

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)

**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES
ON PROPOSED DECISION ADOPTING LOCAL PROCUREMENT
OBLIGATIONS FOR 2013 AND FURTHER REFINING THE RESOURCE
ADEQUACY PROGRAM**

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Pursuant to Administrative Law Judge's Proposed Decision (PD) issued on May 22, 2012, the Division of Ratepayer Advocates (DRA) submits these comments on Phase 1 issues discussed in the PD.

Overall, DRA supports the PD. DRA concurs with the PD's call to "study flexible capacity proposals further in this proceeding."¹ DRA's comments address concerns and offer recommendations on the issue of flexible capacity; specifically, DRA's comments call for a cost-benefit analysis, as well as party workshops on this issue with an opportunity for further comments on workshop outcomes.

I. DISCUSSION

**A. A Cost-Benefit Analysis Must Be Performed to Assess the
Impacts of Adopting Flexible Capacity Framework
Options**

A cost-benefit analysis of flexible capacity proposals and options must be prepared for parties to offer informed comments and recommendations. The record

¹ PD, p. 2

evidence demonstrates that the cost implications of flexible capacity will be significant. Several parties² voiced concerns that the CAISO proposal would result in significantly increased procurement costs. Previous RA workshops and party comments failed to provide insight into the cost implications associated with adoption of flexible capacity requirements. Commission policy supports a least-cost approach to procurement.³ A failure to address the cost implications of a flexible capacity framework would therefore violate Commission policy.

Accordingly, DRA recommends that the Commission direct the three investor-owned utilities (IOUs), in cooperation with their Independent Evaluators, to conduct a cost-benefit analysis on the impact of adopting mandatory flexible capacity requirements. These cost-benefit analyses should compare the Energy Division's (ED) and California Independent System Operator's (CAISO) proposals, which were identified and discussed in the PD.⁴ The cost-benefit analysis must be provided prior to further consideration by the parties of flexible capacity proposals. The cost implications of a flexible capacity framework and its implementation cannot be ignored in the stakeholder process in arriving at a reasonable decision.

In addition, to better understand the cost implications of flexible capacity requirements, DRA also recommends that the Commission schedule workshops and associated comment periods to address the following issues:

- The effect on market prices of both flexible and non-flexible resources under proposed flexible capacity frameworks;
- The cost impact of flexible capacity requirements on the individual Load Serving Entities (LSEs);
- Definition of flexible capacity and methodology for calculating need for flexible capacity; and

² See e.g., Opening Comments on PD from Shell Energy, CEERT, SDG&E, SCE, filed June 11, 2012.

³ Decision 04-07-029, July 8, 2004,

- Further development of flexible capacity proposals, including ED's and CAISO's proposals.

The Commission should direct the LSEs to address the above issues at the Commission workshop.

B. Coordination with the Long-Term Procurement Plan Proceeding and the CAISO Renewable Integration Studies Is Critical

Defining flexible capacity and creating a framework for implementation in the RA program requires coordination with the Long-term Procurement Plan (LTPP) proceeding and the CAISO's Renewable Integration Study. The PD states that the RA proceeding will begin immediately to "finalize a framework for filling flexible capacity needs."⁵ Both this RA proceeding and the concurrent LTPP proceeding (R.12-03-014) make note of coordinated efforts; however, the Commission does not offer any insight into how this coordination will be implemented. Flexible capacity frameworks should be developed in a coordinated manner among the proceedings that are examining this issue.

For example, an RA flexible capacity framework must be informed by the studies and analysis being developed on flexibility. Final analysis from the CAISO Renewable Integration Studies and the Energy Division's Operating Flexibility Analysis are not scheduled to be completed in time for consideration by an RA decision this year. These studies are specifically examining the impact of increasing levels of renewables and the need for flexible capacity to balance the grid. An informed decision in the RA program can only occur with full coordination and within a timeframe consistent with the LTPP and CAISO proceedings.

The RA program risks creating regulatory uncertainty if the program attempts to define flexibility ahead of the above-mentioned studies and analysis regarding this issue. Racing ahead to meet a 2012 deadline as proposed in the PD creates a risk of imposing

⁴ PD, pp. 11-22.

flexibility requirements, and the significant related costs, that may not fulfill a real need and may therefore result in over procurement of flexible capacity. It is critical that the correct balance of flexible products is acquired when those products are needed; however, the failure to properly define the need may have a large cost impact. The LSEs will assume a risk of procuring products that may later be determined to be unnecessary or unqualified for RA. As SCE points out,⁶ it may become prudent for LSEs to avoid long-term contracts in an environment with regulatory uncertainty, with the potential result of increased costs for ratepayers. A flexible capacity framework for RA should only be created after the studies and analyses regarding this issue are completed later this year or in 2013.

C. Timeline for Implementation of Flexible Capacity Framework in 2014 is Unnecessary and Costly to Ratepayers

DRA disagrees with the PD's proposal to impose flexible capacity implementation requirements in the 2014 RA compliance year.⁷ As noted in the PD, the CAISO contends that "insufficient flexibility will occur potentially as early as 2018."⁸ Implementation of the flexible capacity framework four years prior to a potential need is premature and risks large and unnecessary costs for ratepayers. However, the CAISO urges a 2014 implementation of flexibility capacity requirements based on concerns that it may take several years to fine tune a new program. DRA appreciates concerns to have a functioning flexible capacity framework in time for projected need. However, the projected need has not yet been vetted or adequately addressed by the parties in proceedings, such as the LTPP, where specific flexible capacity needs will be determined as well as the timing and best methods to satisfy the needs. Imposing flexibility

⁵ PD, p. 20

⁶ SCE's Post-Workshop Comments, p. 7, filed April 11, 2012.

⁷ PD, p. 20

⁸ PD, p. 16.

requirements in 2014 will result in ratepayer costs at least four years prior to when an actual need has been determined.

DRA recommends that an implementation date for flexible capacity requirements in the RA program be based on ongoing studies and analysis of the flexible capacity issue. Completion dates for flexible capacity studies and analysis are anticipated within the next year. It will not take four years to refine a flexible program if the Commission waits for all the needed research to be completed before adopting a framework. In fact, waiting for the studies will most likely result in a better initial design of a flexible program and the reduce the risk of regulatory uncertainty from a program that might need extensive revisions and changes to LSE procurements. The costs of imposing flexible capacity requirements years ahead of need are likely to be large and it is therefore important to take the time needed to get it right. Mandatory flexibility requirements should not be imposed on LSEs more than one year prior to the determination of need.

II. DRA RECOMMENDATIONS

In summary, DRA recommends:

- (1) The Commission should direct the IOUs, in cooperation with their respective Independent Evaluator, to prepare a cost-benefit analysis of flexible capacity proposals and options;
- (2) Workshops and comment periods should be scheduled to address flexible capacity definitions and framework, as well as the cost implications of flexible capacity;
- (3) An implementation date for flexible capacity requirements should not precede related input from developing studies and analysis; and
- (4) Implementation enforcing procurement requirements on LSEs should not be imposed more than one year prior to the year in which a determination is made by the Commission that flexible needs exist.

Respectfully submitted,

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