

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
RESOURCE ADEQUACY WORKSHOP**

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I. INTRODUCTION

The Office of Ratepayer Advocates (ORA) submits the following comments on the April 9, 2014 Resource Adequacy Workshop proposals and presentations, including the California Independent System Operator's (CAISO) presentation on "2014 ISO Flexible Capacity Needs Assessment: Study Methodology, Assumptions, and Preliminary Results".

ORA recommends that:

- The CAISO and the California Public Utilities Commission (CPUC or Commission) coordinate to establish consistent flexible capacity policies and requirements.
- The Commission adopt the staff's proposed interim approach to allocating costs based on load ratio share of the coincident peak¹ while additional information is evaluated.
- The Commission not adopt proposed categories for flexible capacity resources with use limitations for the 2015 resource adequacy (RA) year.
- Mandatory flexible capacity requirements only be adopted if a Federal Energy Regulatory Commission (FERC) tariff creating an enhanced must offer obligation (MOO)² for flexible resources is approved ahead of the June Decision for the 2015 RA year.
- San Diego Gas and Electric's (SDG&E) unbundling proposal for flexible capacity be adopted by the Commission.
- Delay adoption of an Effective Load Carrying Capacity (ELCC)³ methodology until next year's RA proceeding to allow for further development and adequate stakeholder input.
- The Commission adopt the timing of Demand Response testing to be determined by the CAISO within a 3-month window.

¹ The load ratio share of the coincident peak refers to the percentage of a load serving entity's contribution to peak system demand.

² The enhanced MOO for flexibility will require flexible resources to economically bid into the CAISO market between the hours of 5:00am and 10:00pm.

³ ELCC is a percentage that expresses how well a resource is able to meet reliability conditions and reduce expected reliability problems or outage events (considering availability and use limitations).

II. DISCUSSION

A. **The CAISO should coordinate its studies and initiatives with the CPUC and allow for greater stakeholder input.**

The CAISO's Flexible Capacity Needs Assessment limits stakeholder involvement with its late release that results in very limited time for stakeholder analysis and comments. On April 4, 2014 the CAISO first released its "Preliminary 2014 Flexible Capacity Needs Assessment."⁴ The preliminary assessment remained unfinished at the April 9 Commission RA workshop and at the April 18, 2014 CAISO stakeholder conference call on the study. The flexible capacity process will not include a draft for stakeholder comments and the submission of the final flexible capacity study proposed to be released either May 1 or May 2, 2014, will not allow time for adequate stakeholder input ahead of the Commission's Proposed Decision later in May. Furthermore, the parallel nature of the CAISO and Commission proceedings creates additional time challenges for stakeholders which risks degrading the content and depth of analysis offered by stakeholders.⁵

The CAISO's flexible capacity process should coordinate more closely with the Commission's ED proposals to allow for timely LSE procurement and avoid negative ratepayer impacts. In comments on the previous RA workshop, ORA voiced concerns over the CAISO's and ED's differing approaches to flexible capacity allocation methodologies.⁶ ED staff continues to support allocations of flexible capacity based on load ratio share⁷ while the CAISO continues to support allocations based on forecasted changes in wind output, solar output, and distributed generation.⁸ In next year's RA proceeding, ED seeks to involve stakeholders in the development of an allocation methodology that considers a broader basis of causation, such as adding

⁴ California Independent System Operator Preliminary 2014 Flexible Capacity Needs Assessment, April 4, 2014 (CAISO FCNA).

⁵ For example, stakeholder comments on the CAISO flexible study were due at the Commission on April 18, the same day as a CAISO stakeholder call on the study and on April 25, just one week later, comments are due at the CAISO on the study and reply comments are due at the Commission.

⁶ Comments of the Office of Ratepayer Advocates on Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework, February 18, 2014, p. 2.

⁷ Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework, April 9, 2014, p.5.

⁸ CAISO FNCA, pp. 7,8.

inflexible baseline capacity, than that proposed by the CAISO. It is appropriate for the Commission, as it has historically done, rather than the CAISO, to develop causation principles for flexible capacity. The Commission's jurisdictional LSEs account for 94% to 99% of the monthly flexible capacity needs of the CAISO.⁹ The CAISO proposes to add causation methodologies to its Flexible Resource Adequacy Criteria and Must Offer Obligations (FRACMOO) tariff language that will not be reconsidered until 2017.¹⁰ Failing to align the causation principles can result in different allocation amounts from the ED staff and the CAISO creating risks of under or over procurement.

An additional area in which the ED proposal and the CAISO do not align is the flexible category procurement for use limited resources. Both ED staff and the CAISO recommend flexible procurement categories that limit the level of participation by resources with use limitations to maintain an adequate supply of flexible capacity. ED offers a proposal for consideration in the scheduled June 2014 Decision while the CAISO has yet to finish its evaluation of categories. Parties noted at the workshop that a lack of coordination creates confusion for the LSEs and could result in additional costs for ratepayers from either excess procurement or inadequate procurement resulting in backstop procurement costs. In previous comments, ORA recommended eliminating flexible categories for 2015 to allow for further evaluation and alignment on the issue of flexible capacity procurement.¹¹ ED staff proposes creating categories¹² that would be refined over the next several years with a goal of creating a more permanent framework by the end of 2017. In light of a continuing lack of consensus on flexible categories, ORA continues to advocate for the elimination of flexible categories for 2015 in order to allow for further evaluation and alignment on a durable framework.

⁹ CAISO FNCA presentation, p. 20.

¹⁰ Ibid.

¹¹ Comments of the Office of Ratepayer Advocates on Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework, February 24, 2014, pp. 3-4.

¹² Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework, April 9, 2014, pp. 12-16.

B. Mandatory flexible capacity requirements should not be approved without prior approval of a FERC tariff creating a flexible capacity must offer obligation.

Ratepayers will not receive the benefits of flexible capacity procurement without an enhanced MOO. The purpose of creating flexible capacity requirements is to assure the CAISO that flexible resources will be available when needed. The enhanced MOO will require generators to be available during the hours of potential need for flexible capacity. Without the enhanced MOO, the flexible capacity is not guaranteed to be available and the goal of increased grid reliability will not be achieved. Ratepayers should not pay for flexible capacity requirements that do not produce reliability benefits.

Last year the enhanced MOO was not in place in time for the RA program's annual timelines. To date, the CAISO has not submitted the tariff request to FERC for the enhanced MOO for flexible capacity. While ideally the CAISO will obtain FERC approval of an enhanced MOO in time for the Commission's scheduled June 2014 RA decision, it remains to be seen if the FERC will adopt the enhanced MOO in time or require modifications which would further delay approval. If FERC approval fails to materialize prior to the adoption of the Commission's scheduled June 2014 RA decision, the Commission should reject mandatory flexible requirements and continue last year's policy of voluntary compliance.

C. The Commission should adopt the SDG&E's Proposal for "Unbundling Flexible and Generic Attributes for Procurement Purposes".

San Diego Gas and Electric Company (SDG&E) recommends altering the staff flexible capacity proposal to allow for the unbundling of generic capacity and flexible capacity attributes. The ED staff proposal would not allow CPUC-jurisdictional LSEs to procure flexible capacity without also procuring the associated generic capacity. Under the SDG&E proposal, the flexible attribute may be procured independently if a resource chooses to comply with both the generic and enhanced MOO obligations. The proposal by SDG&E may potentially reduce costs and should be adopted by the Commission. The most cost-effective procurement to meet flexible capacity requirements will typically involve the purchase of a bundled product with both generic and flexible capacity. There is, however, no apparent reason to preclude flexible capacity from being sold and purchased independently. An LSE may have a small flexible need after it has fulfilled its generic procurement while another LSE may possess excess flexible capacity. The

consideration of least cost procurement may lead to independent buying and selling of flexible capacity.

D. Effective Load Carrying Capability should be delayed until next year's proceeding.

It is premature to consider adoption of an Effective Load Carrying Capability (ELCC) methodology for 2015 and the issue should roll into the 2016 proceeding. At the workshop ED staff briefly addressed the continuing work on the ELCC and stated that data sets are complete and staff will soon begin modelling runs. This process can be expected to require several weeks, if not longer, to arrive at acceptable results. At that point, stakeholders will need weeks to analyze and verify results. Further stakeholder input will be required including stakeholder conference calls or a workshop. Staff stated the ELCC methodology has not been precluded from adoption in the June RA Decision for 2015. ORA has historically supported the concept of an ELCC methodology and encourages further efforts to develop an ELCC methodology for stakeholder's consideration next year.

E. The Timing of Demand Response Testing should be determined by the CAISO within a 3-month window.

The Proposed Qualifying Capacity (QC) and Effective Flexible Capacity (FC) Methodology for Demand Response Testing and Verification in the Revised Staff Proposal states, "If a resource does not wish to qualify for Flexible RA, it must submit to similar testing for qualification as System or Local RA resource; however, this testing may be conducted at a time of the operator's own choosing, rather than at a time selected by the CAISO"¹³ This language remains unchanged from ED's previous Staff Proposal Outline dated January 16, 2014. In ORA's comments on the January 16, 2014 Staff Proposal Outline, ORA argued that the resource provider should not be in a position to specify the exact timing of the testing to establish the RA capacity of the resource regardless of whether the facility wishes to qualify for flexible or any other type of RA.¹⁴

¹³ Revised RA Implementation Staff Proposals, April 9, 2014, p. 4.

¹⁴ Comments of Office of Ratepayer Advocates on Workshops and Energy Division Proposals, February 24, 2014, p.7.

As the Revised Staff Proposal states, the purpose of the testing is to demonstrate initial and continued performance.¹⁵ Furthermore, the ex-post results of such testing will be used in determining the resource's QC and EFC.¹⁶ The Revised Staff Proposal (and also the January 16 Staff Proposal Outline) for Flexible RA reasonably requires that the testing be done within the three-month period chosen by the demand response provider, with the day and time randomly selected by the CAISO.¹⁷

Determining a DR resource's QC for resources that do not wish to qualify for Flexible RA is as important as those DR resources that do wish to qualify for Flexible RA. In fact, in the foreseeable future, it is likely that most DR resources will continue to qualify for system and local RA and not flexible RA, given the additional requirements for flexible RA. Therefore, it does not make sense to relax the testing requirements for DR resources that want to qualify for system and local RA but not for flexible RA. Allowing the DR resource provider to conduct testing at a time of the provider's own choosing will unnecessarily introduce an opportunity for gaming. This is especially true for an aggregated DR resource which may have a limited ability to respond with a sufficiently large number of DR customers. Randomly chosen testing times selected by the CAISO will eliminate provider opportunities to skew the results by selecting time frames which do not represent actual event results. In the end, it is the CAISO which must have confidence in the resource's QC and EFC. Allowing the DR resource provider to conduct testing at a time of its own choosing will undermine that confidence.

The Revised Staff Proposal does not address the concerns regarding testing requirements that ORA raised in January 16, 2014 comments, nor does it provide an explanation of why the testing requirements should be relaxed for resources that do not wish to qualify for flexible RA. Absent any specific reasons or concerns, the testing for DR resources that do not wish to qualify for flexible RA but want to qualify for system and local RA should not be any different than testing for flexible RA. It should occur within a three-month period chosen by the demand response provider, with the day and time randomly selected by the CAISO.

¹⁵ Revised RA Implementation Staff Proposals, April 9, 2014, p. 4.

¹⁶ *Id.*, p.5.

¹⁷ *Id.*, p.4.

The Revised Staff Proposal states that “the Customer-focused programs and rates (and existing Retail DR programs) will continue to receive RA credit in the 2015 RA compliance year as they have in past years, according to existing rules; they are not addressed in this document.”¹⁸This is a good proposal. The new RA rules should not apply to the currently funded DR programs until the role and any necessary modifications of these programs is examined in the next phase of DR Rulemaking, R.13-09-011.

F. Most Staff Revisions are responsive to stakeholder input and should be adopted.

ED Staff’s revised proposals address many concerns voiced by ORA and other parties at the previous workshop and in comments. Except as noted above, ORA supports staff’s revisions and appreciates the responsiveness to stakeholder concerns. The Commission should adopt the staff recommended revisions while continuing to consider additional stakeholder recommendations.

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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¹⁸ *Id.*, p.2.