlikely that any significant stress would be placed on grid operation by their inclusion.

### **C. ISO Proposal on Flexible Capacity Requirement**

The ISO presented an initial proposal on Flexible Capacity prior to the January Workshop. In the proposal, the CAISO called for the creation of three Flexible Requirement Categories: Maximum Continuous Ramping for each Month of the year; 15-Minute Ramping (also called Load Following); and 1-Minute Ramping (also called Regulation). Under the proposal, requirements for procurement of resources satisfying the new flexible categories would be placed on CPUC jurisdictional LSEs. In its report, the CAISO states “[i]t is critical that for the 2013 resource adequacy compliance year, the CPUC adopt a structure and flexible capacity targets...”<sup>3</sup> The new targets would be determined by the CAISO. The CAISO also proposed to evaluate deficiencies in

---

<sup>2</sup> Energy Division Report, Resource Adequacy Workshop, January 26-27, p. 7.

<sup>3</sup> California Independent System Operator Corporation Proposal on Phase 1 Issues, p. 16.

aggregate load and notify the LSEs of deficiencies. If the LSEs did not remedy the flexible capacity need, the CAISO proposes to satisfy the deficiency through a new type of backstop procurement for flexible capacity products.

On March 2, 2012, the CAISO submitted “2013 Flexible Capacity Procurement Requirement -Supplemental Information to Proposal.” The CAISO report contained a wealth of informative data on flexible capacity and future needs to maintain reliability on the grid. In addition, the CAISO noted that the electric system in California is undergoing one of its most significant transformations ever. DRA concurs with the CAISO that a significant transformation of the electric system is occurring and the impacts of this transformation need careful review and analysis.

In the Supplement Information to Proposal (Supplemental Information), the CAISO continues to call for the implementation of a flexible capacity procurement requirement for the compliance year 2013 and urges Commission adoption of its proposal in Phase 1. According to the CAISO, adoption of the CAISO proposal by the Commission for compliance year 2013 will mitigate backstop procurement. In Section 8 of the Supplemental Information, the CAISO notes that the processes they are proposing are similar to those used for local capacity requirements in which the CAISO determines and publishes the specific need and leaves the Commission and other local regulatory authorities to implement the requirements with the LSEs.

In a slide presentation at the March 30 workshop, the CAISO rescinded its call for flexible capacity requirements in the 2013 RA compliance year. Instead, the CAISO called for an agreement on the three flexible capacity categories and its calculation methodologies. The CAISO recommended stakeholder agreement to establish flexible capacity requirements in 2014.

DRA does not support the adoption of the CAISO flexible capacity categories and associated calculation methodologies. Adoption of the CAISO’s definitions and calculations presumes later adoption of the CAISO flexible capacity requirement proposal while other current proceedings, such as the CAISO’s renewable integration modeling and the Commission’s LTPP will provide more direction on flexible capacity.

As the March 30 workshop proved, additional details and analysis are needed. Furthermore, insofar as the CAISO's proposal would impose specific megawatt (MW) procurement requirements for flexible capacity on all LSE's, this raises factual issues that may necessitate hearings or at least additional workshops.

The ED Redesign of MCC buckets, as discussed above, is an alternative proposal to the CAISO Flexible Capacity Requirement. Both proposals seek to alter the RA historic emphasis on generic capacity to meet peak load and incorporate flexible attributes to meet intra hour operating requirements to support increasing amounts of renewable resources. The CAISO's proposal is more prescriptive in its flexible capacity categorizations in that it sets a minimum procurement requirement on LSEs, rather than simply setting maximum levels that different use limited resources can be relied upon by LSEs. LSEs seeking to fulfill specifically defined flexible categories will need to increase their solicitation efforts and could be affected by limited numbers of resources exercising market power. The CAISO's proposal is designed to ensure reliability, but the ED's proposal may accomplish the same goal while providing a greater range of options for the LSEs to satisfy their RA obligations. Importantly, the Commission does not support reliability at any cost. In D.01-10-042, the Commission stated that it "envisions the resource adequacy program as the means by which the function of reliably matching resources to demand at least cost will be accomplished..."<sup>4</sup> The ED proposal redesigning MCC buckets to solve the issue of grid capacity needs addresses the issues in a manner that provides a simpler methodology than the CAISO proposal in meeting capacity needs. According to the ED analysis, adequate flexibility will be created for grid reliability with the introduction of buckets for the dispatchable resources. Even if adoption of the ED proposal results in some backstop procurement by the CAISO, it may be the most efficient and simple way to achieve a least cost methodology to supply dispatchable resources for a reasonable level of reliability. Adoption of the DRA

---

<sup>4</sup> D.05-10-042, p. 7.

recommendation to implement a trial of ED's proposal for 2013 and implementation in 2014 addresses the CAISO's call for flexibility requirements in 2014.

#### **D. Multi-year RA**

Many parties in both written and oral comments at the three days of workshops voiced interest in expanding RA from a year-ahead to a multi-year program. This idea has been introduced in previous RA proceedings. Since its inception, the RA program has been designed as a year-ahead view and has not been expanded to a multi-year program.

DRA has opposed prior multi-year proposals in the past primarily on the grounds that the purpose for the RA program was adequately and appropriately addressed with year-ahead and month-ahead requirements. DRA recognizes that the electric system is rapidly evolving, including consideration of issues such as increasing renewable penetration, Once Through Cooling retirements, and the expansion of Distributed Generation. Accordingly, DRA believes it may be time to reconsider calls for an in-depth review of multi-year proposals. It is important for the Commission to consider a broad view and take a proactive approach that encourages desired changes without ignoring all of the possible ramifications of rapid changes.

Consideration of multi-year flexible capacity procurement in the RA proceeding prior to direction from the Commission in the LTPP proceeding is premature. The current LTPP proceeding is expected to examine multi-year issues rather than focusing solely on a ten year view. A multi-year RA program will necessarily involve complex decisions, such as adopting medium term forecasts and defining new procurement obligations. Accordingly, consideration of a multi-year RA flexible capacity procurement by the Commission should involve coordination between the RA and LTPP proceedings.

#### **E. Coincidence Adjustment Factor**

In a previous decision, D.04-10-035, the Commission implemented a Coincidence Adjustment Factor (CAF) to reflect the degree of coincidence that each LSE's own peak

has with the overall system peak in determining LSEs' resource adequacy obligations. The Commission adopted a single adjustment factor for all LSEs.

In the current proceeding, the Alliance for Retail Energy Markets (AREM) proposes changing the current CAF single system average to create multiple CAFs specific to LSE's load profiles. The California Energy Commission (CEC) supports the idea of revising the CAF while offering alternatives to AREM's proposed classifications. The proponents of the revised CAF assert that the changes will more appropriately align RA costs; specifically, proponents claim that the industrial and commercial sectors are assessed by a CAF which is currently inaccurate relative to their contribution to the system peak.

DRA generally supports the principle whereby all LSEs should face costs consistent with cost causation. However, DRA believes that the proposal here requires additional determinations and analysis of the appropriate customer categories of CAF prior to implementation, as well as other factors that contribute to the CAF such as the location of the resource. Analysis has not been provided to assist the parties in determining the amount of cost-shifting that may occur with adoption of the proposal. Specifically, DRA is concerned and seeks to review the magnitude of change in the allocation of costs among LSEs, and the incentive for some customers to migrate from IOUs to ESPs. Therefore, DRA opposes making changes to the Coincident Adjustment Factor until a full review of all relevant factors is performed.

#### **F. Modification of Local RA Waiver Trigger Price**

The local RA waiver trigger price was created so that LSEs would not be subject to market power in transmission-constrained local areas. In D.06-06-064, the Commission created the CAF which made it possible for LSEs, under the waiver process, to request relief from procurement obligation penalties if the LSEs demonstrated that they made every commercially reasonable effort to contract for Local RA resources. The waiver applies only to Commission-imposed penalties and a deficient LSE remains responsible for any applicable backstop procurement costs. The Commission adopted a waiver trigger price of \$40 per kW-year for local RA capacity.



Requests to increase the waiver trigger price have been presented in prior RA proceedings, mostly from independent energy producers and power marketing firms. In last year's RA decision, D.11-06-022, the Commission decided not to change the RA trigger waiver price; specifically, the Commission pointed to the Energy Division RA report for 2010 which stated, "Energy Division found that the median price paid for RA capacity, both System and Local, was well below the trigger price level."<sup>5</sup> Energy Division also pointed out that since the initiation of the waiver trigger price there has only been three instances of LSEs applying for a waiver and one request was granted.

Once again, several parties are requesting an increase to the waiver trigger price. However, no party has articulated a compelling need to raise the waiver trigger price in this year's RA proceeding. Given that the Commission found no need to modify the waiver trigger price in last year's RA decision and that the current proposal for modification of the local RA waiver trigger price is not in the scope of the current RA proceeding, DRA sees no need to revisit this issue at this time.

#### **G. Rounding Convention**

In D.06-06-064 the Commission deemed it necessary that "LSEs should be exempted from procurement obligations of less than 1 MW in a particular local area."<sup>6</sup> In order to avoid fractional MW amounts, the Commission rounds up or down to the nearest whole MW amount. Currently, the RA obligations are the rounded net of adjustments amounts of capacity obtained from Demand Response, Cost Allocation Mechanism, and Reliability Must Run. The CAISO uses a rounding convention which utilizes fractional amounts and does not round to whole MW amounts. In some instances, the Commission's rounding can result in an amount which varies slightly from the CAISO's figures. This can occasionally create a problem with the CAISO's reliability requirements.

---

<sup>5</sup> D.11-06-022, p. 35.

<sup>6</sup> D.06-06-064, p. 64.

ED proposes to use a rounding convention which will move rounding from 1 MW to the nearest 0.5 MW. The large IOUs voiced support for the proposal and some suggested rounding to the nearest 0.01 MW to synchronize with the CAISO protocols. DRA is supportive of changes to the rounding convention. The large LSEs, such as the IOUs, typically include small amounts of excess RA capacity in their filings and would not have to make any changes to their customary procedures. In fact, some parties at the workshop stated that it would be easier for them if CAISO and CPUC numbers were completely synchronized. Small LSEs, however, voiced concerns about fractional amounts that could force them to buy an additional MW since it is difficult to purchase fractional amounts. A CEC representative at the workshop suggested the creation of an exemption for very small LSEs. The CEC representative's suggestion may be a workable solution to avoid added costs for small LSEs.

DRA recommends a modified rounding convention proposal in which the Commission's RA program utilizes MW figures consistent with the CAISO for its jurisdictional LSEs with an exemption allowed for very small LSEs.

#### **H. DRA's Recommendations**

In summary, DRA's recommends:

- (1) DR should qualify under MCC bucket rules for RA credit in 2013;
- (2) The ED MCC Bucket proposal should be adopted as a trial for the 2013 RA compliance year and implementation of the proposal should be included in scope of Phase 2 of this RA proceeding;
- (3) The CAISO flexible capacity categories and associated calculation methodologies should not be adopted;
- (4) Consideration of multi-year flexible capacity procurement in the RA proceeding prior to direction from the Commission in the LTPP proceeding is premature and the Commission should coordinate similar efforts in both proceedings;

- (5) Changes to the Coincident Adjustment Factor should not be adopted until a full review of all relevant factors is performed;
- (6) The waiver trigger price should not be modified at this time;
- (7) DRA's proposed modification to the ED rounding convention proposal should be adopted; specifically, the Commission's RA program should utilize MW figures consistent with the CAISO for its jurisdictional LSEs, with an exemption allowed for very small LSEs.

Respectfully submitted,

/s/ MATT MILEY

---

Matt Miley

Attorney for the Division of Ratepayer  
Advocates  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: (415) 703-3066  
Fax: (415) 703-2262  
Email: mm2@cpuc.ca.gov

April 11, 2012