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 STAFF PROPOSAL ON THE IMPLEMENTATION
OF THE FLEXIBLE CAPACITY PROCUREMENT FRAMEWORK**

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I. INTRODUCTION

The Office of Ratepayer Advocates (ORA) submits the following comments on the February 10, 2014 "Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework" (Flexible Capacity Proposal) pursuant to the August 2, 2013 "Phase 3 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge."

ORA's recommends:

- The Commission should adopt a three percent cap on the annual error factor[1] for flexible capacity need to prevent an excessive increase in allocation of flexible capacity and associated ratepayer costs.
- The Commission should adopt the Flexible Capacity Proposal interim approach to allocating costs based on load ratio share of the coincident peak while additional information is evaluated
- The Commission should not adopt categories for flexible capacity resources for the 2015 resource adequacy (RA) year, but should allow load-serving entities (LSEs) to comply with this requirement using flexible capacity of their choice.

II. DISCUSSION

A. The error factor for flexible capacity need should be capped by a three percent increase for 2014. For 2015, the error factor should remain at zero.

The flexible capacity required for the California Independent System Operator Corporation (ISO) to manage grid reliability will be calculated by applying a formula adopted in Decision (D.)13-06-024.[2] The formula includes an error factor to be determined annually to account for uncertainties. The ISO will calculate the error factor based on the prior year's data in a yearly flexible capacity requirements study. The 2014 error factor adjustment will be zero since flexible capacity requirements did not exist in 2013. The error factor in 2015 should also be set at zero since flexible requirements were also not in place in 2014. While data was reported by the LSEs in 2014, this reporting was voluntary and incomplete, so it would not produce an accurate forecast and error factor.

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[1] As discussed further in Section II A, the error factor will adjust the flexible capacity allocation based on prior year's uncertainties.

[2] D.13-06-024, p. 15.

A large error factor adds too much risk of over-procurement, while a small error factor of up to three percent would limit the risks of unnecessary costs while continuing to support reliability. ORA therefore recommends a three percent cap on increases in the annual error factor to prevent an excessive increase and associated ratepayer costs.

B. The Commission should adopt the Flexible Capacity Proposal's interim approach to allocating costs based on load ratio share of the coincident peak while additional information is evaluated.

As currently proposed, the ISO and the California Public Utilities Commission (CPUC) in separate proposals will utilize two differing allocation methodologies for assigning flexible requirements. The ISO proposal allocates flexible requirements on cost causation principles that consider LSEs' contributions to flexible capacity needs based on their resource portfolio's forecasted changes in wind output, solar output, and distributed generation.[3] The CPUC proposal allocates flexible requirements to jurisdictional LSEs based on load-ratio share of California Energy Commission forecasted ISO coincident peak.[4] The CPUC does not dispute that cost causation principles should apply to flexible requirements; however, staff does not believe the ISO's methodology of determining cost causation accurately computes true cost causation.[5]

Ideally, the ISO and CPUC would both endorse a common cost causation methodology that most accurately addressed the contributions to flexible capacity demands. The ISO's inclusion of its cost causation methodology in a Federal Energy Regulatory Commission (FERC) tariff[6] will likely make it difficult to make annual refinements as is the case in the annual Commission RA proceeding. ORA supports the continued efforts of CPUC staff to refine a cost causation methodology that more accurately assesses all costs contributing to the need for flexible capacity. Solar photovoltaic, wind, and concentrating solar thermal resources should not

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[3] Flexible Resource Adequacy Criteria and Must-Offer Obligation, California ISO, February 7, 2014 (FRAC-MOO proposal) Section 2, p. 5.

[4] Flexible Capacity Proposal, p. 5.

[5] Flexible Capacity Proposal, p. 5.

[6] FRAC-MOO proposal, p. 20-21.

bear an unfair burden of costs as might be the case if all factors contributing to inflexibility in the grid are not assessed in a stakeholder process.

The use of different assessment methodologies by the ISO and CPUC may result in some misalignment of the allocation of flexible requirements. However, a methodology that fails to properly consider all contributions to flexible capacity needs, as CPUC staff concludes regarding the ISO methodology, may also unfairly allocate requirements to some LSEs. More work and stakeholder input is needed to create a robust methodology. ORA supports the Flexible Capacity Proposal's use of the load ratio share of the coincident peak to allocate flexible capacity costs while also endorsing a requirement that a more refined assessment of cost causation be prepared in advance of next year's RA proceeding.

C. The Commission should not adopt flexible capacity categories for the 2015 RA year.

A use-limited flexible resource is one that can run in all or most hours, but is limited in the total starts or hours it can run.[7] The Flexible Capacity Proposal attempts to define categories that will allow the participation of use limited resources.[8] After considering three varying proposals,[9] the Flexible Capacity Proposal recommends an interim approach to the application of requirements, caps and limitations to use-limited flexible resources. The Flexible Capacity Proposal would create three categories[10] that would be refined over the next several years with a goal of creating a more permanent framework by the end of 2017. The three categories with associated requirements and percentage of use allowances are similar to the three categories in the ISO final draft on flexible criteria and must offer obligations.[11] The Flexible Capacity Proposal appropriately avoids recommending long-term limitations on use-limited flexible resources while parallel proceedings at the CPUC and ISO work to create a joint reliability

[7] Flexible Capacity Proposal, p. 11.

[8] Flexible Capacity Proposal, p. 14. See Appendix A for a description of categories and types of resource use limitations.

[9] Flexible Capacity Proposal, p. 12.

[10] Flexible Capacity Proposal, p. 14.

[11] FRAC-MOO proposal, pp. 31-33.

framework.[12] The work in the reliability proceedings will significantly impact future flexible capacity procurement.

Based on the preponderance of the unrestricted category 1 resources it is not clear there is any advantage to imposing a category structure for the 2015 RA calendar year. An analysis by CPUC staff of 2014 flexible RA showings revealed that almost all flexible resources reported by LSEs were in category 1.[13] Category 1 resources provide a full range of the 17 hours of potential flexible need. Categories 2 and 3 provide an avenue for use-limited resources to provide limited percentages of a LSEs portfolio to meet flexible capacity requirements. The Flexible Capacity Proposal recommends allowing an LSE's flexible capacity portfolio to contain up to 20% of resources in category 2 and up to 5% of resources from category 3 (not to exceed a 20% cumulative combination of categories 2 and 3). However, it appears that allowing LSEs to meet flexible capacity limits without use-limited restrictions would result in the availability of very high level of category 1 resources to maintain reliability.

No party has established a need for flexible capacity in 2015, and thus it is unnecessary to create categories restricting use-limited flexible resources prior to next year's RA proceeding. Since the categories are essentially a work in progress in an interim process, more information could be obtained by observing the first year of LSE requirements in the absence of categories and associated requirements to procure within those categories. The data from 2015, especially if it is unrestricted by categories, will provide useful information on which resources LSEs will utilize to meet flexible requirements.

Alternatively, if there is concern over LSEs not providing enough hours of flexible capacity due to a larger than expected reliance of use-limited resources, the LSEs could be assigned a total number of flexible capacity hours to provide. Allowing LSEs the option to fill a fixed number of hours without limiting their options with categories would provide a more market-based approach and potential rate savings. This approach would also provide important data for analysis of any potential reliability risks utilizing a less prescriptive and more market-based approach. Forcing LSEs to adhere to evolving concepts of flexible capacity categories may unnecessarily increase regulatory uncertainty.

[12] Flexible Capacity Proposal, pp. 12-13.

[13] Flexible Capacity Proposal, p. 14.

The Flexible Capacity Proposal would exempt LSEs from adhering to flexible category requirements when they have monthly flexible obligations of less than 25 megawatts (MW). ORA recognizes that some small LSEs may have difficulty with existing contracts that may not fit into category requirements, but ORA generally opposes exemptions in the RA program. Adopting ORA's recommendation to defer the adoption of categories and associated requirements would solve this problem without creating special rules for small LSEs. Given additional time, the smaller LSEs should be better able to comply with a future framework. If the Commission nevertheless adopts categories for the procurement of flexible capacity and associated requirements to procure within those categories, ORA would not oppose a limited one-year exemption from category procurement for small LSEs.

III. CONCLUSION

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

Respectfully submitted,

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APPENDIX A

Table -2 Categories of must-offer

	Category 1	**Category 2**	**Category 3**
Must-offer obligation	17 Hours 5 AM- 10 PM Daily	5 Hours (time determined seasonally) Daily	5 Hours (time determined seasonally) Non-holiday weekdays
Energy limitation	At least 6 Hours	At least 3 Hours	At least 3 Hours
Starts	Minimum 2 starts a day for use-limited resources only	NA	Minimum 5 starts a month
Percentage of LSE portfolio of flexible resources applicable each month	At least 80%	Up to 20% (Categories 2 and 3 are cumulative)	Up to 5%