

**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

R.11-10-023
(Filed October 20, 2011)

**COMMENTS OF NRG ENERGY, INC.
ON STAFF FLEXIBILITY PROPOSAL**

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For
NRG ENERGY, INC.

February 24, 2014

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Consider
Annual Revisions to Local Procurement
Obligations and Refinements to the Resource
Adequacy Program.

R.11-10-023
(Filed October 20, 2011)

**COMMENTS OF NRG ENERGY, INC.
ON STAFF FLEXIBILITY PROPOSAL**

In accordance with Administrative Law Judge David Gamson’s February 18, 2014 e-mail ruling, NRG Energy, Inc.¹ (“NRG”) hereby submits these comments on the February 10, 2014 *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework* (“Staff Proposal”).

I. COMMENTS

A. Allocating the Aggregate Flexibility Requirement

The Staff Proposal proposes to (1) allocate, for 2015, the aggregate flexibility requirement to its jurisdictional Load-Serving Entities (LSEs) on the basis of coincident peak demand ratio share, and (2) explore, for the future, other methods of allocating the flexibility requirement based on causation.

The CAISO-developed aggregate monthly flexibility requirement is the sum of LSE-specific requirements, each of which contains several discrete components: a component based

¹ NRG Energy, Inc. is the parent of NRG Power Marketing LLC, GenOn Energy Management, LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, GenOn Delta, LLC, GenOn Marsh Landing, LLC, GenOn West, LP, High Plains Ranch II, LLC, Long Beach Generation LLC, NRG Solar Alpine LLC, NRG Solar Borrego I LLC, NRG Solar Blythe LLC, NRG Solar Roadrunner LLC and Avenal Solar Holdings LLC, each of which owns and operates generating resources in California. Because the focus of this proceeding is on California market issues, NRG Energy, Inc. appears on behalf of these entities.

on peak demand, a component based on the characteristics of the LSE's supply and demand, and an error term. Allocating the aggregate requirement to LSEs solely on the basis of coincident peak demand would result in a different allocation of the LSE requirements than the separate LSE requirements that were summed to produce the aggregate requirement. NRG is not an LSE and is not directly affected by the allocation proposal, but is concerned that allocating the overall flexibility requirement in a way that does not reflect the component parts of the aggregate requirement has the potential to distort procurement incentives and introduce inequitable cross-subsidies. Inasmuch as the proposal to allocate the aggregate flexibility requirement on the basis of coincident peak demand load-ratio share is limited to 2015, and staff proposes to re-examine allocation methods that would be based on causation for future years' allocation, NRG does not object to the proposed interim allocation for 2015, and supports staff's proposal to re-examine the allocation methodologies beyond 2015.

B. Sale and Purchase of Flexible Capacity

In this section, Staff posits the possibility that the owner of a resource with 50 MW of inflexible capacity (up to P_{min}) and 150 of flexible capacity (from P_{min} to a P_{max} of 200 MW) could sell only the 150 MW of flexible capacity, but, in so doing, would be required to bid or self-schedule the 50 MW of inflexible capacity.

This example raises two concerns. *First*, having a P_{min} does not, in and of itself, render the capacity below P_{min} as inflexible. According to the counting conventions set forth in the Staff Proposal, that P_{min} capacity could qualify as flexible if the resource's start-time is less than 90 minutes. This is certainly reflected in Staff's discussion of the counting conventions, but care should be taken so as to not automatically assume P_{min} levels are inflexible capacity. *Second*, if the resource owner could find a willing buyer only for the 150 MW of flexible capacity, they, in

effect, would have to provide the 50 MW of inflexible capacity “for free” in order to provide the 150 MW of flexible capacity. This is because the Staff Proposal indicates that the 150 MW of flexible capacity could not be sold as flexible capacity unless the 50 MW of inflexible capacity is bid or self-scheduled into the CAISO’s markets. The requirement to bid or self-schedule energy from capacity into the CAISO’s market is, in essence, the RA product. This requirement to bid or self-schedule unsold inflexible RA capacity in order to provide flexible capacity above that level could create perverse contracting incentives, opposite but analogous to the incentive an RA buyer has to procure a unit up to its minimum load level, such that the un-contracted capacity above that level is “available” to the CAISO (even if the energy or ancillary services are not offered to the CAISO, having the unit on-line provides the CAISO an option – an option the CAISO need not pay for unless it dispatches energy from that capacity). NRG respectfully urges that the rules for purchasing and selling flexible and inflexible capacity be carefully reviewed so they do not create incentives that could unduly impact procurement practices.

C. Use Limited Flexible Resources

Like the most recent CAISO proposal², the Staff Proposal proposes three flexibility categories: Category 1, with a 17-hour daily offer obligation, a minimum of two starts per day (for use-limited resources only) and at least six hours of daily energy availability; Category 2, with a five-hour daily offer obligation, no limit on starts and at least three hours of daily energy availability; and Category 3, with a five-hour daily offer obligation, at least five starts per month and at least three hours of daily energy availability. The Staff Proposal requires that at least 80% of the flexible resources be from Category 1, and limits Category 2 and Category 3 resources to

² See CAISO February 7, 2014 *Flexible Resource Adequacy and Must-Offer Obligation Draft Final Proposal* at 29 (“February 2014 FRACMOO Proposal”) (available at <http://www.caiso.com/Documents/DraftFinalProposal-FlexibleResourceAdequacyCriteriaMustOfferObligation.pdf>).

providing no more than 20 percent and five percent of the flexibility need, respectively.³ In contrast to the CAISO proposal, these percentages are fixed; in the CAISO proposal, the category percentages can vary by month based on the projected primary and secondary ramp sizes.

In general, NRG supports using fixed percentages for the categories instead of varying the percentages by month. While varying percentages may be more technically precise (albeit based on projections of ramps), fixed percentages are likely to yield more consistent procurement practices. Given that the level of flexibility requirement is currently small relative to the overall RA requirement, whether these percentages vary by month or are fixed by month may not significantly impact procurement, but as the flexibility needs grows, the value of fixed monthly targets will grow.

Staff also indicates that these proposed simplified categories are intended to be temporary (through the end of 2017) and that Staff intends for the Commission to develop a long-term approach "...with an eye towards enabling greater consistency with the State's loading order for preferred resources to meet flexible capacity requirements...."⁴ NRG encourages Staff to coordinate the development of the long-term approach to allowing use-limited resources to meet flexibility needs with work by the CAISO to evaluate the eligibility criteria for preferred resources to meet local capacity and other operational requirements.

³ Staff Proposal at 13-14.

⁴ Staff Proposal at 15.

D. Abolition of MCC Buckets

Staff has proposed to abolish the Maximum Cumulative Capability (MCC) buckets. Staff proposes to rely on the three categories proposed for managing the use of use-limited resources to manage flexibility requirements.⁵

As NRG understands the staff proposal, the fixed percentages assigned to the proposed use-limited categories (at least 80% for Category 1, up to 20% for Category 2, and up to 5% for Category 3) apply to the “portfolio of flexible resources applicable each month.”⁶ However, the monthly flexible procurement requirements set forth by the CAISO amount to a fraction of the overall monthly RA requirements.⁷ As an example, the projected maximum monthly flexibility requirement for 2015 is 12,173 MW (December); the minimum monthly flexibility requirement for 2015 is 7,096 MW (July). Based on historical loads, the monthly RA aggregate RA requirement for December 2015 is expected to be in the range of 35,000 MW, while the July 2015 range would be expected to be in the range of 51,000 MW. Thus the flexibility requirement for December represents approximately 34% of the total RA procurement target for that month, while the flexibility requirement for July represents approximately 14% of the total RA procurement target for that month.

If Staff intended that the use-limited category percentages applied to the *total* level of RA procurement, and not the level of flexible procurement, the proposal to abandon the current MCC buckets in favor of the proposed monthly percentages for use-limited resources would seem reasonable. Abolishing the current MCC buckets if those proposed percentages applied only to the level of flexible procurement would not be reasonable, given the low level of flexible procurement relative to overall RA procurement. If Staff conducts a workshop to discuss its

⁵ Staff Proposal at 16. The three proposed use-limited categories are set forth in the Staff Proposal at 14.

⁶ Staff Proposal at 14.

⁷ See February 2014 FRACMOO Proposal at 17.

flexibility proposal, as NRG has requested above, Staff could clarify at the workshop that this is Staff's intent.

E. Next Steps for 2016 RA Year

Staff suggests that, when considering the flexible capacity framework for the 2016 RA year, it should “[e]xplore the possibility of exempting flexible resources from satisfying system RA requirements.”⁸ The Staff Proposal goes on to note that “System RA is geared towards meeting peak load, while flexible meets non-peak requirements.” In light of the Staff Proposal’s directive that flexible and generic capacity counts toward meeting system RA obligations,⁹ NRG does not understand what Staff intends with suggesting that flexible resources could be exempted from meeting system RA requirements. This is something that could and should be clarified at a Staff workshop on its flexibility proposal.

F. Staff Workshop on the Flexibility Proposal

Staff requests feedback on whether Staff should hold a workshop on the Staff Proposal.¹⁰ NRG supports staff conducting a workshop to allow market participants to ask questions about the staff proposal and to facilitate dialog about this proposal. NRG also supports providing another opportunity for comments following that workshop.

⁸ Staff Proposal at 16.

⁹ Staff Proposal at 9.

¹⁰ Staff Proposal at 18.

II. CONCLUSION

NRG thanks the Commission for this opportunity to submit these comments and respectfully asks that the Commission consider them and take action as requested herein.

Respectfully submitted,

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