

**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)

**SIERRA CLUB REPLY COMMENTS ON JOINT PARTY AND ENERGY DIVISION
FLEXIBLE CAPACITY PROCUREMENT PROPOSALS**

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Pursuant to the Administrative Law Judge’s Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference filed March 11, 2013, the Sierra Club submits the following Reply Comments on proposals by the California Independent System Operator (CAISO), San Diego Gas and Electric (SDG&E), and Southern California Edison (SCE) (collectively, the “Joint Party Proposal”) and by the Energy Division (“Energy Division Proposal”) on Flexible Capacity Procurement (collectively “Proposals”).

I. THE RECORD DOES NOT SUPPORT IMPLEMENTATION OF FLEXIBLE CAPACITY PROCURMENT AT THIS TIME

The Sierra Club agrees with conclusion of multiple parties, including the California Large Energy Consumers Association (CLECA) and Division of Ratepayer Advocates (DRA), that the record does not support a need for flexible capacity procurement in 2014.¹ Moreover, as CLECA observes, “the ISO’s analysis appears to be based on layers of conservative assumptions.”² Even viewed conservatively, flexible capacity procurement is not needed through 2016. Given the lack of need and importance of further record development and proposal refinement – including the inclusion of preferred resources and energy storage – the Commission should not adopt flexible capacity procurement either in its entirety or as a partial “test run” at this juncture.

As set forth in its *Amended Request for Evidentiary Hearings* jointly filed with The Utility Reform Network (TURN), the Sierra Club believes there are significant unresolved and disputed questions on CAISO assumptions regarding the operational availability of flexible capacity that must be resolved to allow for an informed understanding of the future need for flexible capacity procurement. Given the failures of the workshop process to create a robust record and meaningfully resolve these disputes, several parties, including the Center for Energy Efficiency and Renewable Technology (CEERT), the Marin Energy Authority (MEA) and CLECA support the Sierra Club/TURN motion.³ While not advocating for evidentiary hearings

¹ R. 11-10-023, Comments of CLECA (April 5, 2013) at 3-5; R. 11-10-023, Comments of DRA (April 5, 2013) at 7-8.

² R. 11-10-023, Comments of CLECA (April 5, 2013) at 6.

³ R. 11-10-023, Comments of CEERT (April 5, 2013) at 4; R. 11-10-23, Response of Marin Energy Authority to Motion of Sierra Club and The Utility Reform Network Requesting Evidentiary Hearings (Apr. 12, 2013); R. 11-10-

per se, other parties such as DRA recognize that “[t]here is not yet an adequate record on some important issues regarding flexible capacity” and that these issues should be addressed prior to “the implementation of a framework to ensure adequate flexible capacity.”⁴

In particular, the record remains largely devoid of data and analysis on the availability of operational flexible capacity. To date, CAISO has provided only the raw data used to calculate total effective flexible capacity (EFC).⁵ Even during the shoulder months, total EFC is over twice that of flexibility need.⁶ In arguing that operational flexible capacity actually available approaches flexible capacity need, CAISO takes a series of reductions from total EFC that have little, if any, evidentiary support.⁷

In its *Response to Request for Evidentiary Hearings*, CAISO asserts that the Sierra Club and TURN’s concerns over these reductions amount to “misunderstandings.”⁸ These are not misunderstandings. Rather, CAISO has not provided facts and analysis underpinning its conclusions. In addition to the material disputes identified in the *Amended Request for Evidentiary Hearings*, CLECA notes:

The CAISO did not explain why it used a single forced outage rate of eight percent for all resources, including hydro, whose forced outage rate is likely to be far lower. It did not assess whether altering scheduled maintenance could mitigate its forecast need during periods where it expects high ramping needs. Its assumptions about the amount of flexibility available from pumped storage seem to seriously understate what should be available from the combination of PG&E’s 1200 MW Helms plant and SCE’s 200 MW Eastwood plant.

Several parties also raise the mitigating impact of energy imbalance markets on flexible capacity procurement needs. The Commission should not approve flexible capacity procurement until questions on available flexible capacity are meaningfully resolved.

In response to the disputed facts raised by the Sierra Club and TURN in the *Amended Request for Evidentiary Hearings*, CAISO also asserts that because “the Commission in this

023, Comments of CLECA (April 5, 2013) at 16.

⁴ R. 11-10-023, Comments of DRA (April 5, 2013) at 2.

⁵ CAISO, Draft Effective Capacity Calculations (Apr. 1, 2013), [http://www.caiso.com/Documents/R.11-10-023%20\(Order%20instituting%20rulemaking%20to%20oversee%20RA%20program\)](http://www.caiso.com/Documents/R.11-10-023%20(Order%20instituting%20rulemaking%20to%20oversee%20RA%20program)).

⁶ CAISO, Methodology for Determining Flexible Capacity Procurement Requirements, Presented at the CPUC RA Workshop March 20, 2013 (Revised March 22, 2013 to reflect the 80% fixed tilt solar fleet), Slide 19, http://www.caiso.com/Documents/FlexRAPresentation_%20CPUC_Workshop03-20-2013FinalUpdated20PercentTracking.pdf.

⁷ See *id.*, Slides 27-28.

⁸ R. 11-10-023, CAISO, *Response to Request for Evidentiary Hearings* (Apr. 5, 2013) at 5.

proceeding is considering the flexible capacity requirement to be set only for 2014[,] the projected levels of flexible capacity for the years 2015-2020 are, at best, tangential to the scope of this proceeding.”⁹ Yet, in its concurrently filed comments, CAISO argues for the adoption of flexible capacity procurement in 2014 to “ensure that it works efficiently and effectively before flexible capacity procurement is absolutely critical to maintaining reliability in the balancing area *in the following years.*”¹⁰ Projected levels of future flexible capacity are *essential* to the scope of this proceeding. If there is no need to specifically procure flexible capacity in the next several years to ensure reliability, Commission consideration of the Joint Parties Flexible Capacity Procurement proposal is unnecessary.

II. THE COMMISSION HAS NOT “COMMITTED” TO IMPLEMENT FLEXIBLE CAPACITY PROCUREMENT FOR THE 2014 RESOURCE ADEQUACY YEAR

Citing to D.12-06-025, CAISO states “the Commission committed to address flexible capacity ‘to adopt a framework by or near the end of 2012, for implementation in the 2014 resource adequacy compliance year.’”¹¹ To be clear, the Commission did not “commit” to implement flexible capacity by 2014. The Commission expressed only an “intent” to do so.¹² In addition, the Conclusions of Law for D.12-06-25 state only that “[i]t is necessary to further consider issues related to flexible capacity in another portion of this proceeding.”¹³ The Commission has met this directive in its significant consideration and development of flexible capacity procurement proposals to date. However, the Commission is under no obligation to adopt flexible capacity procurement for the 2014 Resource Adequacy Year.

III. TRANSPARENCY IN THE RESOURCE ADEQUACY PROGRAM IS NEEDED TO BETTER UNDERSTAND POTENTIAL GREENHOUSE GAS IMPLICATIONS AND ENSURE LOADING ORDER CONSISTENCY

It is likely that the existing Resource Adequacy program operates at cross purposes with California’s environmental policies and the Loading Order. To the Sierra Club’s knowledge, IOUs are not mindful of the Loading Order or the carbon intensity of particular resources when procuring capacity. As CEERT observes:

⁹ *Id.*

¹⁰ R. 11-10-023, CAISO Initial Comments on Workshop Issues (Apr. 5, 2013) at 2 (emphasis added).

¹¹ R. 11-10-023, CAISO Initial Comments on Workshop Issues (Apr. 5, 2013) at 25.

¹² D. 12-06-025, Decision Adopting Local Procurement Obligations for 2013 and Further Refining the Resource Adequacy Program (June 27, 2012) at 20.

¹³ *Id.* at 38.

Unlike energy procurement generally that may be measured against a ‘market price,’ there is no ‘natural market,’ with underlying supply and demand curves based on free market principles, for this entirely administratively-determined ‘product,’ the value of which can change based on a single order that may or may not be coordinated or consistent with other Commission decisions or policies.¹⁴

The Sierra Club concurs with CEERT that “transparency in current RA contracts” is needed. Additional transparency surrounding procurement of Resource Adequacy contracts is essential to understanding potential conflicts between the Resource Adequacy program and California’s environmental policies and to identify solutions to ensure procurement of capacity is consistent with the Loading Order.

IV. THE FLEXIBLE CAPACITY PROCUREMENT PROPOSALS HAVE SIGNIFICANT GREENHOUSE GAS IMPACTS BY DISCRIMINATING AGAINST DEMAND RESPONSE AND ENERGY STORAGE

SCE’s assertion that flexible capacity procurement has no greenhouse gas implications because “capacity in and of itself has no implication for GHG” does not withstand scrutiny.¹⁵ Indeed, SCE’s position reflects a troubling indifference to global warming from a corporate entity that purports to “actively engage in shaping effective policies to address [global climate change].”¹⁶ The flexible capacity procurement proposals contemplate financial payments of undisclosed magnitude largely to fossil fuel generators in exchange for a commitment from these generators to stand by to provide 3-hour ramping capability. By providing additional economic incentives to fossil fuel generators, new fossil fuel facilities will likely be constructed, fossil fuel power sources that may otherwise have retired absent these payments will likely stay operational, and generators that may have turned off will likely stay idled. The proposals therefore have significant greenhouse gas implications.

Contrary to SCE, PG&E recognizes the greenhouse gas impacts of flexible capacity procurement. As PG&E notes, the addition of flexible hydro facilities into the proposals “helps to minimize greenhouse gas (GHG) emissions relative to what would occur if hydro resources were not utilized to meet system flexibility requirements.”¹⁷ However, while hydro resources

¹⁴ CEERT Comments at 7-8.

¹⁵ R.11-10-023, Southern California Edison Company’s Post-Workshop Comments (April 5, 2013) at 5.

¹⁶ Southern California Edison, Respecting and Protecting the Environment, <https://www.sce.com/wps/portal/home/about-us/who-we-are/corporate-responsibility/protecting-the-environment/> (last visited Apr. 15, 2013).

¹⁷ R.11-10-023, Comments of PG&E on Workshops and Proposals (Apr. 5, 2013) at 4.

are now included in the proposals, the current flexible capacity proposals continue to exclude other zero and low-emission resources such as energy storage and demand response. As PG&E recognizes, including these resources “may be able to help meet those flexibility requirements cost-effectively but with less GHG impact than traditional, fossil-fuel powered resources.”¹⁸ Conversely, because the proposals continue to exclude these resources, they would likely have a more severe greenhouse gas impact than were the Loading Order followed and demand response and energy storage able to participate in flexible capacity procurement.

V. RESOURCE RAMP RATES SHOULD REFLECT CAPABILITIES ASSERTED DURING PROJECT APPROVAL PROCESS

In December 26th joint comments, the Sierra Club and Vote Solar raised the concern that CAISO appeared to assume ramp rates significantly lower than manufacturer specification. CAISO responded by stating it used the ramp rates these resources provided to the master file, which, under CAISO Tariff Section 4.6.3, requires that all resource information submitted to the ISO be accurate.¹⁹ CAISO also observes that “[w]hile it may be technically possible for resources to ramp at faster rates, driving resources to design limits is associated with greater wear and tear, resulting in higher forced outage rates and higher resource maintenance costs.”²⁰ The Sierra Club understands these potential limitations. The Sierra Club is also not privy to the master file or the asserted operational benefits in a generator power purchase agreement.²¹ However, given the apparent disconnect between technical capability and what may be reported in the master file, the Sierra Club is concerned that a generator may be asserting a higher ramp rate at the project approval stage than in the master file. Rather than rely only on the master file, CAISO and the Commission should confirm that the ramp rates asserted during the project approval process, such as in Commission review and approval of a PPA, are the same as those reported in the master file. If a generator makes representations regarding performance levels and ramp rates for the purpose of PPA approval, it is obligated to perform and report those same levels to CAISO for its master file.

¹⁸ PG&E Comments at 4.

¹⁹ R. 11-10-023, CAISO Initial Comments on Workshop Issues (Apr. 5, 2013) at 28.

²⁰ *Id.*

²¹ *See, e.g.*, PG&E Oakley Project, Prepared Testimony (July 2012), at 2-8 (ramp rates redacted)

https://www.pge.com/regulation/OakleyGeneratingStation/Testimony/PGE/2012/OakleyGeneratingStation_Test_PGE_20120718_243686.pdf.

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