



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

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

R. 11-10-023

**COMMENTS OF THE CALIFORNIA LARGE ENERGY
CONSUMERS ASSOCIATION ON PHASE 1 ISSUES**

The California Large Energy Consumers Association (CLECA) herein provides its comments on the Phase 1 issues in this proceeding as set forth in the March 23, 2012 ruling of ALJ David Gamson and amended by subsequent email message. These issues include those contained in the workshop reports prepared by the Energy Division (ED) and made available on January 13 and March 23, 2012, and in the Flexible Capacity proposal of the California Independent System Operator (CAISO), provided to the service list on January 13, 2012, and, in a more detailed version, on March 2, 2012. These proposals were discussed in workshops on January 26-27 and March 30, 2012.

CLECA limits its comments to two issues, the Maximum Cumulative Capacity (MCC) bucket proposal of the ED and the Flexible Capacity proposal of the CAISO.

Energy Division Proposal Regarding the Maximum Cumulative Capacity

CLECA applauds the ED for its efforts to update the MCC buckets used for Resources Adequacy (RA) showings to adapt them to changes in the electric procurement requirements as a result of the state's policies, in particular its

Renewable Portfolio Standard (RPS) requirements. ED has made a serious effort to define a set of procurement rules that will make it possible for resource suppliers to provide, and for load serving entities (LSEs) to procure, commercially-available resources to meet their RA requirements. These rules reflect ED's analysis of the changing nature of the relationship between load and intermittent resources, particularly wind. ED is attempting to create rules that allow for a sufficient quantity of dispatchable resources in the RA mix to accommodate the variations that result from intermittent resources. The good news is that the ED proposal would, when combined with the existing resource fleet, provide that roughly 78% of the RA resources are flexible. (ED Workshop Report, p. 9.) Also, ED is attempting to provide more certainty by proposing to publish the designated bucket for each resource once a year.

Unfortunately, CLECA believes that further refinement is needed before the ED proposal could readily be implemented. At the workshops, it appeared that there was some confusion as to which buckets were appropriate for certain resources, such as steam turbines. In addition, the CAISO raised concerns about the ability of the designated resources to provide intra-hour load following or to specify the speed with which the resources could adjust their output. While we address our concerns about the CAISO proposal below, we believe that the ED proposal, while an improvement over the current MCC rules, is not ready for implementation at this time and agree that it may not fully address all flexibility requirements. The Commission should decide over the next year whether it would be better to further develop the ED proposal, to refine the CAISO proposal,

or to develop another approach to procuring RA resources that will meet future grid needs. We support the ED's use of 1-in-2 load requirements and its assumption that some resource needs can be met by non-RA resources. We thus disagree with the CAISO's criticism, expressed at the March 30 workshop, that it does not provide 99% of the needed flexibility.

CAISO Flexible Capacity Proposal

The CAISO proposal defines three categories of flexibility - maximum continuous ramping, load following (intra-hour), and regulation. It proposes that it would review LSE RA procurement to see if, collectively, it meets the CAISO's assessment of the needed flexibility for a future year. We recognize that there is indeed a need for flexibility and that the CAISO is attempting to define that need based on historical data. However, we see several unresolved problems with the CAISO proposal as it presently stands, which are detailed below. Since the CAISO stated at the March 30 workshop that it is no longer proposing that its flexibility proposal be implemented for the 2013 RA year, we strongly urge the Commission to provide more time to address the issues listed below and any others identified by other parties. A second phase of this RA proceeding could be devoted to better understanding of the flexible capacity need and a definition of the attributes that load-serving entities (LSEs) will have to procure in the future to make such flexibility available that can be implemented on a commercial basis. We note that the CAISO stated at the workshop that its flexibility requirements might not be binding (i.e. not require changes in procurement practices to meet these requirements) until 2017-2018. If this is the case, we disagree with the

CAISO's assertion that the Commission needs to adopt such requirements this year. For the reasons stated below, the parties and the Commission simply do not know enough to do so in a reasonable way.

First, the CAISO proposal does not define specific attributes that can be used to define commercial products for LSE procurement. Instead, the CAISO proposes to review what is procured by the LSEs for RA and then determine whether the attributes it desires are contained in the resources provided. It then proposes to allow LSEs who do not meet its requirements to "cure" their procurement, and, failing that result, to engage in backstop procurement. This strikes us as an inefficient approach to the problem, since the LSEs do not know precisely what attributes they are procuring until after the fact, and they may have made financial commitments for procurement of resources only to find out that they need to adjust that procurement. Furthermore, they most likely will have to pay more to make these changes and/or will have to pay their share of whatever backstop procurement the CAISO undertakes if they fail to meet its requirements. In this context, the CAISO stated at the March 30 workshop that expected changes in implementation of flexibility requirements over time. A moving procurement target will make it harder for LSEs to procure needed resources, particularly over a multi-year period.

Second, the CAISO proposal does not address the flexibility inherent in imports. At the March 30 workshop, the CAISO agreed that it has not factored in the role that imports have played and can play in meeting ramping requirements. Since imports represent thousands of MW, this is a critical issue. The CAISO

also stated at the workshop that hydro facilities do provide flexibility but are not fully flexible or dispatchable and that hydro should not count for flexibility in 2013. Given the amount of hydro generation located in this state, and imported into this state, a better proposal for capturing the flexibility that can be provided by hydro resources is essential to the determination of what additional flexibility is needed and what can provide it. It would be very costly simply to ignore this source of flexibility.

Third, we have a concern about how the flexibility provided by resources coming up to minimum load is to be treated. As pointed out in the workshop, the day-ahead market anticipates the next day's ramp, even for longer-start units. The CAISO stated that it does not have a ramp rate in its master file for minimum load, but it could add one. There should be a way to maximize the flexibility of resources being bid into the day-ahead and later markets along with optimization of price bids, so that all of this flexibility can be made available to the grid.

Fourth, the CAISO stated that it has used the 2011 Net Qualifying Capacity figures from the RA filings to estimate the flexibility available from existing resources. These filings only represent the amount of capacity under RA contract and may well understate the amount of flexible capacity that is actually available. In addition, the CAISO suggested that it was not comfortable counting flexibility from resources that are not under RA contract. We believe that this approach is too conservative. The *reductio ad absurdum* is that every resource that may ever be needed would have to be under contract and dispatchable by the CAISO; non-RA resources do bid into the market. While

there is a concern that market prices for energy and ancillary services may provide insufficient compensation for non-RA resources, having such resources under contract and having them bid into the CAISO markets will likely further depress market prices for themselves and all other resources, including those under RA contracts.

There are also implementation issues associated with the CAISO proposal. The CAISO said at the workshop that any resource offering energy would be automatically allowed to provide ramp and presumably would be paid for it. Could a resource be paid for RA plus ramp? Is flexibility to be a subset of RA or separate? If separate, how is compensation to be determined? The CAISO has not clarified these points, which are important to the implementation of its proposal.

Before the Commission adopts any changes to the RA procurement requirements to address flexibility, all of these concerns should be thought through so that procurement is as efficient and cost-effective as possible. We are “not there yet” with the current CAISO proposal or with the ED MCC proposal. At a minimum, there should be additional workshops and analysis of the CAISO and ED proposals before the Commission commits to render a decision on a flexibility requirement in this docket. We recommend that this additional analysis be undertaken in a second phase of this proceeding.

There is a link between the flexibility proposals and three other features of the CAISO’s agenda - multi-year procurement, risk of retirement, and backstop procurement. We have already offered our thoughts on backstop procurement

to be performed by the CAISO in a situation where LSEs have not procured the resources that the CAISO determines, after the fact, are needed, and such resources are not provided by the other resources already under contract. The risk of ratepayers over-paying is too high. The more reasonable approach is to clearly define what is needed and allow the LSEs to procure it, while not assuming that only RA resources can provide what is needed. Multi-year procurement may well solve the risk of retirement issue, but it can only do so once the need is sufficiently well defined that it makes sense for LSEs to make a multi-year financial commitment, and this must be for a known product or group of products. We agree that multi-year procurement is a proper issue to address in an RA proceeding, perhaps a later phase of this one, but we must first know what is to be procured.

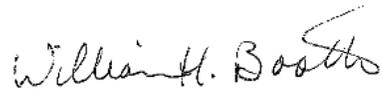
In addition, the duration of the flexibility need is an important factor. If it is limited, there are alternatives to contracting for more generation, including demand response (for up and down ramps) and limited intermittent resource curtailment (for down ramps). The CAISO documents presented in this docket do not provide information about the frequency and duration of the need. The CAISO said at the workshop that it has such information, and this should be reviewed in one or more workshops at the Commission before any decision is made about how to meet ramping and load following requirements.

At the March 30, 2012 workshop, ALJ Gamson stated that he wanted concrete proposals from these workshop comments. CLECA is not trying to

avoid being responsive, but strongly believes that more work needs to be done before viable proposals can be offered.

Dated: April 11, 2012

Respectfully submitted,

A handwritten signature in cursive script that reads "William H. Booth".

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