

**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)

**DISTRIBUTED ENERGY CONSUMER ADVOCATES
COMMENTS ON JOINT PARTIES FLEXIBILITY CAPACITY PROPOSAL**

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**DISTRIBUTED ENERGY CONSUMER ADVOCATES
COMMENTS ON JOINT PARTIES FLEXIBILITY CAPACITY PROPOSAL**

Distributed Energy Consumer Advocates (“DECA”) hereby comments on the Joint Parties' interim Resource Adequacy and Flexible Capacity Procurement proposal consistent with the December 6, 2012 scoping ruling and Administrative Law Judge Gamson's December 19, 2012 email ruling adjusting the deadline for comments. DECA comments here on the October 29, 2012 proposal (“the Proposal”) of the California Independent System Operator (“CAISO”), Southern California Edison (“SCE”), and San Diego Gas and Electric (“SDG&E”) (collectively referenced herein as “the Joint Parties”).

I. Introduction

DECA is a nonprofit California public benefit corporation that informs and educates residential and small commercial producer-consumers of electricity, and advocates on behalf of such customers in a variety of policy forums. 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.

II. Comments on the Joint Parties' Proposal

DECA prefaces its comments on the Proposal by cautioning that the Joint Parties remain the strongest advocates for centralized capacity markets and the abdication of Commission jurisdiction regarding capacity issues to FERC jurisdiction markets. DECA's comments have as one element of their foundation, a concern that the modification to the RA process cannot and should not be used to force the Commission into a FERC jurisdiction capacity market. This proceeding is not appropriately scoped for such an outcome and California's various interests are not sufficiently aware of such an outcome being a possibility in this proceeding.

DECA recognizes the need to ensure electric reliability over the coming years and understands that “flexibility” can be beneficially interpreted to salve a great many concerns, but DECA cautions this proceeding and others have done a poor job defining the grid's actual need absent a pre-determined “solution” which acts as a lode stone for a host of pre-selected problems.

In particular DECA cautions that the RA proceeding runs the risk of permanently embracing the operational constraints of the existed, antiquated fossil-based generation system as acceptable and as a result penalizing the next generation of resources as inadequate because they do not possess the same set of burdensome but institutionalized limitations. This is no small issue. It is also that much more important that the Commission address this it without permanently abdicating its responsibilities. Failure to properly contain this interim need will most assuredly lead to a singular outcome – a massively overbuilt generation system, massively suppressed energy prices, and a reliance on “capacity” payments to keep century old technologies “in the market” while simultaneously distorting the price signals that load needs to respond to. Such an outcome most clearly benefits utilities with significant transmission ownership and affiliates in the independent generation business, which, with the addition of the CAISO, look a lot like the Joint Parties.

DECA cautions that the “need” that the flexible capacity procurement initiative is attempting to meet is a constructed one. The CAISO's MRTU remains entirely incapable of addressing the true binding needs of the changing electrical system, from an inability to incorporate responsive load to a reliance on out of market transactions for its entire existence. DECA recognizes that there are, in fact, likely to be an increasing amount of “ramping” needs (however defined) in the coming years and decades. The effect of such needs is not well understood. One thing that is very likely is that “peak-like” high wholesale prices will occur at

non-peak times as the quick start and ramp range of combustion turbines with incredibly high heat rates set market clearing prices. Counterintuitively, this will occur at relatively low load levels. The Commission's demand response programs are not currently prepared to deal with such changes to wholesale market structure, nor are the Commission's approved rates, energy efficiency programs, market price referents, etc. All of these factors will need time to reach an equilibrium in a rational market. Locking in a particular "avoidance architecture" will almost certainly prevent meaningful alternatives such as newer types of demand response from finding their footing or perhaps existing at all.

Perhaps most importantly, the Commission must recognize that generation resources will need to be able to leave the market.

The questions raised in Attachment B of the Scoping Ruling

DECA here answers a limited subset of the questions included in attachment B of the Scoping Ruling.

1. What is/are the most critical grid reliability risk/risks that should be evaluated and managed through the flexible capacity procurement initiative?

DECA believes the single biggest risk is that the Commission will create directly or facilitate another jurisdiction's creation of a "flexibility" requirement that permanently incorporates antiquated fossil-based generation technology into California's generation fleet. This is perhaps a longer term concern than was intended from the question as posed, but the costs associated with it are far larger than those associated with "out of market" temporary solutions such as Reliability Must Run-like retirement prevention or the procurement of incremental ramping capability separate from standard generation capacity.

DECA recognizes that there are real short term reliability concerns that should be addressed. With the right assumptions we can model a great many hours of need during a few months of the year, with more reasonable assumptions we can reduce the number of hours to a handful. The “3-hour ramping capability” of a resource is a blunt and ineffective tool for addressing this issue. DECA believes that any mechanism for addressing this must include load side contributions as well as the ability to combine load and generation in some form. These netted products can be met by load serving entities on an interim basis without requiring “new products”. To be certain, the ISO has a long history of reluctance to accept demand response and other aggregated demand-side resources, but there is no reason why, for example, an ag pump cannot be turned on to mitigate a particularly steep ramp that might occur only a few hours of the year. In fact many of the state's interruptible loads are more likely to need to shift load precisely in the way they could best match ramp needs. Furthermore the ability of both load and generation to contribute solutions to these rare periods of need best remains within the jurisdiction of the Commission and its utilities, who control both load and generation unlike any other entities in the market. The ability to net load and generation to address “flexibility” needs remains the most important tool that the Commission can use and only the Commission can use it. DECA believes that over time electric vehicle charging programs may be able to permanently address these ramp issues via aggregated netting of dispatchable load.

2.b. Can the difference between load and net-load be met partially by introducing curtailment provisions in renewable contracts (particularly solar resources)?

DECA strongly supports inclusion of bilateral curtailment contracts for renewable resources, including the aggregation of residential and other distributed generation resources in any interim flexibility requirement. Similarly, aggregated load can and should be able to participate.

4. Should the flexible capacity start in 2014?

DECA believes that the benefits of creating a curtailment and aggregated load inclusive flexibility showing for 2015 far outweigh the risks of implementing a rushed program that extends from 2014 through 2017. However, many alternatives can exist, including a “2014 generation only” showing coupled with a 2015-2017 curtailment/load aggregation inclusive showing should 2014 load forecasts suggest the risk of high load levels that would create such ramping constraints appear to be reasonable.

5. According to the proposal, “flexible capacity need” is defined as the need of the ISO to meet ramping and contingency reserves. (Section 3.1)

DECA cautions that contingency reserves should be kept separate from any “flexibility capacity need” both because commingling the two needs muddies the jurisdictional waters and because resources that are not sufficiently flexible to clear the flexibility market should not be prevented from making their capacity available as a lower cost contingency reserve.

Furthermore, a ramp need will almost certainly be driving any market prices in meeting a “flexibility capacity need” and a commingling of contingencies and ancillary services will necessarily raise the prices paid for such services.

6.b. According to the proposal, flexible capacity need is based on how much ramp capability a resource can offer and sustain over a continuous three hour period. Is three hours an appropriate duration in which to measure ramping?

No. Aggregation of resources must be considered. The assertion that a single resource type must “do it all” does not reflect real constraints nor is not how the grid operates. By limiting the resources that can participate in such a capricious manner the Commission would be ensuring the costs of such “flexibility” do not reflect those of the market but rather those that had sufficient

political capital to exclude their competitors from consideration. To the extent that any ramping need can be addressed via aggregation, the Commission should not preclude it from happening.

7.a Currently the annual LCR process results in a determination of local capacity needs on an annual basis. Should flexible capacity needs be included within the LCR process, or should a separate but similar process be established to update flexible capacity needs?

At this time DECA objects to commingling the LCR process and the flexibility determination. The LCR process already inappropriately relies on generation resources to provide voltage support and other grid needs that can be provided by non-generation resources. If flexibility need is incorporated into the LCR calculation it will likely only serve to increase the apparent need rather than an efficient and comprehensive perspective on the true needs.

8. The proposal recommends the CPUC allocate flexible capacity procurement obligations to LSEs based on each LSE's relative share of monthly system peak. Is this a suitable approach?

DECA does not support a peak load based allocation of flexibility capacity obligations. An LSE that only serves baseload customers should not bear the cost of provide ramp. Similarly, a customer whose load profile reduces an LSE's overall ramp need should be valued based on their contribution to the avoided ramp costs.

8.a. What other alternatives exist within CPUC jurisdiction that allows LSEs to demonstrate compliance of flexible capacity obligations? Please discuss the relative costs and benefits of different approaches. (Section 3.3)

DECA strongly supports the ability to net curtailment of certain generation resources, storage, and aggregated load programs to meet any flexibility requirement.

III. Conclusion

For the above reasons DECA believes the Proposal is inadequately designed for a 2014 implementation and strongly supports ongoing consideration of these issues in the coming months.

Respectfully submitted this 26th day of December, 2012.

By _____
/s/
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