



Diamond Generating Corporation

Comments on May 19, 2017 Joint Agency En Banc Workshop on Changing Nature of Consumer and Retail Choice in California and White Paper

June 16, 2017

Diamond Generating Corporation (“Diamond”) provides the following comments focused on question II(D) posed to the panelist at the May 19, 2017 Joint En Banc Workshop on Changing Nature of Consumer and Retail Choice in California (the “Workshop”), and Staff’s White Paper.

II. Panel Discussion: State of Customer Choice in California

D. What are important authorities that the CPUC should maintain or gain in the future to regulate the supply and resource adequacy portfolios as heavily for non-IOU suppliers as it does for IOUs? Should all retail sellers be required to procure long-term system and local capacity, or should the utilities continue to bear this responsibility? Are there other types of investments that should be made by the utilities or the ISO rather than by competitive suppliers representing many distributed decision makers?

Diamond supports the Commission’s efforts to reevaluate its authorities in light of the evolving electricity markets. In particular, the Commission should evaluate the inability of market prices to support the continued operation of conventional generation (i.e., the risk of economic retirements). As the owner and operator of fast-ramping peaker generation constructed in the wake of the 2000-2001 energy crisis, Diamond can confirm that the risk of economic retirement is a real and near term issue that the California Public Utilities Commission (“CPUC”), California Energy Commission (“CEC”), and the California Independent System Operator (“CAISO”, and all three entities collectively the “Agencies”) must address promptly in order to maintain the reliability “insurance” these resources provide to the CAISO. Firm capacity resources face risks of early retirement insofar as the potential revenue streams from the CAISO markets are not sufficiently compensatory to maintain asset availability. Similarly, there is no readily available bilateral contracting opportunities (e.g., a multi-year commercial commitment or product for firm capacity resources) available to ensure that these resources remain well maintained and available for local and system needs within CAISO. We are concerned that these risks could be compounded by the growing role of CCAs in conjunction with the limitations in the Resource Adequacy program.

The Agencies should plan to act in the near term to address the economic retirement risk concern. As more firm capacity resources (i.e., dispatchable and flexible natural gas resources that do not have inherent duration limitations on their operations) approach the end of their existing long term contracts, the market continues to see dramatically increasing penetration of solar resources with variable and limited operating durations. By focusing efforts on ensuring near term refinements to procurement policies and practices ahead of when these dispatchable resources are due to come off contract, the Agencies can ensure that the reliability insurance

value of firm capacity resources remains secure for local and system needs. That reliability insurance is critical for safe and consistent electric system performance, particularly as California works its way through a dynamic and transformative period for the electric system. Accordingly, Diamond recommends that the Commission create a specific procurement process applicable to existing, firm capacity resources where they compete on a regularized, 3-year cycle for contracts with five year terms. This contracting process should be coordinated through the Integrated Resource Planning process and should apply to both IOUs and CCAs.

The fleet of existing natural gas resources provides a critical, reliability insurance policy California's grid and economy. While there is an overabundance of generating capacity in today's system, maintaining the ongoing availability of certain existing natural gas resources will be an important "insurance" investment while there are so many fundamental market and policy shifts underway. In other words, maintaining the availability of the existing gas fleet enables the CAISO to address a multitude of changes and uncertainties, including:

- (1) an expanded RPS program that incents renewable energy production at times when system demand may not need that energy;
- (2) a lowering net demand curve—which recently set a new historic low—and will continue to lower as SB 350 energy efficiency investments are made;
- (3) the impact of "hidden load" that is masked by behind the meter solar resources which can be subject to instantaneous production variation when cloud cover is present and during the sunset production reduction;
- (4) depressed energy prices as zero energy cost, zero-carbon resources such as solar PV and wind exert downward pressure on the CAISO markets and further dilute the ability to capture variable costs or any contribution to fixed costs through the energy market;
- (5) uncertainty regarding future retail load shapes that are expected to change significantly with increased electrification and application of default residential and small commercial time of use ("TOU") rate structures;
- (6) significant electrification of transportation and thermal energy production as part of an overall strategy to reduce statewide GHG emissions; and
- (7) ongoing CCA expansion, which can be expected to lead to increasingly disaggregated procurement implementation, notwithstanding integrated resource planning efforts.

Any one of these changes could have a dramatic effect on the wholesale energy markets, but the convergence of these phenomena in the next couple of years underscores the need to move promptly to ensure that the system retains and sufficiently compensates firm capacity resources that provide the critical flexibility and operational duration attributes CAISO will require to have strong system reliability.

Respectfully submitted,

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