

**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)

**SIERRA CLUB REPLY COMMENTS ON STAFF PROPOSAL ON  
IMPLEMENTATION OF THE FLEXIBLE CAPACITY PROCUREMENT  
FRAMEWORK**

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Dated March 6, 2014

## **SIERRA CLUB REPLY COMMENTS ON STAFF PROPOSAL ON IMPLEMENTATION OF THE FLEXIBLE CAPACITY PROCUREMENT FRAMEWORK**

Pursuant to the February 27, 2014 e-mail ruling by Administrative Law Judge David M. Gamson, the Sierra Club submits the following reply comments on the Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework (“Framework”).

### **I. CAISO Does Not, And Should Not, Have Authority to Set Its Own Minimum Criteria for Determining Effective Flexible Capacity for Resources**

Sierra Club has serious concerns with CAISO’s assertion in Opening Comments that it has authority to “set minimum criteria for determining the effective flexible capacity” (“EFC”) for resources, can “reduce” the CPUC’s EFC determination to meet CAISO’s own criteria, and use its backstop authority to procure any difference between the CAISO and CPUC’s EFC calculation.<sup>1</sup> CAISO’s position improperly intrudes on PUC authority over Qualifying Capacity (“QC”) determinations. In addition, because CAISO’s EFC methodology does not recognize the full flexible value of resources like energy storage, it functions to undermine State clean energy and climate objectives. Consistent with the Commission’s broader mandate to balance reliability with a commitment to a clean environment, the Commission should oppose any CAISO effort to override Commission authority over setting EFC criteria.

Section 40.4.1 of the CAISO tariff provides that CAISO “shall use the criteria provided by the CPUC or Local Regulatory Authority to determine and verify, if necessary, the Qualifying Capacity of all Resource Adequacy Resources.”<sup>2</sup> In other words, it is the PUC that sets the standards for a QC determination, not the CAISO. Because the CAISO is required to “use the criteria provided by the CPUC” in determining a resource’s QC, CAISO may not, as asserted in its opening comments, set its own minimum EFC criteria or standards. While the CAISO tariff does allow the CAISO to reduce the QC of a resource, this is specifically limited to constraints

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<sup>1</sup> CAISO, Comments on Proposed Flexible Capacity Procurement Framework, Feb. 24, 2014, p. 10.

<sup>2</sup> CAISO, Fifth Replacement Electronic Tariff, Oct. 1, 2013, § 40.4.1, [https://www.caiso.com/Documents/ConformedTariff-Feb18\\_2014.pdf](https://www.caiso.com/Documents/ConformedTariff-Feb18_2014.pdf). Because EFC is the flexible capacity analog to QC, tariff rules over setting QC criteria should apply with equal force to EFC.

on the deliverability of a specific resource and failures in testing and performance.<sup>3</sup> CAISO's tariff cannot be reasonably interpreted to extend CAISO authority to establishing threshold standards or minimum criteria for an EFC determination.

Retention of PUC authority over the EFC determination of resources is necessary to ensure achievement of State policy goals. As the Commission has recognized:

A significant difference between the ISO's reliability mission and the Commission's reliability emphasis is that the Commission must balance its reliability mandate with other statutory and policy considerations. Primarily, these considerations are reasonableness of rates and a commitment to a clean environment.<sup>4</sup>

Consistent with this observation, CAISO's proposed minimum EFC criteria belie an indifference toward California's clean energy and climate objectives. Unlike the PUC's proposed EFC for energy storage resources, the CAISO proposal does not value energy storage charging in meeting flexibility needs. CAISO's exclusion of energy storage charging as a mechanism to meet flexible capacity needs would deprive the state of an important tool in integrating renewables, needlessly increase reliance on fossil fuels (thereby undermining achievement of state climate objectives), and frustrate cost-effective energy storage deployment by halving the value of storage as a flexible resource. Indeed, CAISO's proposal to disregard the charging portion of the CPUC's EFC determination for storage and procure that flexibility through its backstop authority would likely eliminate any potential RA revenue associated with energy storage charging. If an IOU can expect CAISO to ignore the portion of its flexible RA showing that consists of energy storage charging and require backstop procurement, an IOU has no incentive to award RA compensation for this service regardless of whether it meets the PUC's EFC definition.

To the extent integration of energy storage charging into energy markets for purposes of meeting flexible capacity needs poses implementation challenges, CAISO should act to meet these challenges rather than seek to write-off energy storage charging in its entirety. While CAISO has stated in its Final Draft Flexible Resource Adequacy Criteria and Must-Offer Obligation ("FRACMOO") Proposal that it "will continue to review the prudence of [not

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<sup>3</sup> *Id.* §§ 40.4.4 – 40.4.6.

<sup>4</sup> D. 13-02-015, Decision Authorizing Long-Term Procurement for Local Capacity Requirements, Feb. 13, 2013, p. 35, <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M050/K374/50374520.PDF>.

counting charging capability] in the recently opened Reliability Services Initiative (“RSI”),”<sup>5</sup> the RSI does not appear to contemplate revisiting incorporation of energy storage charging capability into FRACMOO. To the contrary, the Initiative Paper appears to defer to the FRACMOO’s determination of flexible RA eligibility criteria and must-offer requirements.<sup>6</sup> Rather than attempt to frustrate the CPUC’s effort to utilize energy storage charging to meet flexible capacity needs, the CAISO should accept the CPUC’s EFC definition and work to identify and address any implementation issues.

Sierra Club strongly urges the CPUC to ensure it retains jurisdiction over establishing criteria for determining the EFC of resources such as energy storage. Should CAISO continue to insist that it is entitled to set minimal EFC criteria and disregard the PUC’s EFC determination, Sierra Club encourages the Commission to contest this assertion before the Federal Energy Regulatory Commission (“FERC”) if and when CAISO seeks FERC approval of its FRACMOO Proposal.

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Respectfully submitted,

/s/

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<sup>5</sup> CAISO, Draft Final Proposal, Flexible Resource Adequacy Criteria and Must-Offer Obligation, Feb. 7, 2014 at 38.

<sup>6</sup> CAISO, Reliability Services Issue Paper, Jan. 28, 2014, p. 5 “(flexible RA eligibility and m[u]st-offer requirements determined in FRACMOO initiative)”.