

**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)

**COMMENTS OF THE INDEPENDENT ENERGY PRODUCERS
ASSOCIATION ON THE STAFF PROPOSAL ON THE
IMPLEMENTATION OF THE FLEXIBLE CAPACITY
PROCUREMENT FRAMEWORK**

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On February 10, 2014, the Energy Division released a “Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework” (Staff Proposal). On February 18, 2014, Administrative Law Judge David Gamson ruled that comments on the Staff Proposal would be due on February 24, 2014. The Independent Energy Producers Association (IEP) submits the following comments on the Staff Proposal.

I. A WORKSHOP IS NEEDED TO PROVIDE ADDITIONAL CLARITY REGARDING ALLOCATION METHODOLOGY

The Staff Proposal asks whether staff should organize a workshop to discuss this proposal. A workshop is warranted for at least three reasons.

First, the Staff Proposal’s discussion of flexible capacity need and allocation (Section II) raises a number of issues related to the latest proposal of the staff of the California Independent System Operator (CAISO) on flexible capacity. This section is critical to understanding key elements of the Staff Proposal. Unfortunately, the statements in this section require clarification and further explanation so that stakeholders may more accurately understand

the implications of the Staff Proposal. For example, the Energy Division indicates that it does not support the CAISO's allocation methodology, and the staff does not propose to extend the CAISO's allocation methodology to the load-serving entities (LSEs) subject to the Commission's jurisdiction. Yet the Staff Proposal also indicates that the CAISO intends to follow the Commission's allocation methodology when allocating flexible capacity backstop costs.¹

A workshop would be very helpful to illuminate the key differences, if any, between the Staff Proposal and the CAISO's latest proposal and to highlight the implications of any differences. The CAISO should be an active participant and a presenter in the workshop.

Second, in Section II, the Staff Proposal suggests that “inflexible generation, including all baseload units, and not just wind and solar generation resources [should] bear the cost of flexibility.”² IEP is confused and concerned about this statement. First, flexible capacity needs are a function of changes in both demand and supply, and it is not clear why the Energy Division staff concludes that the cost of flexibility should be allocated only to supply resources. Second, in California today, few generation projects are developed without a power purchase agreement with a utility, and the investor-owned utilities subject to the Commission's jurisdiction are required in their procurement choices to select the least-cost/best-fit resources. As a result, the size, scope, location, and resource type of resources serving California consumers are effectively caused by the procurement decisions of LSEs acting on behalf of the load. Thus, IEP fundamentally disagrees with the premise that generation, whether flexible or not, “caused” the need for flexible capacity and, more importantly, that generation resources should bear any of the cost associated with the need for flexible capacity.

¹ Staff Proposal, p. 5.

² Staff Proposal, p. 5.

Third, coordination between the CAISO and Commission is essential. It is unclear how the instant Commission proceeding on resource adequacy is linked to or is affected by the CAISO's Flexible Resource Adequacy Criteria and Must-Offer Obligation (FRACMOO) stakeholder process. For example, Section IV of the Staff Proposal addresses counting conventions to determine Flexible Capacity, Effective Flexible Capacity, Qualifying Capacity, and Net Qualifying Capacity. At the same time, the CAISO's FRACMOO stakeholder process and the recently initiated Reliability Services stakeholder process appear to address similar issues and market design elements. Stakeholders would benefit immensely if a coordinated Commission/CAISO scoping memo was distributed for comment. This scoping memo could delineate, for example, when and by which entity the counting conventions will be determined. Furthermore, when an issue requires a determination by both the CAISO and the Commission, the scoping memo would describe the required sequencing between the CAISO and the Commission to reach timely decisions. Providing this sort of information early in the process would allow stakeholders to most effectively devote their available resources to address their key issues.

As noted above, each of these matters should be a topic of discussion in a workshop.

II. THE NEED FOR A CONSISTENT TREATMENT OF USE-LIMITED RESOURCES

Section IV of the Staff Proposal addresses counting conventions, particularly for use-limited resources. In this section, the Staff Proposal addresses counting conventions for dispatchable thermal resources, hydro resources, and storage and demand response resources. IEP recommends that the counting convention for combined heat-and-power (CHP) should also

be addressed in the consideration of use-limited resources. Similarly, Section X, which addresses use-limited flexible resources, should include consideration of CHP resources.

III. USE OF AN INTERIM APPROACH

The Staff Proposal suggests an interim approach in which the requirements for procurement categories for use-limited resources are based on the operational characteristics of the resources. The Staff Proposal proposes to institute an interim approach that would end on or before December 31, 2017. The Staff Proposal recommends moving to a “three-category approach to fixed monthly percentage limits” for procurement of flexible capacity resources. IEP generally supports this approach, but the Commission should recognize that whatever flexible capacity procurement requirement is implemented will result in contracts between buyers and sellers. To the extent that the Commission adopts an interim approach, the contracts resulting from the interim approach must be honored even if the interim approach is superseded by a different approach.

IV. CONCLUSION

To maintain overall grid reliability at the least cost, the resource adequacy program must coordinate the needs of the CAISO (grid reliability) and the forward procurement practices the Commission authorizes for its jurisdictional entities. The effort to integrate a flexible capacity component into the resource adequacy program will require clarity about what is proposed and, where proposals differ, the implications of such differences. IEP will continue to participate at both the Commission and the CAISO in the discussion of flexible capacity and the proper market design elements required to efficiently ensure the reliability of the electric grid, including the integration of needed flexible resources.

Respectfully submitted this 24th day of February, 2014 at San Francisco, California.

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