

**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 MARIN ENERGY AUTHORITY  
ON JANUARY 23, 2013 AND MARCH 20, 2013 WORKSHOPS  
AND REVISED ENERGY DIVISION PROPOSAL  
REGARDING FLEXIBLE CAPACITY REQUIREMENTS**

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**I. INTRODUCTION**

In accordance with the instructions set forth in the *Administrative Law Judge's Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference* ("Ruling") dated March 11, 2013, the Marin Energy Authority ("MEA") submit these comments regarding the potential need for Flexible Capacity Requirements ("FCR") as presented by the California Independent Systems Operator ("CAISO"), Energy Division ("ED") staff, and other concerned parties during the January 23, 2013 and March 20, 2013 workshops ("Workshops"). These comments also touch upon the recently revised Energy Division Proposal ("Proposal") issued with the Ruling. MEA believes the alleged need for FCR starting with the Commission's 2014 Resource Adequacy ("RA") program cycle is at the least premature and more likely unnecessary. MEA believes this purported need would be better addressed through CAISO's energy and ancillary services markets than through the Commission's RA policy framework.

**II. BACKGROUND**

MEA is the only operational Community Choice Aggregator ("CCA") within California. MEA is a not-for-profit public agency founded to reduce greenhouse gas emissions by providing the communities it serves with the choice to consume electricity with a higher renewable content

than the default offering provided by Pacific Gas and Electric (“PG&E”), the incumbent Investor Owned Utility (“IOU”) for MEA’s service territory. MEA currently serves customers throughout Marin County, and is initiating service to customers within the City of Richmond. MEA provides generation services to upwards of 90,000 customers and anticipates expanding to approximately 125,000 once the City of Richmond is fully enrolled in July 2013.

Pursuant to state law, CCAs are solely responsible for all generation procurement activities on behalf of its customers, except where other generation procurement arrangements are expressly authorized by statute.<sup>1</sup> One such exception is the Cost Allocation Mechanism (“CAM”)<sup>2</sup> which permits the Investor Owned Utilities (“IOUs”) to recover the net capacity costs of Commission-approved generation resources procured to “meet a system or local reliability need” through a non-bypassable charge applicable to IOU, CCA, and Direct Access (“DA”) customers. Furthermore, CCAs, like other Load-Serving Entities (“LSEs”) operating within the CAISO footprint, are also obligated to procure capacity resources on behalf of their customers as well. If the RA program is materially changed by the Commission’s adoption of FCR, MEA’s existing and planned procurement activities would be directly and negatively impacted, particularly in light of MEAs pending multi-year RA capacity solicitation.

### **III. THERE IS NO NEED TO MODIFY THE RA PROGRAM TO INCORPORATE REQUIREMENTS FOR FLEXIBLE CAPACITY AT THIS TIME**

MEA believes there is no need to modify the RA program to include FCR for 2014 because there appear to be adequate flexible capacity resources already available. The data presented by CAISO in the Workshops show a large surplus of flexible resources under current

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<sup>1</sup> California Public Utilities Code §366 (a)(5). All further section references herein are to the California Public Utilities Code unless stated otherwise.

<sup>2</sup> §365.1 (C)(2).

and projected flexible capacity requirements. Specifically, the CAISO's presentation given during the March 20, 2013 workshop shows that the stock of existing resources with flexible ancillary service capabilities exceeds the maximum CAISO projected need for such flexibility in 2014-2016 by over 15,000 MW.<sup>3</sup>

Clearly, there does not appear to be a problem with ensuring sufficient capacity is made available to CAISO. According to CAISO itself, there is sufficient steel in the ground to exceed system reliability needs. Instead, the CAISO's concerns appears to be one of ensuring that the resources make themselves available to the CAISO market to meet evolving operational ramping requirements. Furthermore, it is inefficient and costly to try and obtain desired resource bidding behavior through modifications to the existing RA capacity program as opposed to structuring energy or ancillary service products to secure the services necessary to meet changes in system loads and resource utilization. Solutions should be focused at CAISO and its markets rather than at the CPUC's RA capacity procurement program.

MEA urges for the Commission to acknowledge the current state of capacity surplus and to determine that there is no need to adopt the FCR proposals at this time. Instead, the Commission should urge CAISO to explore market-based solutions in its energy or ancillary services products to solve its flexibility concerns by encouraging offers from capable resources, rather than altering the RA capacity procurement regulatory framework.

#### **IV. CAISO SHOULD CONSIDER MARKET MECHANISMS OR RULE CHANGES TO EXPLOIT THE LATENT DISPATCHABILITY OF THE GENERATION FLEET**

CAISO has secured regulation and other ancillary services from the market without imposing a multiplicity of product procurement obligations on LSEs under the RA program

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<sup>3</sup> March 20, 2013 Workshop – CAISO Presentation at slide 19.

requirements. MEA sees no new impediment on CAISO's ability to secure other flexibility products from dispatchable resources once it specifies the new product types. If price signals from CAISO markets for regulation and other ancillary services can reliably yield these critical grid services now, CAISO should also be able to offer a similar market for resources that would provide the needed ramping capability once it properly defines those products.

The RA capacity procurement structure is not well-suited to meeting an uncertain and evolving need for flexible ramping capability and would unnecessarily limit the types of resources that can solve CAISO's need for flexibility in energy production or reduction. Looking ahead, MEA believes what is required are more dynamic, market-based solutions that will respond to changing conditions - from day-to-day ramping needs as well as the longer transition periods as the net load curve moves with changes in the resource mix, demand response, storage technologies and market adaptations. MEA believes a combination of technologies and behavioral changes within the CAISO (and regional) energy markets will ultimately meet these flexible capacity needs. A rigid regulatory framework for capacity procurement will undermine the ability to adapt quickly enough to respond to the rapidly transforming marketplace.

CAISO should focus on how its energy and ancillary services markets can send the proper price signals to encourage flexibility solutions from supply and demand side technologies. Furthermore, a more significant focus on opportunities to utilize the State's smart grid and metering technology investments could help to solve issues associated with renewables integration through demand response. Appropriately structured products with transparent prices should also encourage currently self-scheduled resources to instead bid into the CAISO markets.

Moreover, as the Commission is aware, the CAISO and PacifiCorp are currently investigating development of a regional Energy Imbalance Market (“EIM”) that could leverage the geographic diversification of loads and resources between balancing authorities to better optimized both generation and transmission networks.<sup>4</sup> Preliminary evaluation work indicates there may be significantly lower dispatch costs and mutually beneficial market opportunities available across the diverse inter-regional markets that would address both incremental and decremental ramping needs including reductions in potential flexible capacity reserves requirements at issue here.<sup>5</sup> Altering the existing RA structure – which is intended to maintain supply sufficiency – prior to the completion of this investigation could result in imposition of unnecessary costs or stranded investments. Alteration of the existing RA framework could particularly harm MEA’s current solicitation for multi-year RA products and push it and other LSEs into shorter-term capacity transactions, contrary to policy positions favoring multi-year procurement.

**V. THE JOINT PARTIES AND ENERGY DIVISION FLEXIBLE RA PROPOSALS WOULD INCREASE CONSUMER COSTS WITH NO SYSTEM BENEFIT**

CAISO is not proposing any additional obligation on designated flexible capacity in 2014; however, both the Joint Parties and ED would require LSEs to execute RA contracts with rights to flexible capacity for the 2014 program cycle. Adopting a FCR for 2014 would mean that any existing RA contracts would need to be renegotiated to obtain rights to claim the new flexible capacity attribute (if applicable to the particular resource). Imposing an obligation to

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<sup>4</sup> See CAISO Market notice *Joint PacifiCorp/ISO Memorandum of Understanding Launches New Energy Imbalance Market Initiative*, posted at <http://www.caiso.com/Documents/JointPacifiCorpISOMemorandum-UnderstandingLaunchesNewEnergyImbalanceMarketInitiative.htm>.

<sup>5</sup> Avoided flexible capacity reserve benefit range of \$4 million to \$77 million in 2017 (2012\$). See, *PacifiCorp-ISO Energy Imbalance Market Benefits*, March 13, 2013, page 31-posted at <http://www.caiso.com/Documents/PacifiCorp-ISOEnergyImbalanceMarketBenefits.pdf>.

procure the new attribute will likely result in higher costs to the LSE and its customers without any accompanying system reliability benefit at this time.

Accordingly, MEA is concerned that there may be a disproportionate and anti-competitive cost impact on non-IOU LSEs due to the prevalence of resources with significant flexibility attributes within the IOUs' portfolios of legacy resources—specifically large hydroelectric generation resources. MEA supports rules that allow maximum participation of hydroelectric and other resources, but MEA is concerned that a new FCR may create a disproportionate cost impact on competitive suppliers that do not have such uniquely flexible legacy generation. If the Commission adopts a FCR, additional consideration should be given to how the requirements can be made competitively neutral should the incumbent IOUs hold a disproportionately large share of the eligible resources.

## **VI. Conclusion**

MEA thanks Assigned Commissioner Ferron and Assigned Administrative Law Judge Gamson for the opportunity to provide these comments on the two days of workshops and the revised Energy Division Proposal regarding the Flexible Capacity Requirements concept. For the reasons articulated above, there is no need to modify the existing RA capacity procurement program to include an additional FCR component at this time. The CAISO footprint carries a large surplus of flexible resources now and for the next several years. Instead, the focus ought to be on encouraging greater participation from various supply and demand resources with the requisite capabilities within the CAISO's energy and ancillary services markets.

Respectfully submitted,

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