

**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)

**OPENING COMMENTS OF NRG ENERGY, INC. ON
PROPOSED DECISION OF ADMINISTRATIVE LAW JUDGE GAMSON**

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For
NRG ENERGY, INC.

June 11, 2012

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In accordance with Section 14.3 of the California Public Utilities Commission's ("Commission's") Rules of Practice and Procedure, NRG Energy, Inc.¹ ("NRG") hereby submits these comments on the proposed *Decision Adopting Local Procurement Obligations for 2013 and Further Refining the Resource Adequacy Program*, issued by Administrative Law Judge David M. Gamson on May 22, 2012 ("PD").

I. INTRODUCTION

NRG notes that on May 14, 2012, both it and the California Independent System Operator Corporation ("CAISO") submitted reply comments in 2013 Local Capacity Technical Analysis proceeding, focusing on the need for the Commission to maintain the existing San Diego Local Capacity Requirements. Because the PD did not discuss these comments, NRG is unsure whether the PD intended to address the comments submitted by both NRG and the CAISO.

¹ 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.

Either way, NRG urges the Commission to enforce the San Diego sub-area Local Capacity Requirements through the Resource Adequacy (“RA”) program. The two fundamental purposes of the RA program are stake: (1) to ensure that the RA program provides the CAISO with the capacity it needs to maintain reliability in local areas; and (2) to have such capacity procured primarily by Load-Serving Entities (“LSEs”) instead of by the CAISO through its backstop procurement authority. Because the PD may decision not comply with these fundamental RA program principles, it is deficient and must be corrected.

II. BACKGROUND

The CAISO’s 2013 Local Capacity Technical Analysis identified two large local capacity areas in the San Diego region. The first, which has existed since the inception of the RA program, is the greater San Diego area. Prior to the addition of the 500-kV Imperial Valley-Suncrest (“Sunrise”) line, the LCR for this local capacity area was driven by the outage of the 500-kV Imperial Valley-North Gila line (the “Southwest Power Link”, or “SWPL”) concurrent with the outage of the largest generating resource within the area (a “G-1/N-1” Category B contingency).

However, for 2013, the CAISO has determined that the Local Capacity Requirement (“LCR”) for this existing local capacity region is driven by the overlapping outages of the Sunrise and SWPL 500-kV lines (a “N-1-1” Category C contingency). As determined by the CAISO, for 2013, the greater San Diego LCR for the Category B contingency is 2,192 MW.² The greater San Diego LCR for the Category C contingency is 2,570 MW.³

² *April 30, 2012 2013 Local Capacity Technical Analysis Final Report and Study Results*, submitted to the Commission by the CAISO on May 2, 2012 in the above-captioned proceeding (“CAISO Final 2013 LCTA”) at 104.

³ *Id.*

The addition of the Sunrise line, as well as the addition of the ECO substation, have created, for 2013, a new, larger local capacity area – the “San Diego – Imperial Valley” area.⁴ The LCR of 2,938 MW for this new region is driven by the outage of SWPL and the Otay Mesa combined cycle plant (G-1/N-1). The greater San Diego local capacity area is now a wholly-contained sub-area of the San Diego-Imperial Valley local capacity area.

Comments submitted on May 7, 2012 by TURN⁵ and SDG&E⁶ asserted that the Commission should (1) adopt the lower of two LCR values developed by the CAISO for the greater San Diego local capacity area for 2013, and/or (2) remain silent on the LCR for the greater San Diego area and instead enforce only the LCR for the new San Diego – Imperial Valley local capacity area. During the CAISO stakeholder process leading up to the CAISO’s filing of its recommended LCR values, it considered and rejected the alternatives proposed by TURN and SDG&E again in this proceeding.

III. COMMENTS

A. Eliminating the San Diego Sub-Area Requirement would Undermine Two Fundamental Purposes of the Resource Adequacy Program.

The two foundational purposes of the RA program are to provide the CAISO with the capacity it requires in the locations necessary to maintain grid reliability; and to have LSEs, rather than the CAISO, procure that needed capacity. The PD correctly applies these principles

⁴ CAISO 2013 LCTA at 98.

⁵ *Comments of The Utility Reform Network on the CAISO’s 2013 Local Capacity Technical Analysis Final Report and Study Results*, submitted May 7, 2012 in the above-captioned proceeding (“TURN Comments”).

⁶ *Opening Comments of the San Diego Gas & Electric Company (U-902-E) on the Final 2013 Local Capacity Requirements Technical Study*, submitted May 7, 2012 in the above-captioned proceeding (“SDG&E Comments”).

in adopting the LCR proposed by the CAISO.⁷ However, the PD expressly declines to address the issues of (1) whether the local capacity requirement for the San Diego “subarea” should be enforced through the RA program; or (2) whether the level of the San Diego subpocket LCR should be determined by a Category B or Category C set of contingencies.⁸

A long history of Commission decisions has made clear that a, if not *the*, fundamental purpose of the RA program is to provide the CAISO with the capacity it needs in the right locations to maintain grid reliability:

In particular, the CAISO is responsible for ensuring “efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria...” [Citation and footnote omitted.] In pursuit of these objectives, the CAISO must each day ensure that sufficient generating capacity is on-line and available to meet the forecast system load. This means not only a sufficient amount of on-line generating capacity to satisfy the total system load, but also whether that capacity is in the right place. The CAISO, for example, must have a minimum amount of on-line generation available in certain locations in order to address transmission constraints or other specific operating requirements, such as maintaining proper voltage and other system-stability related requirements. Absent satisfaction of the CAISO’s location-specific operating requirements, the CAISO may be unable to operate the grid reliably.⁹

Moreover, the Commission has focused the RA program on acquiring the capacity needed to maintain grid reliability through Load-Serving Entity (LSE) procurement rather than through CAISO backstop procurement, regardless of whether that backstop procurement be

⁷ PD at 9-10 (“We determine that the ISO’s final 2013 LCR study should be approved as the basis for establishing local procurement obligations for 2013 applicable to Commission-jurisdictional LSEs.”)

⁸ PD at 10 (“As Local RA obligations are not set relative to subareas, we do not address this topic here.”)

⁹ D.04-07-028, p. 3.

through Reliability Must-Run (“RMR”) contracts, or through various CAISO capacity backstop procurement authorities:¹⁰

In summary, while the Commission understands that some limited (and cost efficient) continuation of RMR contracts may be necessary as a backstop mechanism in the future, a policy that encourages the CAISO to assume greater procurement responsibility in connection with local area reliability would be shortsighted. Moreover, consumers would be ill served by such a short-sighted policy.¹¹

Through LSE-based RAR, we seek to eliminate “free ridership” and to minimize CAISO procurement where the costs of such procurement are socialized without reference to cost causation. Therefore, to the extent possible, we will favor RAR design elements that promote the LSEs’ procurement responsibility over those that rely on CAISO procurement.¹²

The goal of resource adequacy is achieve reliability at least cost, not simply to achieve least cost. To the extent we design resource adequacy requirements that fail to provide the resources needed by the CAISO, the CAISO could find it necessary to activate its backstop procurement mechanisms such as the Residual Unit Commitment process, the Exceptional Dispatch process, or the Interim Capacity Procurement Mechanism.¹³

By remaining silent on whether the San Diego “sub-area” LCR developed by the CAISO should be enforced through the RA program, the PD undermines both long-standing policies: (1) to provide the CAISO with the capacity needed to maintain grid reliability, including local reliability, and (2) primarily rely on LSE procurement, not CAISO backstop procurement, to obtain this capacity.

There is no meaningful distinction between area and sub-area LCR. The size of the area is immaterial; the key is to make sure there is sufficient generation within the defined area to

¹⁰ Including, in order, the Reliability Capacity Services Tariff, the Interim Capacity Procurement Mechanism, and the current backstop authority, the Capacity Procurement Mechanism.

¹¹ D.07-04-028, pp.15-16.

¹² D.05-10-042, p.11.

¹³ D.09-06-028, p. 52.

meet applicable reliability criteria. The difference between the San Diego-Imperial Valley local area, for which the PD expressly adopts LCR for 2013, and the San Diego local area, for which the PD expressly ignores the 2013 LCR, is that the San Diego-Imperial Valley local area includes the Imperial Valley substation. Prior to the implementation of the San Diego-Imperial Valley local area, the San Diego local area defined LCR for the entire San Diego region. The San Diego local area is not a tiny electrically-isolated sub-pocket; it encompasses the vast majority of the San Diego & Electric bulk power network and includes millions of people.

As the Commission explained, “[i]n simplest terms, the LCR study is the process of identifying the specific areas within the CAISO Controlled Grid that have local reliability problems due to transmission constraints and, for each area so defined, determining the generation capacity, in megawatts (MW), that would be required to mitigate these local reliability problems.”¹⁴ To assert that the San Diego – Imperial Valley area is one of the specific areas whose LCR warrant enforcement through the RA program, but the San Diego area is not, elevates a questionable tradition of not enforcing small sub-area LCR through the RA program to a blatant disregard for the goals of the RA program.

The Commission faced similar objections when the CAISO’s 2008 LCR study identified a new local reliability area, the Big Creek/Ventura Area. Rejecting those objections, the Commission stated:

SCE’s objection to the establishment of the Big Creek/Ventura Area is based on the contention that the CAISO has changed the LCR study approach by using the contingency of an inertia outage. This objection does not appear to be well-founded, since the potential universe of transmission outages that may be considered for purposes of identifying the most severe contingency has consistently encompassed any transmission line, including inertias. We find no substantial grounds for invalidating the LCR

¹⁴ D.06-06-064, p. 14.

study, and therefore find that the Big Creek/Ventura Area should be established without a phase-in or blanket penalty waivers as proposed by SCE.¹⁵

Should the Commission not enforce the San Diego area LCR through the RA program, and, consequently, should the LSEs in that area fail to procure sufficient capacity to meet the area need, the CAISO should and will engage in backstop procurement to ensure that those sub-area requirements are met. The CAISO cannot disregard its responsibility to ensure that it meets applicable reliability requirements. Section 43 of the CAISO Tariff authorizes the CAISO to engage in backstop procurement when RA requirements, be they system or local, are not met.

There is no meaningful distinction between whether an LCR applies to an “area” or a sub-area”. In either case, the CAISO has identified a need for a specific amount of capacity within that area. Failure to procure that amount of capacity within that area will leave the CAISO without sufficient resources to meet applicable reliability criteria. Asserting that the Commission has historically determined or enforced only the area – but not sub-area – requirements – elevates a meaningless distinction between “areas” and “sub-areas” to a misguided reason for ignoring the purpose of the RA program.

In sum, the PD’s explicit refusal to act on the CAISO’s defined sub-area requirement for the San Diego area runs counter to the foundational, long-standing Commission policy underlying the RA program.

¹⁵ D.07-06-029, p. 21.

IV. CONCLUSION

NRG appreciates the opportunity to submit these opening comments and respectfully asks the Commission take action consistent with the discussion herein.

Respectfully submitted,

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