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)

DISTRIBUTED ENERGY CONSUMER ADVOCATES REPLY COMMENTS IN RESPONSE TO THE ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENTS ON WORKSHOP TOPICS

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REPLY COMMENTS IN RESPONSE TO THE ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENTS ON WORKSHOP TOPICS

Distributed Energy Consumer Advocates ("DECA") hereby files reply comments in R.12-03-014 in response to the September 7, 2012 joint workshop in this proceeding and in the storage proceeding R.10-12-07.

I. Background

DECA is a nonprofit California public benefit corporation that advocates on behalf of its members and their broader customer class that either currently produce and consume electricity, or consume electricity and are considering producing it as well. DECA seeks to promote the optimal regulatory climate and market in which its members and others may invest in distributed clean energy infrastructure, without preference to any single technology. DECA's participation in this proceeding and its comments here focus on a broad range of issues that affect its members including the ability to produce electricity and the costs associated with not relying more heavily on infrastructure investments they might be willing to make to reduce the costs of renewables integration and the broader California electric grid.

II. DECA's Reply Comments

DECA comments here on certain parties responses in general and then across parties below that based on the questions put forth in the ruling seeking these comments.

A. DECA's broader reply comments by party.

California Independent System Operator

DECA generally supports the CAISO's introductory statements regarding the need for a mix of resources. DECA does however caution that the CAISO's markets and operations have been designed specifically to accommodate the shortcomings of fossil resources, which are accepted as "normal" while viewing Variable Energy Resources resources as inadequate for a host of reasons. The CAISO could no more successfully maintain the grid with a fleet of only antiquated long-start thermal plants than it could with a fleet of only PV resources, but we do not seem to be having a conversation about the deleterious effects of 50 year old plants on the grid (in fact the CAISO has undertaken many proceedings in its own forum to ensure these resources are adequately protected in the wholesale markets).

There are many reasons why the CAISO is biased toward this perspective. A great many resources are treated differently precisely because they are preferred but not easily integrated into the CAISO's existing market rules. Rather than change the rules slightly the CAISO, with FERC's blessing if not at FERC's direction, has created exemptions to existing rules for certain resources. These exemptions have unfortunately had the perverse effect of making these preferred resources appear more and more difficult to integrate into wholesale markets.

There are of course a great many other factors that have contributed to resources coming to the wholesale markets with baggage, and the Commission bears a great deal of responsibility in this regard. Its failure to aggressively address integration issues in its renewables procurements processes and an oft repeated RPS compliance oriented "kWh not kW" perspective has exacerbated some of the integration issues we are no facing much as the Participating Intermittent Resource Program has. However, the Commission also has the ability to address a great many of these issues on a forward going basis and the LTPP proceeding remains the best

vehicle for orienting policies that are focused on giving the CAISO the best foundation to work from.

To use an analogy, if California's energy needs are a Formula 1 race course the CAISO is obsessed with the turning radius of the car we're building while the Commission has been focused on increasing the car's horse power. The LTPP proceeding provides us with the opportunity to focus on the car's suspension while asking the following questions: do we need more horsepower or a lighter vehicle? Do we a car that can turn on a dime or handle turns at higher speeds? A perspective that focuses on keeping the "old grid" and the "new grid" separate will only perpetuate the problems we are currently facing. A decision to make an integrated and sustainable balance of load and resources as well as planning and operations will establish the way forward for others to emulate.

Division of Ratepayer Advocates

DECA strongly supports the Division of Ratepayer Advocates' ("DRA") position that the Commission should reinforce the direct linkage between the use of demand-side preferred resources, including through modifications to the IOU procurement process.

Southern California Edison

DECA disagrees with SCEs assertion that this LTPP cycle is an inappropriate place to consider implementation of new proposals for set-asides for preferred resources or energy storage to meet LCR need. The procurement of local capacity resources, especially those driven by OTC retirements remains the best vehicle for the Commission to move procurement policy forward. SCE ratepayers should reasonably expect to pay above market prices for replacement OTC capacity given the limited number of resources capable of providing such capacity and the size of the need; indeed SCE's own affiliates may benefit from this scarcity of supply. There is

likely very little the Commission can do about this other than ensure that as many soon to be retired OTC plants will be competing against each other for a limited number of MW being repowered, but the Commission should not stand by idly in face of such expected high prices. This is likely the best opportunity for preferred resources and new procurement mechanisms to participate in an RFO process with the highest avoided costs.

DECA supports SCE's proposed use of an interim NQC counting mechanism for storage that includes a "highest and best use" evaluation.

Vote Solar

DECA commends Vote Solar on undertaking the effort to produce an innovative alternative procurement mechanism for DG that may serve as a foundation for it being considered alongside other resources on a forward going basis. It is through these kinds of policy innovations, and deliberation around them, that the Commission's policy agenda will move forward into the next century of energy supply.

B. DECA's replies by question.

1. What changes should be made to the rules governing the Investor-owned Utilities (IOUs') procurement process that would allow all resources [...] to compete fairly in meeting identified needs?

DRA

DECA believes that the Commission can and should consider targeted DR and EE procurement from existing DG customers as part of aggregating DR and EE in evaluation of utility RFO processes. DECA believes that customers that own or benefit from DG are very well positioned to be incentivized into adopting DR and EE at higher penetration rates than non-DG customers because mechanisms such as net metering can be utilized to compensate customers for incremental investments.

SCE

DECA believes that SCE is capable of running a flexible procurement RFO with sufficient guidance and oversight by independent evaluators hired by and answerable to the Commission rather than SCE itself and with the assistance of an active procurement review group. However, to the extent that programmatic changes can be made to further related state goals the Commission should make those rather than relying on only on SCE procurement policies.

Vote Solar

DECA agrees with Vote Solar that an all-source procurement process may not be necessary but cautions that an all source RFO for procurement of LCR needs in the LA basin presents a unique opportunity ensure that preferred resources are considered first in the efforts to procure local capacity.

2. What amendments, if any, would be necessary to the most recent long-term Request for Offers issued by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric (SDG&E), and Southern California Edison (SCE) to ensure that all resources are eligible to compete in meeting future Request for Offers (RFO)? Are there any changes specific to meeting Local Capacity Requirements (LCR)?

DRA

DECA cautions that if the Commission relies on EE programs to reduce LCR need through demand side reductions it must be sure that the CAISO's modeling of local capacity requirements reflect this in an integrated manner in the RFO process. By this DECA means the authorized procurement would need to be adjusted by the amount of LCR need associated with a particular reduced load shape from particular EE investments.

3. What specific characteristics or attributes must any resource -- including demand-side, energy storage, or distributed -- provide in order to meet future procurement needs? In the absence of a Net Qualifying Capacity, what methodology should be used to determine a proxy capacity value for resources lacking a Net Qualifying Capacity for use in LCR capacity accounting? How can these characteristics or criteria be turned into criteria to evaluate resources bid into a Request for Offers to meet LCR or other needs? How should those criteria be weighted?

CAISO

The CAISO has not adequately supported its assertion that "Procuring more flexible rather than less flexible resources is especially critical in local capacity areas where predictable, guaranteed, and fast resource response is essential to mitigate a local transmission contingency in a local area in accordance with NERC and WECC operating reliability standards."[1] DECA strongly urges the Commission to fully parse such an assertion by the CAISO. While "more flexibility" as defined earlier in the CAISO's comments (see the definition of "dispatchable resources on the same page of the CAISO's comments) may be desirable in local areas, a generic contribution to a ramp need in no way needs to be addressed in a local area — it is purely a system need that should be addressed wherever it is the least expensive to do so. Additionally, the CAISO's comments can be read to misrepresent the number of "more flexible rather than less flexible resources" necessary to address a local transmission contingency by using the term "procuring."

While it may well be that additional resources are needed, the CAISO has in fact not demonstrated that additional "more flexible" resources are needed in local capacity areas. To be certain, the CAISO's demonstration of local area needs are of critical importance, but the Commission has already moved too far down the path of conflating grid operation needs that are not peak oriented with peak-oriented local area definitions and requirements.[2] The Commission

[1]Emphasis removed from the original, see CAISO comments at p.5

[2]For an example, the CAISO currently models voltage as a binding constraint in its local capacity requirement modeling, effectively determining that fossil-based resources rather than readily

should not rush to procure "more flexible" resources precisely where they are most expensive when issues such as adequacy of inertia or VARs on the system are separate needs than having on peak capacity during transmission or generation outage. Most transmission and generation outages that form the basis for demonstrating grid reliability require responses that occur in increments of time that are measured in fractions of seconds, not over a morning ramp and certainly not in the amount of time that a "very flexible" resource would need to actually start.

PG&E

DECA cautions that as proposed PG&E's "effective capacity" methodology may results in non-cost optimized resource procurement in locally constrained areas. Procuring a resource in a local area because it offers more system benefits than another local resource should only be done if the cost of the incremental benefits cannot be delivered at a lower cost at the system level. As DECA described in its comments it may well be that incremental ramping capability can be delivered at a lower cost at a system level than paying more for a particular kind of flexible resource inside the local area simply because it was offered in that RFO.

Vote Solar

DECA shares Vote Solar's objection to any proposal that 24 hour availability be the metric by which resources are valued or their capacity is determined but cautions that Vote Solar's suggestion that treating preferred resources as a load side reduction is not a reasonable permanent solution to modeling their contributions to the grid. Rather, DECA supports developing the resources including modeling resources to value all generation as a supply side resource or, alternatively, treating resources such as storage and behind the meter generation, which have the ability to both produce and consume electricity separately. As technology

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available emissions free alternatives will meet that need.

develops and penetration increases DECA cautions that treating all load uniformly as load first and generation second is not a forward thinking policy.

4. What are the pros and cons of the following procurement methods with regard to: 1) local procurement considered in Track 1 of LTPP, and 2) operational flexibility and general system procurement considered in Track 2 of LTPP?

CAISO

DECA agrees with the CAISO that procuring preferred resources outside of RFOs is creating some problems and not solving others. DECA cautions that unless the CAISO addresses issues regarding capacity for these resources and Net Qualifying Capacity in particular these resources will effectively be shut out of the procurement process because they will not be able to participate in the utility RFOs because they cannot bring capacity to the evaluation process. DECA believes this issue can be addressed by deeming deliverability of resources via any number of mechanisms such as a de minimus deemed deliverability for all resources under a certain size or a deemed deliverability for a certain MW quantity of resources by busbar. The former mechanism could similarly be limited by an aggregate threshold at the busbar. DECA believes that the Commission could allocate any deemed deliverability across preferred resources via any number of mechanisms.

DECA recognizes the value of low Pmin resources and strongly supports the Commission undertaking a study to evaluation the costs and benefits of modifying existing and potential future preferred resource contracts to facilitate maximizing the continuous ramp range in either the upward or downward direction. Additionally DECA strongly encourages both the Commission and the CAISO to consider the ability to aggregate small resources to provide ramp-like capability. These resources can, like providers of ancillary services in the CAISO markets, be compensated for the opportunity costs of energy they are not providing when being curtailed for ramp or other purposes. While perhaps not effortless, the ability to consider withheld

renewable energy for the provision of ancillary services as contributing to RPS requirements would greatly assist the development of such mechanisms with minimal impact to the RPS goals themselves.

SCE

DECA believes that SCE has created an all or nothing scenario when suggesting that changes to the RAM and SPVP should not be made because such changes will hinder the Commission's ability to meet RPS procurement targets. DECA believes that the ability to target RAM and PSVP procurement that reflects LMPs and other localized considerations will still allow lower costs renewable resources to be procured via those program simply by the fact that there are not enough renewable projects that would fit in the local areas.

Vote Solar

To the extent that SCE does not hold an all source RFO that includes a mechanism that incorporates the preferred loading order, DECA supports Vote Solar's LCR-oriented RAM and CSI-like procurement mechanisms. Similarly, nothing in an all source RFO should preclude LCR oriented RAM and CSI procurement from being developed on a forward going basis.

5. At the September 7th workshop, some parties discussed retrofits to existing generation assets as a potential source of incremental capacity. What, if any, changes would need to be made to the most recent long term RFO issued by PG&E, SDG&E, and SCE to allow for incremental capacity associated with retrofits to existing generation to compete to meet Local Capacity Requirements? Are there any differences in payment streams that should be given for existing capacity, as opposed to upgraded capacity?

CAISO

It is worrisome that the ISO did not address the incremental ramping capacity issue in its comments. Such a lack of consideration of alternatives reflects a pattern of behavior at the ISO that continues to limit options available to California's energy markets. DECA continues support

the consideration of incremental ramping capacity and other "outside of the box" strategies for addressing the state's energy needs. The LTPP process, through it's ability to have the ISO and other unwilling parties have to consider alternatives that they are culturally or economically discouraged from considering.

SCE

DECA cautions that SCE has not, in its comments, considered the mechanisms by which existing and incremental capacity or ramping capability could compete head to head in an RFO. Such a structure is well within the possible for utility RFOs with the directed assistance of an truly independent evaluator that is not hired by the utility but rather answers directly to the CPUC staff and/or the PRG members. DECA also asks that the Commission consider a mechanism other than reply comments where brown and greenfield developers and other interested parties can properly develop this subject area including the workshop process. DECA agrees with SCE that the issue of PM-10 and other air permits remain a critical consideration regarding the LA Basin, however individual suppliers and other market participants are not likely to be able to fully grasp the complexities and moving policy parts associated with air credits and procurement strategies. Rather, DECA encourages the Commission to hold a workshop with the CEC and the Air Resources Board to more fully integrate PM-10 issues into the LTPP process with particular focus on signaling to market participants potential strategies for addressing permitting hurdles. Much work has already been done on AB1318 issues and could easily be incorporated into this proceeding in a timely manner to ensure all participants are as equally informed as possible. As an example DECA suggests that consideration of mechanisms by which in-basin units or plants can reduce capacity while increasing ramp capability may address some PM-10 permitting issues. Such PM-10 focused strategies may also be integrated into authorized procurement strategies that bring competitive pressure into the RFO process rather

than an all or nothing scenario where facilities are encouraged to ask for above market rates because they believe their is a high probability that they will be needed. Similarly, it is only by developing a record on the likely costs of PM-10 permits that the Commission can fully understand the costs of emissions heavy "solutions" to the local reliability issues in the LA Basin.

6. At the September 7th workshop, both SCE and Enernoc raised concerns that it would be difficult to procure demand response resources that match the online dates (2017 to 2020) and duration (e.g., 20 years) of the conventional generation that is being contemplated as a source of LCR capacity. How could a demand side program be authorized through this LCR procurement process that delivers an on-line date and a duration that is comparable to conventional generation? What additional values are currently attributed to demand response resources in other markets that are currently not accounted for in California, and that might be taken into account as part of an LCR procurement process?

CAISO

DECA comments here narrowly on the issue of 30 minute demand response being consider insufficiently "fast" to be valued (see CAISO comments at pp.10-11). As stated above, it is illogical to suggest that a demand response program does not deserve a capacity value because it can only response in 30 minutes when a fossil resource such as a combined cycle that may not be able to start for hours is entitled to receive one. Neither resource is capable of addressing the 30 minute response time required by NERC's TOP 004 guidelines but the CAISO suggests here that they be treat differently. Instead of preventing these kinds of DR resources from receiving capacity values at all the Commission should balance the CAISO's concerns with the benefits that DR resources bring to the grid by limiting the amount of DR resources via the Commission's Maximum Cumulative Capacity bucket system.

III. Conclusion

DECA hereby files its reply comments in R.12-03-014 in response to the September 7, 2012 joint workshop in this proceeding and in the storage proceeding R.10-12-07.

Respectfully submitted this 23rd day of October, 2012.

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