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**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 and Flexible Procurement Obligations for the 2016 and 2017 Compliance Years.

Rulemaking 14-10-010  
(Filed October 16, 2014)

**ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE'S  
PHASE 3 SCOPING MEMO AND RULING**

**Summary**

Pursuant to Rule 7.3(a),<sup>1</sup> this Scoping Memorandum and Ruling sets forth the procedural schedule, assigns a presiding officer, and addresses the scope of the proceeding and other procedural matters following the adoption of Decision 16-06-045.

**1. Background**

Resource Adequacy (RA) has a long procedural history at the California Public Utilities Commission (Commission). The October 16, 2014 Order Instituting Rulemaking (OIR) in this proceeding, Decision (D.) 15-06-063, and D.16-06-045 summarize the procedural and substantive background of this proceeding to date. The OIR and prior scoping memos (dated January 6, 2015 and December 23, 2015) also discuss the scope of this proceeding.

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<sup>1</sup> All references to Rules are to the Commission's Rules of Practice and Procedure.

In addition to the “Track 1” issues resolved in D.16-06-045, Phase 2 also included a discussion of a durable Flexible Capacity Requirement (FCR) structure. “Track 2” was devoted to the FCR issue. Parties provided comments on Track 2 issues on February 5, 2016 and June 29, 2016. Energy Division facilitated a workshop on flexible capacity issues on April 5 and published a workshop report on June 1, 2016. These issues have not yet been resolved; both the issues and existing record are incorporated into Phase 3.

This ruling specifies the scope and schedule for resolving additional and remaining issues. This proceeding remains categorized as Ratesetting.

## **2. Scope**

This scoping memo combines the issues previously scoped for Phase 2, Track 2 with additional issues for a planned resolution in June, 2017. We refer to the remaining scope as Phase 3.

Phase 3 will address four primary issues: local and flexible RA requirements for 2018, a durable form of FCR, multi-year RA requirements, and Effective Load Carrying Capacity (ELCC) of wind and solar resources.

We believe that these issues are inter-related both with each other and with other existing requirements of the RA program. We recognize that the RA program must work in coordination with other procurement programs (e.g. energy storage and demand response) and the energy and ancillary services markets operated by the California Independent System Operator (CAISO). In order to reach the best solutions to cost-effectively provide reliability, we must analyze the Phase 3 issues in context and we must be willing to make changes to the existing RA structure. Over the twelve years that the Commission has developed the RA program, the Commission has made many changes adding considerable complexity; CAISO markets have also changed significantly. For

example, the RA Availability Incentive Mechanism (RAAIM) has recently been approved and is undergoing implementation. RAAIM may obviate the need for certain existing RA requirements. Accordingly, while we consider additional modifications, we will also explicitly consider removing, simplifying, or modifying existing rules with the goal of ensuring that the revised RA program is cost-effective, based in clear reliability principles, and not more complex than appropriate to meet our goals.

**a) 2018 RA Requirements**

The primary focus of Phase 3 will be to adopt local RA capacity requirements (LCRs) and FCRs for RA compliance year 2018 applicable to Commission-jurisdictional Load Serving Entities (LSEs). The decision may also adopt refinements to the RA program, and this proceeding will consider proposals from Energy Division and parties for such refinements. Parties may make proposals (or variations on proposals) that have been discussed, but not adopted, in prior decisions. As in past RA cycles, we anticipate a process of proposals, workshops and comments focused on refinements to the RA program. For local RA requirements, we also anticipate following a similar path to past years, starting with a study performed by the CAISO, noting the procedural guidance in D.16-06-045. We discuss flexible requirements below.

**b) Durable Flexible Capacity Requirement (FCR) Program**

We adopted an “interim” FCR program in D.13-06-024 and D.14-06-050 as an additional component of RA requirements. This interim requirement structure remains in force at this time, but we anticipate that it may be modified, replaced, or eliminated following a review in this proceeding. The previous Scoping Memo articulated the following scope for this issue, which we reaffirm today.

**Scoping Questions:**

1. What reliability need(s) must FCRs be designed to meet?
2. What definition of one or more flexible capacity products should be adopted to meet this need or needs?
3. How should annual FCR requirements be set to meet this need or needs with the defined product(s)?
4. What, if any, related changes to the RA program should be made to best meet the reliability needs?

Several parties have suggested that additional data is needed before we resolve these questions. We agree that the record to date is insufficient for a satisfactory resolution of the issues in scope. In order to more explicitly guide the efforts of parties and our advisory Staff to inform the Commission, we raise the following questions.

**Guiding Questions:**

1. Have the current FCRs changed the quality or quantity of resources procured by the LSEs to meet RA requirements since the adoption of these requirements for the 2015 RA year?
2. Have the FCRs changed the overall quantity or quality of resources bidding in to CAISO energy and ancillary services markets (vs. self-scheduling)? Have the FCRs substantially changed the bidding behavior of LSEs and Scheduling Coordinators?
3. What are the characteristics of flexibility that are needed now and over the next five years? For example, does the expected increase in variable energy resources, and potential for increased uncertainty and variability in net-load, change the needed characteristics of flexibility in this time? What specific reliability metrics or goals might not be achieved due to inadequate flexibility? Do the current FCRs address the full spectrum of the

electricity system's flexible needs now and over the next five years?

4. What, if any, characteristics of flexibility are not currently supplied appropriately through the FCR program, other procurement programs, or CAISO energy and ancillary services markets?
5. What, if any, contractual, economic, or structural barriers exist that hamper the ability of existing or planned resources capable of providing flexibility from doing so?

In order to answer question 1, we request Staff to report on procurement changes over the past 2 years, and we invite parties, particularly the CAISO to submit their own analyses of resource procurement in response to flexible requirements.

CAISO market data is likely necessary to answer question 2. Therefore, we request that CAISO make relevant data available to the CPUC's advisory Staff and other parties who have appropriate non-disclosure agreements to receive such data. Staff and CAISO should conduct an analysis regarding what types of resources are now bidding into CAISO markets that were not bidding in before 2015, and whether the proportion of self-scheduled resources has changed.

Question 3 is closely related to question 1 from the January scoping memo (reproduced above), and we have received comment on that subject. However, comments to date have been general in nature, and some parties have asserted that the existing FCR program is not adequately tied to specific reliability goals. As noted above, we agree that all aspects of the RA program should be clearly tied to appropriate goals. Accordingly, we ask that parties attempt to explicitly describe what reliability objectives may be endangered by inadequate flexibility and quantitatively explain under what conditions a reliability event may result. To answer question 3, we invite Staff and parties to submit comments and

analyses regarding how “flexible needs” should be defined, and what the full spectrum of needs may be. In comments on the April 5 workshop, parties suggested that flexible needs could include a 3-hour ramp, a 1-hour ramp, and a 15-minute ramp. Whether or not parties expect the needs for a 1-hour and 15-minute ramp to materialize in the next five years is relevant. We invite parties, particularly CAISO, to submit analyses of whether or not the system’s current needs are being met by the FCR, and whether the current market design (including the FCR and relevant aspects of the CAISO energy and ancillary services markets) adequately induces resources to make their flexible capacity available to meet these needs.

Staff, in collaboration with CAISO, may be able to provide helpful analysis of question 3. Specifically, staff should consider a forecast of incremental variable energy resources and develop a study of their effects on net-load. Such a study may already be in scope of the CAISO’s five-year look at flexible needs (which has been published as part of the Flexible Capacity Assessment for the past two years). Also, information relevant to such a study may be developed in other Commission proceedings, such as Integrated Resource Plan and Renewable Portfolio Standards. We encourage parties to direct our attention to relevant information from other forums.

Answers to questions 4 and 5 should be in response to a clear reliability need identified in response to question 3. We encourage Staff and parties to develop proposals for FCR program changes considering well-reasoned answers to these questions.

As noted above, we anticipate and encourage proposals in Phase 3 to consider the RA program holistically in the context of other procurement requirements and market structures. We encourage parties to consider aspects of

the RA program that may be outdated. For example, we note that parties and Staff have previously discussed the appropriate role of the Maximum Cumulative Capacity buckets; we consider this issue related to FCRs and in scope for this phase.

**c) Multi-year RA**

On January 29, 2016 the Independent Energy Producers Association (IEP) filed and served a Motion to Amend the Phase 2 Scoping Memo and Ruling. IEP argues that this proceeding should consider multi-year RA requirements, either in the form of reporting requirements or procurement requirements. Several parties responded to the IEP Motion in support (California Energy Storage Alliance, Calpine, CAISO) or with concerns (Office of Ratepayer Advocates [ORA], Alliance for Retail Energy Markets [AReM], Shell Energy North America [Shell]). As ORA observes, the Commission recently held that a durable FCR program should be developed before considering a multi-year RA requirement.<sup>2</sup> AReM and Shell observe that there may be significant administrative challenges to a multi-year RA obligation.

While some of the specifics of the Motion are now moot due to the passage of time, IEP's primary request (addressing multi-year RA in this proceeding) has not yet been resolved in a ruling. We find that, in light of the delay in resolving the durable FCR structure, there may be benefits to a coordinated consideration of multi-year RA. Therefore, this Scoping Memo grants the Motion in part. In order to inform the Commission's consideration of multi-year RA, we ask the advisory Staff to issue a report addressing the status of forward capacity

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<sup>2</sup> D.16-01-033, at 6.

procurement. Following that report, we will consider party comments and proposals on multi-year RA.

**d) Effective Load Carrying Capacity (ELCC)**

In D.16-06-045, the Commission noted the progress made by Staff and parties to implement ELCC for RA purposes, but noted certain significant remaining challenges. The Commission stated a goal of adopting an ELCC method for 2018 and encouraged the Energy Division to work expeditiously toward this goal. Therefore, this issue remains in scope.

**3. Schedule**

The schedule for Phase 3 shall be as follows. The Administrative Law Judge (ALJ) is authorized to revise this schedule. All comments and proposals should be formally filed with the Docket Office.

Date	Event
Friday, September 23, 2016	Study Plans for FCR Topics (Comments)
October, 2016	Staff Report on Multi-year RA
October, 2016	Workshop on FCR and ELCC Topics
Friday, November 18, 2016	Analysis on FCR Topics (Comments)
Friday, December 16, 2016	Preliminary Phase 3 Proposals, All Topics
Friday, January 15, 2016	Comments on Preliminary Phase 3 Proposals
January or February, 2017	Workshop on Phase 3 Proposals
Friday, February 24, 2017	Final Phase 3 Proposals, All Topics
Friday, March 10, 2017	Comments on Final Phase 3 Proposals
Friday, March 24, 2017	Reply Comments on Final Phase 3 Proposals
Friday, April 14, 2017	Final LCR and FCR Studies
Friday, April 28, 2017	Comments on LCR and FCR Studies
Friday, May 05, 2017	Reply Comments on LCR and FCR Studies

For the Study Plans on FCR Topics, we request that parties propose ideas on how to inform the Commission’s understanding of the guiding and scoping questions above. We encourage parties to propose plans for their own analytic

work or research, either individually or as a group. Further, parties may pose suggestions for Staff analysis or research. Finally, parties may present information or analysis directly in response to the questions. Our intent is that the first round of study plans will initiate a dialogue among parties and Staff, and that parties and or Staff may be able to present resulting analysis of FCR issues later in the proceeding. We encourage parties and Staff to present analysis relevant to the scoping and guiding questions above. All parties will have the benefit of that analysis in developing their proposals.

This schedule also calls for both preliminary and final proposals. We encourage parties to submit preliminary proposals and then refine those proposals based on the comments and workshop process. We hope that this will lead to better final proposals and higher degrees of consensus. The Commission will primarily review the final proposals and subsequent comments in reaching its decision.

This proceeding is anticipated to be submitted on the filing of reply comments on May 5, 2017. Consistent with § 1701.5, the issues in scope are expected to be resolved within eighteen months of this scoping memo.

#### **4. Workshops**

If there are any workshops in this proceeding, notices of such workshops will be posted on the Commission's Daily Calendar to inform the public that a decision-maker or an advisor may be present at those meetings or workshops. Parties shall check the Daily Calendar regularly for such notices. Commission staff or the ALJ will provide, by email, courtesy notices of workshops to the service list of this proceeding.

**5. Presiding Officer**

Pursuant to Rule 13.2(b) ALJ Kevin Dudney is the presiding officer for this proceeding.

**IT IS RULED** that:

1. The scope and schedule of this proceeding are set forth above.
2. The Administrative Law Judge is authorized to modify the schedule as necessary for the efficient administration of this proceeding.
3. If there are any workshops in this proceeding, notice of such workshops will be posted on the Commission's Daily Calendar to inform the public that a decision-maker or an advisor may be present at those meetings or workshops. Parties shall check the Daily Calendar regularly for such notices.
4. Pursuant to Rule 13.2(b) Administrative Law Judge Kevin Dudney is the presiding officer for this proceeding.

Dated September 13, 2016, at San Francisco, California.

/s/ MICHEL PETER FLORIO  
Michel Peter Florio  
Assigned Commissioner

/s/ DOROTHY DUDA for  
Kevin Dudney  
Administrative Law Judge