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 OFFICE OF RATEPAYER ADVOCATES ON WORKSHOPS AND ENERGY DIVISION PROPOSALS

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February 18, 2014

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I. INTRODUCTION

The Office of Ratepayer Advocates (ORA) submits the following comments pursuant to the August 2, 2013 "Phase 3 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge". ORA's comments on three staff proposals issued January 16, 2014: "[Resource Adequacy] RA Implementation Staff Proposals," which discusses RA issues related to the Cost Allocation Mechanism and local RA(RA CAM/local proposals); "Effective Load Carrying Capacity [EFCC] and Qualifying Capacity [QC] Methodology for Wind and Solar Resources" (Proposed ELCC and QC Methodology for Wind and Solar); and "Qualifying Capacity and Effective Flexible Capacity Calculation Methodologies for Energy Storage [ES]and Supply-Side Demand Response Resources [DR]" (Proposed QC and EFCC Methodology for ES and DR). ORA's recommends:

- Rejecting the proposal to eliminate CAM and CHP RA benefits procured outside of an IOU's transmission access charge area until other alternatives, such as linking the RA allowances with availability to access Path 26, are considered.

- Amending the staff proposal on outage replacement for CAM and CHP resources to include a least cost-best fit evaluation and limiting the IOU flexible capacity requirement for outage replacement resources.

- Rejecting the proposal to allow load-serving entity (LSE) aggregation of local areas when procuring capacity requirements under five megawatts.

- Adopting the proposal for new calculation methodologies in 2015 for wind and solar while emphasizing the need for ongoing refinement of the process.

- Rejecting the proposal on calculation methodologies for energy storage and demand response, which are not fully developed.

II. DISCUSSION

A. Issues related to RA CAM proposals

1. RA Benefits for CAM and Combined Heat and Power (CHP) resources procured outside of the investor-owned utility's Transmission Access Charge (TAC) areas

The proposal would eliminate load serving entity (LSE) RA allocations for CHP and CAM resources located outside of associated TAC areas because of concerns that the current

process fails to consider Path 26 system constraints, allocates local costs unequitably, and that procurement planning is not transparent to direct access (DA) and community choice aggregators (CCA).[1] The proposal contains no information about the magnitude of this problem. If implemented, the proposal would eliminate capacity allowances for RA outside an LSE's TAC, which would require affected LSEs to purchase additional RA capacity to meet their RA requirements and could lead to subsequent higher costs for ratepayers. Given the potential to increase cost and the absence of demonstrated need for this proposal, ORA does not support limiting RA capacity benefits as the proposal recommends prior to a more detailed examination of the issues and additional stakeholder input.

Stakeholders should have the opportunity to examine the needs, impacts, and alternatives to the ED staff proposal prior to its implementation. It is not clear that it is necessary to arrive at a decision by June of this year. The RA CAM proposal notes that "in most cases, the RA benefits associated with each CAM resource…are located in the same TAC area as the LSE receiving the RA benefit."[2] Although no data is provided to assess the extent of the potential problem, based on this statement it appears that most RA benefits associated with CAM resources are not problematic.

While the RA CAM proposal identifies legitimate concerns including Path 26 constraints and unequitable distribution of costs, ORA recommends examination of alternatives to disqualifying CHP and CAM RA allocations, such as linking the RA allowances to availability of access to Path 26, before eliminating LSE's RA allocations for CHP and CAM resources located outside of associated TAC areas.

2. Schedule Outage Replacement Rule and Standard Capacity Product (SCP) Mechanisms for CAM Resources and CHP

CHP and CAM resources are not addressed in Standard Capacity Product (SCP) rules[3] or in the current outage replacement rule. The staff proposal provides that the IOUs may use

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[1] RA CAM/Local Proposals, p. 3.

[2] RA CAM/Local Proposals, p. 3.

[3] A standard capacity product is a standard product definition for RA capacity intended to facilitate selling, buying, and trading capacity to meet RA requirements. *See* ww.caiso.com/2449/2449aa0d1d560.pdf.

resources which they manage to provide for outage replacement with the associated costs to be determined.[4] Providing flexibility in the management of CAM and CHP RA resources with a goal of minimizing associated costs would have a positive outcome. ORA generally supports the staff proposal on outage replacement involving CHP and CAM resources, but recommends including language that requires the use of the current least cost-best fit evaluation process to procure resources because of outages.

The staff proposal calls for the IOUs to manage the CHP and CAM outage replacement resources as flexible RA capacity and submit economic bids. The requirement to manage CHP and CAM outage replacement costs as flexible capacity adds ratepayer costs that may not be necessary if the resources utilized are not needed to provide flexible capacity. ORA therefore recommends modifying the proposal to require flexible capacity from outage resources only to the extent that the resources replace facilities that provided flexible capacity.

3. Process for Allocating Committed Flexible Capacity Associate with CAM Resources

A methodology for allocation of CAM resources for flexible RA does not currently exist. The staff proposal will apply the same methodology currently applied for Local RA CAM benefits and will add the appropriate flexible benefit by allocating the flexible capacity CAM resources may provide.[5] ORA supports the staff proposal.

4. Proposal 4.1 Aggregation of Local Areas by IOU Service Area

Small LSEs currently benefit from a rule allowing small megawatt (MW) volumes less than 1 MW to be rounded down to zero thus eliminating the need to provide for small obligations.[6] The proposal for aggregation of local areas by IOU service area would allow small LSEs to aggregate their local capacity requirements within multiple local areas to meet their requirement. This expansion of special benefits for small LSEs with up to 5 MW of local capacity requirements could lead to a deficiency in a local area, especially if multiple small LSEs aggregate their local capacity. The small LSEs will likely purchase the most affordable local

[4] RA CAM/Local Proposals, p. 5.

[5] RA CAM/Local Proposals, pp. 6-7.

[6] RA CAM/Local Proposals, p. 9.

capacity which typically will not be in the local area with the greatest need. ORA does not support this proposal, which attempts to lower costs for small LSEs while creating a "possible increase in reliability risk."[7]

ORA recommends considering an examination of market power mitigation, if in fact a problem exists, rather than adopting the current proposal for the purpose of addressing market power mitigation. In addition, any proposal that has the potential to increase the risk to maintaining reliability should address how potential backstop procurement by the CAISO would be apportioned in the event of a shortfall related to LSE aggregation of local capacity.

5. Proposal 4.2: Altering Timing of Incremental Local RA Adjustments

ORA supports the staff proposal to alter the timing of local RA adjustments because it will eliminate an unnecessary administrative burden by reducing twice yearly Local RA adjustments to one annual process. ED staff present adequate documentation supporting the lack of need for a twice yearly adjustment process.[8]

6. Proposal 4.3: Quarterly CAM/RMR Allocations Rather Than Monthly CAM/RMR Allocations

ORA is generally supportive of the proposal to reduce the allocation of CAM/RMR capacity from monthly to quarterly[9] because it would simplify the allocation process and reduce the uncertainty related to system RA capacity allocations for direct access and community choice aggregation LSEs.

B. ELCC and QC Calculation Methodology for Wind and Solar Resources

The Energy Division staff proposal is a reasonable start for the new ELCC calculations that balance between adequate detail and development of a feasible solution for the 2015 RA year.[10] ORA offers the following comments for consideration in refining the staff proposal.

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[7] RA CAM/Local Proposals, p. 10.

[8] RA CAM/Local Proposals, pp 10-11.

[9] RA CAM/Local Proposals, p. 12.

[10] Proposed ELCC and QC Methodology for Wind and Solar, pp. 1-8.

The proposal would assess five technologies in eighteen regions over twelve months resulting in 1,080 ELCC values. This is an ambitious effort for 2015, yet an expansion will need to be considered in subsequent RA proceedings. The aggregation of technologies and weather regions is a workable solution, but it may not properly incent the most ideal locations for resources or encourage new technologies which increase efficiency. For example, accrediting a wind or solar resource with capacity based on a broad region rather than a plant specific assessment, fails to reward developers for seeking a location that provides the highest output. ORA recommends the consideration of solutions that would reward facilities located in areas of highest output and with the most effective technologies.

The ELCC calculation proposes to incorporate all 8760 hours of the year while noting that the California Independent System Operator Corporation (CAISO) limits fossil fuel facilities to Availability Assessment Hours.[11] It is reasonable to calculate ELCC using 8760 hours for 2015 while examining synchronizing hours for the most realistic assessment in future years.

C. QC and EFCC Methodologies for ES and Supply-Side DR Resources

The Proposed QC and EFCC Methodology for ES and DR states that operators may aggregate DR assets to form a single, RA-eligible resource.[12] The Proposal requires that DR assets must be located within one Sub-Load Aggregating Point [LAP] and the resources as a whole must demonstrate eligibility. DR aggregators participating in Pacific Gas and Electric Company and Southern California Edison Company's current DR contracts have extensive experience with aggregating diverse customer load to provide DR at Sub-LAP level. ORA supports such aggregation as it increases customer participation in DR by reducing individual customer's exposure to risk of non-performance and also helps the DR aggregator to better manage the overall DR portfolio.

In addition to aggregating ES and DR resources separately, the Proposed QC and EFCC Methodology for ES and DR also provides that ES and DR resources may be jointly aggregated to a combined ES-DR resource. Conceptually, this appears to be a feasible approach, but ORA is not aware of an existing combined ES-DR aggregated resource that was created from two

[11] Availability assessment hours are described at: http://bpmcm.caiso.com/Pages/BPMDetails.aspx?BPM=Reliability%20Requirements.

[12] Proposed QC and EFCC Methodology for ES and DR, p. 2.

separate and distinct ES and DR resources. Demonstration and evaluation of such combined resource through a pilot program is needed before allowing aggregation of ES and DR resources.

The Proposed QC and EFCC Methodology for ES and DR specifies that all supply side DR resources must have the capability to offer into CAISO markets – via economic bids or by self-scheduling under CAISO's Must Offer Obligation (MOO) in order to qualify for RA. The Proposed QC and EFCC Methodology for ES and DR also states that this requirement will be effective for the utilities' 2015 RA compliance year.[13] However, based on the schedule adopted in (R.) 13-09-011, the new DR Rulemaking, and previous submittals by PG&E and SCE during the workshops leading to this rulemaking, it appears that DR may not be available to bid into the CAISO's markets until 2016 or 2017.[14]

The current DR programs lack the necessary information technology and telemetry needed for directly bidding into the CAISO markets. The Commission in D.14-01-004 adopted a two-year (2015-2016) bridge funding mechanism during which the Commission is expected to investigate and identify the required changes to existing DR programs that would allow those resources to be bid into the CAISO markets. The DR rulemaking will also identify DR program changes necessary to meet the local and flexible RA requirements. If these changes are successfully implemented, the modified DR programs will be ready beginning 2017.

There is a potential mismatch between when the new RA requirements would be implemented (2015) and when DR programs will be ready to meet those requirements (2016 or 2017). ORA is concerned that if the new RA requirements for DR are implemented in 2015 in the absence of DR program changes needed to allow resources to bid into CAISO markets, IOUs could be forced to procure RA capacity that is currently provided by current DR programs and already funded by ratepayers. It is therefore critical that the Commission carefully align the schedule for new RA requirements with the schedule for implementing DR program changes necessary to meet those requirements so that ratepayers receive the benefit of the DR programs they fund.

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[13] Proposed QC and EFCC Methodology for ES and DR, p. 5.

[14] July 12, 2013 Rule 24 Workshop Timelines submitted by PG&E and SCE show the potential to bid into the CAISO's markets. Timeframes may differ based on specific program limitations, CAISO action needed to resolve requested waivers, tariff or bill changes, Commission decisions on cost recovery for IT and outreach and other preparatory requirements for bidding into the CAISO's markets.

As discussed above, the Proposed QC and EFCC Methodology for ES and DR specifies that all supply side DR resources must have the capability to bid into CAISO markets – via economic bids or by self-scheduling – under CAISO's Must Offer Obligation (MOO) in order to qualify for RA. ORA is concerned that the requirement to offer supply side DR under MOO may conflict with the direct participation rules established under D.12-11-025. Under the direct participation rules adopted in that decision, all DR bids (whether by utilities or third-party DR aggregators) into CAISO markets must be above (greater than) the monthly Net Benefit Test (NBT) prices published by CAISO as required by Federal Energy Regulatory Commission (FERC) Order 745.[15] If the NBTs are higher than economic bid prices and because of that DR cannot be bid into CAISO markets, it is not clear if such DR can meet the CAISO participation requirement under MOO for RA. This issue does not appear to be considered in either in the RA proceeding or the DR proceeding at this Commission.

The Proposed QC and EFCC Methodology for ES and DR on Testing and Verification states: "[i]f a resource does not wish to qualify for Flexible RA, it must submit to similar testing for qualification as System RA, but conducted at a time of its own choosing rather than a time selected by CAISO."[16] The resource provider should not be in a position of specifying the exact timing of such testing to establish the RA capacity of the resource regardless of whether a resource wishes to qualify for Flexible RA or any other type of RA. The resource provider should select the month of testing while the CAISO selects the date and time. Otherwise, the results could be biased and not trustworthy.

The Proposed QC and EFCC Methodology for ES and DR states:

> "Future modeling of reliability may indicate ways in which some of the above requirements could be altered; future RA proceedings will be informed by that analysis. For example, the ED's ongoing reliability modeling study may suggest that resources that are currently RA-ineligible can nevertheless contribute to reliability. Once this study is complete, the Commission may revisit the RA eligibility rules for all resources."[17]

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[15] http://www.ferc.gov/whats-new/comm-meet/2011/121511/E-4.pdf.

[16] Proposed QC and EFCC Methodology for ES and DR, p. 4.

[17] Proposed QC and EFCC Methodology for ES and DR, p. 3.

It appears that until the ED's ongoing reliability modeling study is completed, most of the current supply side DR resources would be considered RA-ineligible (primarily because of the MOO requirement in CAISO markets). The presumption should be reversed. Until ED's study determines that resources do not contribute to reliability, the resources should be presumed to be RA eligible.

III. CONCLUSION

ORA respectfully requests that the Commission consider ORA's comments in adopting modifications to the RA program for requirements for RA in 2015.

Respectfully submitted,

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February 18, 2014