

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 (October 20, 2011)
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**COMMENTS OF THE CONCENTRATING SOLAR POWER ALLIANCE  
ON THE ENERGY DIVISION STAFF PROPOSAL ON  
THE IMPLEMENTATION OF THE  
FLEXIBLE CAPACITY PROCUREMENT FRAMEWORK**

**I. INTRODUCTION**

The Concentrating Solar Power Alliance (“CSPA”) appreciates this opportunity to provide comments on the Energy Division’s February 10, 2014, Staff Proposal entitled “Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework” (the “Staff Proposal”).<sup>1</sup> The CSPA strongly supports the two central pillars of the Staff Proposal: its recognition that grid flexibility needs may result not only from the introduction of solar and wind resources, but also from inflexible existing conventional resources; and its call for future requirements exhibiting “greater consistency with the State’s loading order for preferred resources to meet flexible capacity requirements.”<sup>2</sup>

The CSPA is concerned, however, that the Staff Proposal’s allocation of flexible capacity requirement costs does not promote and adequately incentivize procurement of preferred and conventional resources that enhance reliability and minimize overall ratepayer costs. The CSPA is also concerned, as recognized by the Staff Proposal, that the initial framework for the Flexible Resource Adequacy Capacity - Must Offer-Obligations (“FRAC-MOO”) under development at the California Independent System Operator Corporation (“CAISO”) and at the Commission is not consistent with the Commission’s Loading Order. Based on the direction of proposal iterations to date, the Flexible Capacity Procurement mechanisms could well result in unnecessarily duplicative and expensive procurement, unfairly burdening ratepayers as well California’s clean energy policies, which may be blamed for increased costs. Only by appropriately maximizing recognition of the reliability value of preferred resources, through counting and incentive mechanisms that are rational and feasible, can California truly achieve the cost-effective, reliable and clean energy supply it desires.

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<sup>1</sup> These comments are filed pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure and Administrative Law Judge Gamson’s email ruling of Feb. 18, 2014.

<sup>2</sup> Staff Proposal at p. 15.

## II. DISCUSSION

The changing nature of California’s energy supply, as it draws ever closer to attaining the 33% Renewables Portfolio Standard (“RPS”), necessitates explicitly procuring attributes that were inherent qualities of the historic generation fleet. The pyramid of baseload, intermediate and peaking resources has always incorporated a range of non-dispatchable to fully dispatchable resources, but, more than ever, needs to be optimized to match both variable supply and demand in today’s more complex generation mix. California’s energy supply, containing conventional and renewable resources as well as storage and advanced demand response, must now be harmonized to meet reliability needs, minimize cost and achieve significant greenhouse gas (“GHG”) emissions reductions. The nature of the resource portfolios of Load-Serving Entities (“LSEs”), and those portfolios’ effect on the ultimate costs borne by all of California’s ratepayers, depend on whether cost allocation and counting rules, as well as incentives and penalties, recognize the extent to which the LSEs’ procurement enhances or detracts from system reliability. The success of California’s energy policies, including the ability to increase the role of preferred resources while containing cost, requires maximizing recognition of reliability services offered by preferred resources, and minimizing duplicative procurement of conventional resources. Costs will needlessly increase if additional resources are procured that, in reality, offer what preferred resources can provide when procured thoughtfully and optimized operationally.

### A. Cost Allocation Should Incentivize Overall System Cost Reduction

The Energy Division has clearly recognized a more thoughtful approach to cost allocation that more closely follows both cost causation and the Loading Order is needed.<sup>3</sup> By focusing on selected resource types (i.e., solar and wind), and not on cost-causation factors that would equally apply to all resources (e.g., inflexible conventional resources such as baseload, contractually-limited units and use-limited resources), the CAISO’s proposed FRAC-MOO allocation also misses an important opportunity to incentivize changes in design, procurement, and operational behavior for *all* resources, which would enhance reliability and reduce overall costs. CSPA respects the Commission’s position on the CAISO allocation of flexible capacity procurement costs; as Energy Division acknowledges, the Staff Proposal’s allocation of costs based on load share itself falls short of the mark in consistency with cost-causation and the Loading Order.<sup>4</sup>

The Staff Proposal’s interim cost allocation should therefore only be authorized for the immediate resource adequacy year. The Commission should direct Staff to develop, in collaboration with CAISO and stakeholders, a cost allocation methodology that considers all resources equally but focuses on characteristics, including those of inflexible conventional

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<sup>3</sup> Staff Proposal at p. 5.

<sup>4</sup> Id. at pp. 15-16.

resources that may exacerbate operational challenges such as daily system ramping. A cost-causation approach to allocation, considering the Commission’s Loading Order, would properly incentivize generation design, power contracting, portfolio composition and real-time operations.

The intent expressed in the Staff Proposal to consider other allocation methods that would better follow cost-causation principles is therefore much appreciated. The Commission’s goals can only be reached if resource procurement, including that which arises from the RPS (or successor clean energy promotion frameworks), Resource Adequacy and Long Term Procurement Plan proceedings, considers whether the resources being procured contribute toward or mitigate the reliability concerns that result in procurement of additional Flexible Capacity. A growing number of studies, including a recent report from the Regulatory Assistance Project<sup>5</sup>, demonstrate that balanced procurement, incorporating preferred resources that have the capability of addressing reliability needs, can substantially reduce or eliminate these concerns—with concomitant reductions of expensive procurement solely to meet reliability needs. To avoid procurement that exacerbates reliability concerns, and incentivize procurement that instead mitigates them, the Commission should explicitly state its intent to credit LSEs for portfolios that minimize system reliability needs and, conversely, to allocate to LSEs the proportionate costs resulting from procuring resources that increase system reliability concerns.

**B. Counting Rules, Incentives & Penalties Should Encourage and be Inclusive of Preferred Resources**

In adopting procurement requirements, such as those needed to satisfy the FRAC-MOO, the Staff Proposal properly acknowledges that the Commission must also harmonize multiple aspects of its own mission—including cost control, the Loading Order, and maintaining compliance with the RPS. The CSPA is concerned that the proposed procurement framework, once fully implemented to include an availability incentive mechanism, will not be structured such that renewable resources can reasonably participate, in an equal manner with all other resources, and without undue risk. Failing to construct a regime to encourage participation by all preferred resources will ultimately increase costs, runs counter to the State’s clean energy goals and is fool-hardy in the face of increasing penetrations of preferred resources— which should be utilized to the maximum extent possible so as to reduce the need for additional procurement.

To this point, no workable proposals or any other indications have been raised in the stakeholder processes at either the CAISO or the Commission that address inclusion of preferred resources, especially renewable resources, in the Flexible Capacity procurement framework. This omission suggests that inclusion of preferred resources is neither imminent nor truly a priority objective. As an observer and participant in these stakeholder processes, the CSPA is deeply concerned that renewable resources will not be able to feasibly participate as Flexible

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<sup>5</sup> Lazar, “Teaching the ‘Duck’ to Fly” (Regulatory Assistance Project, Jan. 2014), *available at* <http://www.raonline.org/document/download/id/6977>

Capacity resources, despite their physical abilities to contribute to resolving the underlying reliability concerns.

Each and every rule must be considered through two lenses: first, how closely related is the criterion to the underlying reliability concern it is intended to address, and second, is the rule crafted so as to give maximum effect to the Loading Order, as recently clarified by the Commission in D.13-02-015.<sup>6</sup> The Commission has definitively expressed its view that procurement prioritize preferred resources, and that this priority is not limited just to those programs expressly designed to procure preferred resources. While the Staff Proposal expresses aspirations for Flexible Capacity procurement to be consistent with the Loading Order, greater commitment from the Commission is both warranted and essential.

To avoid duplicative and costly procurement, to promote cost-effective attainment and sustainment of clean energy policies, such as the RPS, and to maintain consistency with the Commission's Loading Order, the Flexible Capacity procurement counting rules, incentives and penalties must be designed to maximize recognition of the reliability services renewable resources can provide.

### III. CONCLUSION

The CSPA commends Energy Division staff for its thoughtful work on the Staff Proposal. In many ways, the Staff Proposal makes strides in the right direction, and has clearly espoused its intent to eventually implement both true cost causation as well as procurement that is consistent with the Loading Order. The CSPA believes it is essential that even this interim proposal make as much progress towards those goals as possible, as the interim proposal will inevitably become

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<sup>6</sup> D. 13-02-015 at pp. 10-11.

the foundation on which future programs will be built. We look forward to working with Energy Division staff and other stakeholders to give better effect to these critically important elements to a cost-effective, reliable and clean energy system.

Respectfully Submitted,

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