

**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
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**COMMENTS OF THE LARGE-SCALE SOLAR ASSOCIATION ON THE ENERGY  
DIVISION'S REVISED FLEXIBLE CAPACITY PROCUREMENT PROPOSAL AND  
FLEXIBLE CAPACITY WORKSHOPS**

Shannon Eddy, Executive Director  
Rachel Gold, Policy Director  
Large Scale Solar Association  
2501 Portola Way  
Sacramento, CA 95818  
(916) 731-8371  
[eddyconsulting@gmail.com](mailto:eddyconsulting@gmail.com)  
[Rachel@largescalesolar.org](mailto:Rachel@largescalesolar.org)

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On March 11, 2013, the Administrative Law Judge's Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference ("Revised Phase 2 Ruling") was issued in this proceeding. The Revised Phase 2 Ruling reset the procedural schedule for this proceeding and requires parties to file comments on issues in the January 23, 2013 Workshop and/or the revised Energy Division proposal by April 5, 2013. In accordance with the Revised Phase 2 Ruling and the questions posed therein, the Large-scale Solar Association ("LSA") provides the comments below.

**I. Introduction**

LSA applauds the Commission's efforts thus far to address the complex issue of how to maintain grid reliability in the face of multiple on-going and impending changes to the grid, including the retirement of once-through cooling plants, shifts in peak demand and increasing renewables on the grid as the state moves towards achieving the 33% Renewable Portfolio Standard ("RPS"). For the reasons outlined below, LSA recommends the Commission to continue to develop its proposal for Flexible Capacity Procurement ("FCP") make a policy decision on FCP this year and

put in place a comprehensive flexible capacity requirement that includes preferred resources for the 2015 Resource Adequacy Compliance Year.

## **II. The Proposed Flexible Capacity Procurement Requirement Contains Too Many Program Gaps For Implementation in 2014.**

LSA is concerned that neither the Revised Energy Division Flexible Capacity Procurement Proposal (“Revised Energy Division Proposal”) nor the Resource Adequacy and Flexible Capacity Procurement Joint Parties’ Proposal (“Joint Proposal”) are sufficiently developed to allow the Commission to make an implementation decision in June 2013. LSA’s overriding concern is it that the development of a FCP requirement is a market design problem that requires the Commission to send the right signals from the start. If the Commission moves ahead with the implementation of a poorly designed program it may not attract the desired resources and could be very difficult to unwind and correct.

The first step in ensuring that the Commission appropriately designs the requirement is to accurately characterize the need. The recently updated data that CAISO provided following the March 20<sup>th</sup> Workshop, which includes updated solar assumptions, is a positive step in that direction, but also calls into question the need to implement a requirement for 2014. The updated data shows that projected ramping needs are reduced in the shoulder months both for 2014 and in the following years.<sup>1</sup> This revised data also highlights the ongoing disputes about CAISO’s assumptions and the overall need for more rigorous analysis. When the revised need estimates are combined with statements made by CAISO that a FCP in 2014 Resource Adequacy Compliance Year (“2014 Compliance Year”) would provide time for CAISO to gain experience with the program we are left with a tepid basis for approval of the FCP in 2014.<sup>2</sup> While LSA respects the need to work

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<sup>1</sup> See CAISO FlexRA Presentation for the March 20, 2013 CPUC Workshop, Slide 15 and CAISO FlexRA Presentation for the March 20, 2013 CPUC Workshop (Update 3-22-13), Slide 15.  
[http://www.caiso.com/Documents/FlexRAPresentation\\_%20CPUC\\_Workshop03-20-2013FinalUpdated20PercentTracking.pdf](http://www.caiso.com/Documents/FlexRAPresentation_%20CPUC_Workshop03-20-2013FinalUpdated20PercentTracking.pdf)

<sup>2</sup> Transcript of March 20, 2013 Prehearing Conference, p.42 at line 25. Ms. Beth Ann Burns for CAISO “We believe that putting the requirement in place in 2014 is going to give us experience, not only

through implementation issues, the FCP requirement needs to be a meaningful one in order to provide that experience. In the absence of an immediate need and the full development of the FCP, there is not a compelling reason to implement a rushed proposal.<sup>3</sup>

The second step in ensuring proper market design is to fully and properly develop the requirement. Both CAISO and the Energy Division have indicated that their respective proposals have a number of limitations and constraints and have recognized that a more comprehensive requirement must be developed.<sup>4</sup> In LSA's view, the limitations and program gaps in the current proposals are too significant to warrant implementation. A key gap is the overly restrictive definition of what qualifies as a flexible resource. As described more fully below, it is critical the Commission takes a comprehensive approach from the start and develop a metrics that will allow preferred resources (including solar) to participate. The Revised Energy Division Proposal acknowledges this limitation and indicates that due sufficient existing flexible resources there is time to develop rules for other use-limited resources.<sup>5</sup> Given estimates for sufficient flexible resources in the near-term, the prudent course of action is not to move forward with a partial proposal but to fully develop the FCP and resolve this and other important elements of the requirement.

Other program gaps that must be addressed include the lack of compliance, enforcement and evaluation mechanisms. LSA urges the Commission not to move forward with any proposal without these basic program elements. If the benefit of implementing the FCP in 2014 is to provide experience for CAISO, the initial requirement must at a minimum include specific compliance and evaluation criteria to set some basis for experience with those elements and review of the program. Delaying implementation will also allow the FCP roll-out to align with the implementation of CAISO's, Flexi-ramp Product and the FCP companion -- Flexible

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with procurement, but also with the reports and the other obligations, the bidding that will go along with that requirement. And if we don't do it in 2014, that opportunity for that experience will be lost."

<sup>3</sup> CAISO FlexRA Presentation (updated on 3-22-13,), Slide 28.

<sup>4</sup> CAISO Comments to CPUC Questions on Joint Parties' Proposal, p.8 (December, 26, 2012)

<sup>5</sup> Revised Energy Division Proposal at p. 6.

Resource Adequacy and Must Offer Obligation tariff, both of which are scheduled to be in place by the 2015 Compliance Year. This should eliminate the need for CAISO to make interim changes to the Master File and structure default mechanisms for bidding of flexible resources.<sup>6</sup>

### **III. The Cost Implications of a Flexible Capacity Procurement Requirement are Unclear.**

LSA is also concerned there is no record in this proceeding on potential costs of the FCP and an insufficient record of how other efforts underway will help CAISO manage its flexibility needs. The cost of FCP will necessarily be tied both the design of the requirement and to how much effective flexible capacity (“EFC”) will be available -- a critical data point that remains unresolved in this proceeding.<sup>7</sup> Understanding the available EFC is critical to projecting potential costs, ensuring proper market design and setting the FCP requirements. Furthermore, CAISO has indicated it is working on a variety of improvements to its market mechanisms to address its flexibility needs.<sup>8</sup> LSA supports CAISO’s approach to address its flexibility needs through improvements to market mechanisms but remains concerned that the costs and benefits of the multiple integration related initiatives are not yet well understood. For example, it is unclear to what extent these market improvements and other initiatives (including 15-minute scheduling and the development of an Energy Imbalance Market) will address flexible capacity needs and how that could impact FCP. The Commission must have a clear record on the available EFC, potential costs of the FCP and expected benefits of other efforts underway prior to the adoption of a new requirement. LSA understands that it may be difficult to assess the potential costs of the FCP and impact of pending initiatives, however, that does not mean that the Commission can ignore a fundamental aspect of the program. LSA recommends that at a minimum the cost implications of

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<sup>6</sup> *Id.* p.5. It is unclear what these interim changes and mechanisms will look like.

<sup>7</sup> *See* Amended Request for Evidentiary Hearings for the Sierra Club and the Utility Reform Network, p. 4 (March 28, 2013).

<sup>8</sup> CAISO December 26<sup>th</sup> Comments at p. 2.

utilizing existing mechanisms and the expected benefits from initiatives under development be evaluated relative to the anticipated costs of the FCP.

#### **IV. Flexible Capacity Procurement Must Align with the Loading Order and the State's Climate Goals.**

The development of the FCP is a critical policy decision, which has the potential to impact the state's ability to meet its greenhouse gas reduction goals. In structuring the FCP so that it limits participation to gas and hydro resources, the Revised Energy Division Proposal fails to take into account how the FCP may impact those goals. This preference for carbon intensive resources is contrary both to one of the guiding principles in this proceeding, technology neutrality and the state's loading order. Furthermore, LSA is concerned that if the correct market signals are not set at its inception, the FCP will by default be met almost exclusively by gas resources. This may well result in greater greenhouse gas emissions in the long-term, moving the state backward instead of forward toward its AB 32 goals.

There are multiple solutions and options to managing the impending changes to the grid, many of them like more granular scheduling, do not have the potential carbon impacts of the Revised Energy Division or Joint Parties proposal. While these efforts may not obviate the need for FCP, given the lack of immediate need, LSA urges the Commission fully develop the FCP requirement for the 2015 Compliance Year so that is aligned with the state's loading order and accounts for the potential benefits of other related initiatives and solutions.

In order to accomplish this, the Commission must prioritize the development of metrics for preferred resources. Instead of focusing on the narrowest definition of flexibility possible, as seen in the Revised Energy Division Proposal, the Commission needs to develop the FCP to allow for the maximum identification of flexibility. This will ensure that preferred resources are given the proper signals to participate in the FCP. These resources need certainty in order to develop and eventually participate in the FCP. While they may not be available immediately, sending strong policy indicators this year and setting forth a clear path for the

participation of preferred resources in the FCP in 2015 and beyond, will enable preferred resources to be available to the market when they are needed.

Including preferred resources will necessitate modification of the proposed requirements, which will likely need to include changes to the continuous ramping requirements, pending analysis that demonstrates their capability to support the aggregate system ramps. For example, the CAISO could provide MW buckets for continuous ramping requirements, such that units with less than three straight hours of capability could provide some percentage of the need, as long as in the aggregate the resources meet the ramping requirement. In addition, the FCP will need to clarify that resources other than hydro would be allowed to submit bids for 17 hours subject to fuel limitations.

#### **V. The Commission Should Make a Policy Decision on Flexible Capacity Procurement This Year.**

LSA urges the Commission to prioritize aligning the FCP with the loading order and development of a comprehensive FCP requirement that includes preferred resources for the 2015 Compliance Year. This year the Commission should make a policy decision to clarify the goals of FCP requirement and put in place metrics that will allow for a more robust evaluation of how much EFC may be available in future years. LSA recommends the policy decision include the following goals:

- The FCP requirement should be designed around reliable, low-cost system solutions that are aligned with the state's AB 32 goals and the loading order.
- The FCP should be designed to allow for maximum identification of flexibility while ensuring reliability. This includes prioritizing the development of metrics to allow preferred resources (including solar) to participate at its inception.
- The design of the FCP must consider the cost implications of the requirement (including greenhouse gas costs) and the potential benefits of other initiatives under development to manage the projected flexibility needs.

- The FCP should include evaluation criteria and the Commission should start this process by developing flexibility usage metrics for the Resource Adequacy (“RA”) resources identified for the 2014 Compliance Year and require CAISO to report in aggregate on how those resources performed.
- The Commission should also require CAISO evaluate as soon as possible how much non-RA flexible capacity is available and what the barriers are for participation of those resources to meet flexibility needs.
- The Commission should continue to work with CAISO to remove barriers in the CAISO markets that discourage resources from economically bidding, including addressing issues of availability due to self-scheduling or other constraints.

## **Conclusion**

LSA appreciates the opportunity to comment on the Revised Energy Division Proposal and Flexible Capacity Workshops and looks forward to working with staff and other stakeholders to further address these issues.

Dated: April 5, 2013

Respectfully Submitted,

/s/ Rachel Gold

Rachel Gold  
Policy Director  
Large-scale Solar Association  
2501 Portola Way  
Sacramento, California 95818  
(510) 629-1024  
[rachel@largescalesolar.org](mailto:rachel@largescalesolar.org)



## VERIFICATION

I, Rachel Gold, am the Policy Director of the Large-scale Solar Association. I am authorized to make this Verification on its behalf. I declare that the statements in the foregoing copy of *Comments of the Large-scale Solar Association on the Energy Division's Revised Flexible Capacity Proposal and Flexible Capacity Workshops* are true of my own knowledge, except as to the matters which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on April 5, 2013 at Berkeley, California.

/s/ Rachel Gold

Rachel Gold  
Policy Director  
Large-scale Solar Association