

**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)

**VOTE SOLAR INITIATIVE
COMMENTS ON RESOURCE ADEQUACY AND
FLEXIBLE CAPACITY PROCUREMENT**

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The Commission should not adopt any of the proposals to implement a flexible capacity procurement obligation program (flexible capacity program) in 2014.¹ The proposals' proponents have neither demonstrated a need for such a program in 2014 nor provided the Commission with necessary information about the cost and GHG implications of their proposals. The proposals also fail to consider loading order requirements and the anticipated benefits from developing Energy Imbalance Markets. For all these reasons, the Commission should not make any decisions at this time regarding the need for or implementation of a flexible capacity program in 2014.

The Vote Solar Initiative (Vote Solar)² and the Sierra Club jointly submitted detailed, technical comments on these very issues on December 26, 2012.³ Those comments remain just as valid now as then, particularly with respect to the availability of flexible capacity supplies, the insufficiency of information and loading order issues. Unfortunately, it appears the Commission has not yet had the opportunity to review our December 26, 2012 comments.⁴ Therefore, Vote Solar respectfully recommends the Commission review and consider our December 26, 2012

¹ October 29, 2012 Resource Adequacy and Flexible Capacity Procurement Joint Parties' Proposal ("Joint Proposal") and Energy Division Flexible Capacity Procurement Revised Proposal.

² Vote Solar is a non-profit grassroots organization working to fight climate change and foster economic opportunity by bringing solar energy into the mainstream. Since 2002, Vote Solar has engaged in state, local and federal advocacy campaigns to remove regulatory barriers and implement key policies needed to bring solar to scale.

³ Sierra Club and Vote Solar Initiative Comments on the Resource Adequacy and Flexible Capacity Procurement Joint Parties' Proposal, dated December 26, 2012 ("Vote Solar December 26, 2012 Joint Comments"), link: <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M039/K598/39598025.PDF>

⁴ R.11-10-023, Prehearing Conference Transcript, March 20, 2013, p.22

comments as Vote Solar’s primary submission now in conjunction with Vote Solar’s responses to Commissioner Ferron and ALJ Gamson’s questions and supplemental information provided herein.⁵

I. The Commission should not adopt any of the proposals to implement a flexible capacity program in 2014

A. There is no need for a flexible capacity program in 2014

In general, parties other than the Joint Parties consistently have asserted that there is no need for a flexible capacity procurement obligation program in 2014, citing the lack of policy and data to support such a determination.⁶ Although the Joint Parties argue that an interim program “will enhance operational certainty as early as 2014,”⁷ the CAISO supplied data indicates that there is more than enough flexible capacity in the existing fleet to satisfy flexible capacity needs for 2014 and beyond.⁸ However, as the Commission recently reiterated, the Commission will not act on the basis of speculative benefits, especially not when significant ratepayer costs are involved:

The CAISO asserts that the consequences of failing to bring new generation resources online in time are too great to risk because if the necessary generation resources do not materialize in time, it will be required to use its backstop Capacity Procurement Mechanism (CPM) procedures On balance, as between the certainty of four years of costs for unneeded capacity and the speculative possibility of a short-term local capacity requirement shortage and resulting CPM capacity costs, it is reasonable to procure resources based on the time of their need.⁹

Since there is no need for a flexible capacity procurement program in 2014, and instituting an interim program in 2014 provides, at best, only speculative benefits, the

⁵ R.11-10-023, Prehearing Conference Transcript, March 20, 2013, pp.5, 8-12

⁶ Specifically, Vote Solar December 26, 2012 Joint Comments, pp. 2-14; Generally, see other parties’ December 26, 2012 comments.

⁷ CAISO March 20, 2013 Presentation at the CPUC RA Workshop, Slide 3.

⁸ CAISO March 20, 2013 Presentation at the CPUC RA Workshop, Slide 19.

⁹ D.13-03-029, p.17.

Commission should not adopt a flexible capacity program to begin in 2014.

B. The Commission lacks necessary information about the costs of implementing a flexible capacity program

Public Utilities Code (PUC) section 380(b) requires the Commission, “in establishing resource adequacy requirements,” to “[f]acilitate development of new generating capacity and retention of existing generating capacity *that is economic and needed*” and “[m]inimize enforcement requirements and *costs*.”¹⁰

Vote Solar and Sierra Club estimated that the capital costs of providing the amount of rapid response peaking capacity that the CAISO seeks could exceed \$5 billion.¹¹ The flexible capacity program proponents have neither disputed this figure nor provided the Commission with any information of the costs of implementing their flexible capacity program proposals. The Commission must have this information to enable it to analyze and determine whether the proposed flexible capacity programs are economic and cost-effective. Without this information, the Commission should not authorize the implementation of a flexible capacity program in 2014.¹²

C. The Commission lacks necessary information about the GHG implications of a flexible capacity program

The flexible capacity program proposals certainly have implications for California’s near and long-term GHG reduction objectives. Regardless of assertions of “technology neutrality,” primarily only fossil fuel-fired generators can satisfy the proposals’ 3-hour ramping requirements.¹³ Zero and low carbon emission sources, such as renewables, demand response and energy storage, will not be able to reasonably compete to provide flexible capacity services. Adoption of the proposed flexible capacity programs will result in financial incentives to fossil fuel generators to build new fossil fueled facilities and/or expand idling operations at existing

¹⁰ Pub. Util. Code section 380(b)(1) and (3) (emphasis added)

¹¹ Vote Solar December 26, 2012 Joint Comments, p. 10.

¹² D.02-10-062, pp. 17-18 (“In making plans to procure a mixture of resources, the utilities should take into account the Commission’s longstanding procurement policy priorities – reliability, least cost, and environmental sensitivity. While each of these priorities is important individually, they are also strongly interrelated.”)

¹³ Vote Solar December 26, 2012 Joint Comments, pp. 14-16.

fossil fueled facilities and/or delay the retirement of antiquated fossil fueled facilities, increasing both near and long-term GHG emissions. The Commission should not authorize the implementation of any flexible capacity programs until the Commission fully understands and is prepared to deal with the GHG implications of doing so.

D. The flexible capacity program proposals do not consider loading order requirements

While flexible capacity program proponents need not concern themselves about loading order requirements, the Commission must consider loading order requirements as part of any decision concerning resource adequacy. As previously discussed, the proposed flexible capacity programs will exclude participation by more preferred resources in the loading order, such as demand response and renewables, and hinder the development and implementation of technological improvements such as storage and more sophisticated inverters and tracking systems for PV installations. The Commission should not adopt a flexible capacity program until it is satisfied that the design and operation of the flexible capacity program will expand rather than limit the development, implementation and participation of more preferred resources.

E. The flexible capacity program proposals do not consider the beneficial impacts of developing Energy Imbalance Markets on flexible resource requirements

The CAISO Board of Governors recently approved a Memorandum of Understanding between the CAISO and PacifiCorp to begin development of an Energy Imbalance Market (EIM).¹⁴ This will allow the two entities to pool reserve generation, allowing for easier integration of variable resources at lower costs. The CAISO-PacifiCorp EIM is proposed to begin operation by October 2014. According to the CAISO:

The expanded EIM simply makes the ISO five-minute market available to other entities so their resources can be economically and automatically dispatched in real time. An EIM also leverages geographical diversities so regions can share resources during times of under- or overgeneration. By capturing a wider portfolio of resources, an EIM optimizes available resources reducing the quantity of reserves required to ensure electricity shows up where

¹⁴ Link: http://www.caiso.com/Documents/ISO-PacifiCorpMOU_Effective20130212.pdf.

and when it is needed. . . .

As the nation's energy supply becomes more diverse, regional coordination and finely-tuned dispatches become more important because of changing weather conditions that produce variability in wind and solar power generation. The EIM improves the ability to manage resource deviations, smoothing out power flows so that renewable energy is effectively integrated onto the grid.¹⁵

In a study of the CAISO-PacifiCorp EIM benefits performed by E3, a significant benefit of the EIM is that it would reduce the flexibility reserve requirements for each party.¹⁶ E3 conservatively estimates dollar savings to the CAISO in 2017 of between \$2.8M and \$54.6M, depending on the transfer capability assumed and the level of hydropower capacity assumed to be available for flexibility reserves.¹⁷

In addition, there is a proposal for a west-wide EIM that would further, and more significantly, increase the amount of flexible reserves available to meet California's needs.¹⁸ The flexible capacity program proponents do not appear to have considered these developments, which ameliorate the concerns underlying their proposals. Therefore, before adopting a new flexible capacity program with long-term implications for increased ratepayer costs and GHG emissions, the Commission should first consider the benefits expected from the implementation of EIMs throughout the west, in particular, the ability of California to access and call upon existing flexible resource from outside of California, in order to satisfy California's perceived flexible capacity needs.

II. Conclusion

The Commission must take the time necessary to fully research and determine (1) the need for, appropriate size of, and proper time to implement a permanent flexible capacity procurement obligation and (2) the most efficient, cost-effective design for such an obligation,

¹⁵ *Energy Imbalance Market Fast Facts*,

link: http://www.aiso.com/Documents/EnergyImbalanceMarket_FastFacts.pdf.

¹⁶ *PacifiCorp-ISO Energy Imbalance Market Benefits, March 13, 2013*,

link: <http://www.aiso.com/Documents/PacifiCorp-ISOEnergyImbalanceMarketBenefits.pdf>.

¹⁷ *Id.* at 32.

¹⁸ Detailed cost-benefits studies, presentations, webinar and meeting information can be found at: <http://www.westgov.org/PUCEim/>.

properly taking into account all necessary and required economic and environmental sensitivities.¹⁹ As the Commission discussed in D.13-03-029:

While we respect the CAISO's statutory responsibility and its discretion to model its OTC study modeling based on assumptions that flow from it, the record of the proceeding highlights the limitations of our reliance on the OTC study for purposes of this Commission's statutory responsibility to ensure just and reasonable rates by, among other things, limiting unnecessary ratepayer costs. For the Commission's purposes, it is appropriate to take into account reasonable forecasts of uncommitted energy efficiency and demand response, as well as incremental demand-side CHP, in determining whether to authorize the procurement of additional generation resources. Such action is consistent with the California Energy Action Plan, which established the "loading order" for how new resources are prioritized. These resources can reasonably be expected to occur as a result of State and Commission policies²⁰

For all these reasons, the Commission need not and should not approve a flexible capacity program for implementation in 2014.

Dated: April 5, 2013

Respectfully submitted,



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¹⁹ D.02-10-062, pp. 17-18.

²⁰ D.13-03-029, pp. 9-10.