

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 ENERNOC, INC., ON
ENERGY DIVISION'S STAFF PROPOSAL ON THE IMPLEMENTATION
OF THE FLEXIBLE CAPACITY PROCUREMENT FRAMEWORK**

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EnerNOC, Inc. (EnerNOC) respectfully submits these Comments on the Energy Division's "Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework" served by Energy Division on the service list in this Resource Adequacy (RA) Rulemaking on February 10, 2014 ("Staff Proposal"). These Comments are filed and served pursuant to the Commission's Rules of Practice and Procedure and the Administrative Law Judge's Ruling sent by electronic mail to the service list in this proceeding on February 18, 2014, which set today as the due date for Comments on the Staff Proposal.

**I.
INTRODUCTION**

By Decision (D.) 13-06-024, issued in this proceeding in June 2013, the Commission, along with establishing 2014 local capacity procurement obligations for electric load serving entities (LSEs), also adopted an "interim 'flexible capacity' framework as an additional component of Resource Adequacy (RA) requirements" and further defined what constitutes a "flexible capacity need."¹ While "no compelling need" was found to adopt a flexible capacity requirement for the 2014 RA year, the Commission did conclude in D.13-06-024 that the California Independent System Operator (CAISO) had "shown a reasonable likelihood that there

¹ D.13-06-024, at p. 2. According to D.13-06-024, a "flexible capacity need" is "defined as the quantity of resources needed by the California ISO to manage grid reliability during the greatest three-hour continuous ramp in each month," with resources considered as "flexible capacity" if they can sustain or increase output, or reduce ramping needs, during the hours of the ramping period of "flexible need." (Id., at p. 2.)

will be a need for additional flexible capacity for 2015 through 2017, due to a combination of plant closures and additional less-flexible capacity, and we set those requirements in proceedings over the next year.”² To that end, D.13-06-024 imposed reporting requirements and updated filings by the LSEs as a basis for determining 2015 flexible capacity requirements and sought further input through workshops and proposals “to refine the flexible capacity requirement to go into effect in 2015.”³

In response, the Energy Division has offered the Staff Proposal as “a compliance framework for future flexible capacity obligations in 2015 compliance year.”⁴ It also qualifies this proposal by stating that “staff will amend this proposal” to account for “any changes” that may be adopted by the CAISO to its “Flexible Resource Adequacy Criteria and Must-offer Obligation” (“FRACMOO”) proposal if approved by the CAISO Board prior to the issuance of the June 2014 RA decision.⁵

EnerNOC has reviewed the Staff Proposal and believes that several changes must be made before it can be adopted or considered for adoption by the Commission. Specifically:

1. For DR resources, flexible capacity should not be required to be bundled with generic capacity;
2. The CAISO’s categories of flexible capacity resources must be modified so as not to unduly limit participation by use-limited and preferred resources; and
3. The Staff Proposal to abolish MCC buckets is premature and should not be part of the flexible resource adequacy policy.

² D.13-06-024, at p. 3.

³ *Id.*

⁴ Staff Proposal, at p. 3.

⁵ Staff Proposal, at pp. 3-4.

II. THE STAFF PROPOSAL MUST BE MODIFIED TO ADDRESS SPECIFIC CONCERNS RELATED TO DEMAND RESPONSE RESOURCES.

A. Demand Response Resources Should Not be Required to Bundle Flexible and Generic Resources.

CAISO's FRACMOO Proposal, for purposes of counting capacity, has declared that no resource can be 100% flexible⁶ and that flexible resource capabilities are a subset of generic capacity and will remain bundled.⁷ Flexible capacity will represent the difference between P_{\max} and P_{\min} . That logic makes perfect sense for a generator since the minimum production level of a generator is not capable of being flexible. It is an operational minimum that is necessary for the generator to operate in order to be available to ramp up to reach its operational maximum. Otherwise, the generator would be offline. Notably, however, there is *no* P_{\min} , minimum operating level, equivalent for DR resources. The operational requirements for Category 3, super-peak flexible capacity resources, as contained in the CAISO's Draft Final FRACMOO Straw Proposal, require resources to be available for a five-hour availability window, to be determined seasonally by the CAISO, for a minimum of 5 dispatches per month for 3 hours per day.⁸ Qualified resources would be required to bid into the day-ahead or real-time energy markets. In contrast, DR generic resource adequacy obligations include the ability to reduce load for up to four hours per day for up to 3 consecutive days, available for dispatch between 1 and 6 PM for purposes of meeting the summer peaking loads (May 1-October 1).

The availability requirements between qualified flexible and generic resources are very different. DR providers, as an example, would assemble separate portfolios of customers to meet the different operational requirements of a flexible resource versus a generic resource. There is

⁶ CAISO FRACMOO Stakeholder Meeting Presentation, October 9, 2013, at p. 22.

⁷ CAISO Fourth Revised FRACMOO Straw Proposal, at p. 26.

⁸ Previous versions of CAISO FRACMOO Straw Proposal identified a 7 AM-noon or 3-8 PM availability window.

no reason that these resources would be combined from a DR portfolio development standpoint, unless artificially mandated, because EnerNOC would seek customers who can perform, based upon the different resource attributes, as either a flexible or a generic capacity resource. If combined, DR providers would have to assemble customers that were available for the entire year for up to 13 hours per day (7 AM-noon, 1-6 PM and 3-8 PM). The combined availability of both flexible and generic capacity resources, as stated above, would likely drive down participation because few customers could meet all of those resource requirements.

In contrast, recruiting participation based upon the specific characteristics of either flexible or generic would be more tenable. Recruiting for flexible resource characteristics is going to be challenging enough, as there is no comparable resource definition or requirement anywhere that EnerNOC provides services. It is an experimental resource definition.

While EnerNOC understands that the “bundling” is appropriate for generation, EnerNOC has repeatedly stated that such “bundling” is *not* appropriate for DR and that DR should *not* be forced to “look” like a generator, when that rubric is incompatible with the construction or operation of a DR resource. Said plainly, the Commission must allow DR to develop resources to meet the discreet and specific requirements and not adopt rules that inappropriately try to force DR to fit into a generator model that is incompatible with the development and operation of the resource and will inhibit DR participation that can meet each of the requirements. Therefore, EnerNOC recommends that DR resources be permitted to provide flexible resources that are separate from generic resource obligations and count 100% as a flexible capacity resource.

B. The CAISO's Draft Final FRACMOO Straw Proposal Must be Modified Before It Is Incorporated into a Flexible Resource Adequacy Requirement.

The Staff Proposal recommends adopting the CAISO's Draft Final FRACMOO Straw Proposal as it relates to the categorization of flexible capacity resources.⁹ Further, the Staff Proposal expresses concerns about over-reliance on use-limited resources for purposes of providing flexible capacity¹⁰ and, therefore, adopts limits for the categories of no less than 80% for Category 1 and a maximum for Categories 2 and 3 of 20%, with a cap on Category 3 of 5%.¹¹ EnerNOC has expressed specific concerns with CAISO's Draft Final FRACMOO Straw Proposal in its comments to CAISO, submitted on February 21.

EnerNOC strongly disagrees with capping categories 2 and 3 at a maximum of 20% and category 1 at a minimum of 80%. Based upon CAISO's calculations, Categories 2 and 3 could satisfy up to 50% of the flexible requirement.¹² At a minimum, Categories 2 and 3 should comprise 25% of the total flexible need, if not 30% in 2014 and 25 % in 2016. As it relates to the categorization of resources to meet the flexible capacity requirement, CAISO has implemented a cap of 5% for Category 3 resources, which the Staff Proposal would adopt. EnerNOC has raised concerns with the cap in that it approximates the super-ramping need on CAISO's system and is not strictly based upon CAISO's own analysis of its super-ramping need.¹³ That said, EnerNOC is willing to entertain a static cap for a limited period of time, with the understanding that another stakeholder process will be initiated in early 2016. That gives all market participants, and administrators, an opportunity to learn from the implementation of a flexible capacity

⁹ Staff Proposal, at p. 13.

¹⁰ Staff Proposal, at p. 12.

¹¹ Staff Proposal, at p. 14.

¹² CAISO Draft Final FRACMOO Straw Proposal, at p. 30.

¹³ CAISO Presentation during RA Workshop, March 20, 2013, at p. 13. Slide that shows the super-ramping need could represent as much as 10% of the total flexible capacity resource need.

requirement and the associated must-offer obligations of flexible resources. The Staff Proposal must be modified to reflect the same understanding.

Further, EnerNOC objects to the ability for Category 1 resources to displace Categories 2 and 3 and for Category 2 resources to displace Category 3 resources. This “displacement” policy could result in *NO* experience being gained by Category 2 or 3 resources under this flexible capacity model and with all flexible resource needs being met by CAISO only by Category 1 resources. Not only does that policy run the risk of displacing all use-limited, and preferred, resources from providing flexible capacity resources to the system, that policy would be inconsistent with what CAISO has calculated its need to be.

In this regard, by defining the three categories of flexible capacity resources, and, to some extent, the percentages that each category would comprise of total flexible resource needs, the CAISO has specifically determined that it does not need 100% of its need met by Category 1 resources. It does not need 100% of its flexible capacity resources to have a 17-hour availability requirement with, possibly two dispatches per day. Therefore, allowing procurement of 100% of Category 1 resources would mean that CAISO has over-procured its resource need.

Over-procuring resource types that are not necessary to meet the flexible capacity requirement and displacing use-limited or preferred resources is a significant concern of EnerNOC’s. Yet, the Staff Proposal expresses a “concern” over relying too heavily on use-limited resources to meet the flexible resource adequacy requirement. Yet, by CAISO’s own calculations, as much as 40% of its flexible capacity need could be met by use-limited resources, represented by Categories 2 and 3.

For these reasons, EnerNOC urges the Commission to direct Staff to reconsider adoption of CAISO’s proposal, which would allow displacement of use-limited resources by Category 1

resources. Again, such an outcome (exclusive reliance on Category 1 resources) is inconsistent with the CAISO's own calculation of its flexible capacity resource needs and incompatible with the Commission's preferred resource policy.

C. The Staff Proposal to Eliminate the MCC Buckets Is Premature and Should Not be Part of the Flexible Resource Adequacy Requirement.

The Staff Proposal suggests abolishing the MCC Buckets, as a result of adopting the CAISO's flexible resource categories.¹⁴ EnerNOC strongly opposes this recommendation and suggests deferral of its adoption until further explored through workshops.

First of all, the categories that have been developed by CAISO are specifically for flexible capacity resources. The MCC Buckets were adopted for peaking capacity resources, now deemed to be generic capacity. The two resource requirements, as stated previously, are quite different from one another and are not substitutable.

In short, California is still a summer peaking state and requires considerably more resources to meet its approximately, 50 GW summer peaking requirement. Flexible capacity resources represent up to 13 GW in the winter months. There is no basis for applying the flexible capacity categories developed for FRACMOO upon resources that are meant to address a much more substantial peaking need. There is no analysis that shows that use-limited resources for peaking should be capped in the same manner as proposed for flexible capacity resources. Such a position would undermine the Commission's preferred resources policy significantly.

As such, EnerNOC strongly recommends that the Commission reject Staff's proposal to eliminate the MCC Buckets until there is an opportunity to discuss this proposal further. Until that time, it should not be included as part of the flexible capacity resource adequacy policy.

¹⁴ Staff Proposal, at pp. 15-16.

III. CONCLUSION

EnerNOC respectfully requests that the Commission direct that the following changes be made to the Staff Proposal before it is adopted or considered for adoption by the Commission:

1. For DR resources, flexible capacity should not be required to be bundled with generic capacity;
2. The CAISO's categories of flexible capacity resources must be modified so as not to unduly limit participation by use-limited and preferred resources;
3. The Staff Proposal to abolish MCC buckets is premature and should not be part of the flexible resource adequacy policy.

Respectfully submitted,

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