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.	Rulemaking 11-10-023 (Filed October 20, 2011)

REPLY COMMENTS OF THE CALIFORNIA WIND ENERGY ASSOCIATION ON ENERGY DIVISION WORKSHOP REPORT

Nancy Rader
Executive Director
California Wind Energy Association
2560 Ninth Street, Suite 213A
Berkeley, California 94710
Telephone: (510) 845-5077
Email: nrader@calwea.org

April 20, 2012

On behalf of California Wind Energy Association

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I. INTRODUCTION

The California Wind Energy Association ("CalWEA") respectfully submits these reply comments on the Energy Division workshop report pursuant to the *Administrative Law Judge's Ruling Seeking Comment* ("ALJ Ruling") issued in this proceeding on March 23, 2012.

CalWEA has reviewed opening comments provided by selected parties in response to the ALJ Ruling. Based on this review, CalWEA respectfully recommends that:

A. The California Public Utilities Commission ("Commission") and the California Independent System Operator Corporation ("CAISO") should pursue certain market structure changes and the Phase 2 analysis contemplated in the settlement in Rulemaking 10-05-006 before setting the need for flexible resource adequacy ("RA") capacity; and

B. The Commission should adopt Southern California Edison Company's ("SCE") suggestion that the Commission should address the issues raised in CalWEA's comments to the *Phase 1 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge*

("Phase 1 Scoping Memo")[1] in the Renewables Portfolio Standard ("RPS") proceeding (Rulemaking 11-05-005).

Each of these recommendations is addressed in further detail below.

II. DISCUSSION

A. The Commission and the CAISO Should Pursue Certain Market Structure Changes and the Phase 2 Analysis Contemplated in the Settlement in R. 10-05-006 Before Setting the Need for Flexible RA Capacity

In its opening comments on the Energy Division workshop report, the CAISO notes that:

> [i]n order to maintain an effective resource adequacy program, it is important that the [Commission], [CA]ISO, and stakeholders consider proposals in this on-going series of resource adequacy proceedings that will enhance the RA program so that it better facilitates open and efficient competition, to produce the optimal mix of existing resources and new infrastructure investments sufficient to meet end-use demand at stable and reasonable prices and reliably provide for the operating requirements of the [CA]ISO balancing authority area.[2]

CalWEA supports the development of an RA program that "facilitates open and efficient competition, to produce the optimal mix of existing resources and new infrastructure investments sufficient to meet end-use demand at stable and reasonable prices and reliably provide for the operating requirements of the [CA]ISO balancing authority area." However, the CAISO and the Commission must recognize that pursuit of the "optimal mix" of RA resources must also include efforts to reduce the need for those RA resources – *i.e.*, procuring additional flexible RA capacity from conventional gas-fired generation and new infrastructure investments are not the only solution to meeting the integration requirements of California's future electric grid.

Both the workshop and the Energy Division's report (at page 18) note that a central unanswered question in this proceeding is how to set the <u>need</u> for flexible RA capacity.

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[1] The Phase 1 Scoping Memo was issued in this proceeding on December 27, 2011.
[2] *See* CAISO Opening Comments at 2.

CalWEA recently submitted comments to the CAISO emphasizing that, in addition to procuring flexible capacity, the CAISO also should take steps to revise its market structure to better accommodate intermittent renewables and to reduce the need for conventional generation to integrate renewables.[3] There are several options that could substantially reduce the need for, and the cost of, the flexible capacity that may be required for integrating increased amounts of renewables. These include (1) allowing supply and demand resources to schedule more granularly and closer to real-time operation;[4] (2) investigating a successful new market feature in the Midwest ISO called the Dispatchable Intermittent Resource ("DIR") program that provides an incentive to intermittent resources to voluntarily provide ramping and other flexible capability to the grid operator;[5] (3) working with the utilities to coordinate the use of flexibility provisions that are already included in most renewable PPAs, and (4) introducing incentives to encourage generators to change their behavior and to offer greater flexibility, just as the CAISO now has incentives in the Standard Capacity Product for generators to achieve higher availability.

CalWEA submits that each of these market reforms will reduce the amount of flexible capacity that the utilities might be mandated to procure through a new RA requirement for flexible capacity, and thus will reduce overall integration costs. CalWEA encourages the Commission to support such changes in the CAISO's markets and to work to see that they are

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[3] *See* CalWEA March 30, 2012 comments to the CAISO on Cost Allocation Guiding Principles, available at http://www.caiso.com/Documents/Cost%20allocation%20guiding%20principles%20-%20stakeholder%20comments%7CComments%20on%20draft%20final%20proposal.

[4] CalWEA is aware that the CAISO has indicated in its latest stakeholder meeting on a Flexible Ramping Capacity product that it intends, over the long-term, to allow resources to schedule on a 15-minute (rather than hourly) basis, as close as 37.5 minutes in advance of real-time operation.

[5] As a result of this program, MISO has not needed to increase the amount of regulation capacity that it procures even after adding 10,000 MW of wind resources to its system (around 10% of MISO's active resource base). MISO continues to use only about 400 MW of regulation capacity or less most of the time, and procures 500 MW of regulation capacity only for those few hours in the year when it forecasts very steep ramps in its system. MISO has not introduced any new products, such as the "flexible" RA capacity which the CAISO has proposed.

implemented in parallel with changes to the RA program, so that the need for mandated flexible RA capacity can be minimized.

CalWEA reminds the Commission that the settlement on renewable integration issues which is now pending before the Commission in the 2010 long-term procurement proceeding (R. 10-05-006) provides that the Commission should conduct an "analysis of the potential of integrating renewables with a variety of resources as intended in CAISO's proposed Phase 2 analysis" in R. 10-05-006. The settlement described the Phase 2 analysis as follows:

> The purpose of the Phase 2 analysis is to determine the amount and operational characteristics of resources, whether supply or demand side resources, that could address the operational needs of renewable integration, including not only conventional generation but also resources such as demand response, renewable resource dispatchability, energy storage, electric vehicle charging, smart grid, and greater reliance on renewables resources that require fewer integration services, either individually or combined with a suite of other renewable resources.[6]

CalWEA recognizes that the CAISO's proposal for flexible RA capacity is intended to allow different types of resources to provide such capacity. CalWEA believes that significant effort and input from a broader set of stakeholders than typically participate in RA proceedings will be necessary to include non-conventional resources as viable sources of flexible RA capacity. CalWEA strongly recommends that the Commission should conduct and complete the Phase 2 analysis contemplated in R. 10-05-006, and should coordinate that analysis with its consideration of the need for and the details of a new program of flexible RA capacity.

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[6] *See* "Settlement Agreement between and among Pacific Gas And Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, The Division Of Ratepayer Advocates, The Utility Reform Network, And Additional Settling Parties," filed August 3, 2011 in R. 10-05-006, at page 10.

B. The Commission Should Adopt SCE's Suggestion that the Commission Should Address the Issues Raised in CalWEA's Comments to the Phase 1 Scoping Memo in the RPS Proceeding

In its opening comments on the Energy Division workshop report, SCE suggests that the Commission should "reject CalWEA's requests as being moot" or, alternatively, "these issues should be addressed in the RPS proceeding.[7] While CalWEA disagrees that the issues it raised in its comments to the Phase 1 Scoping Memo are moot, CalWEA does agree with SCE that those issues can be addressed in the RPS proceeding at this point.

As an initial matter, CalWEA disagrees that any of its requests in this proceeding are moot. While SCE argues that the investor-owned utilities ("IOU") already explain their methodology for calculating capacity value and transmission cost adders,[8] the argument fails to address the actual issue raised by CalWEA, which is that "for this process to be meaningful, it must be transparent."[9] Likewise, SCE's argument that CalWEA's request for the Commission to require IOUs to accept bids for energy-only renewable energy projects paired with RA capacity supplied by third parties is moot because SCE already considers energy-only and full-deliverability capacity status projects in its solicitation also misses the mark.[10] Evaluating an energy-only project relative to a full-capacity deliverability project is much different than allowing that energy-only project to package its bid with RA capacity supplied by a third party for evaluation relative to a full-capacity deliverability stats project. Therefore, the Commission should reject SCE's arguments that the issues raised by CalWEA are moot because SCE's arguments fail to address the actual issues raised by CalWEA.

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[7] *See* SCE Opening Comments at 15-16.
[8] *Id.*
[9] CalWEA Comments on the Phase 1 Scoping Memo at 4.
[10] *See* SCE Opening Comments at 15-16.

CalWEA agrees with SCE, however, that the issues raised by CalWEA in comments to the Phase 1 Scoping Memo should be addressed in the RPS proceeding at this point. On April 5, 2012, Commissioner Ferron issued the *Assigned Commissioner's Ruling Identifying Issues and Schedule of Review for 2012 Renewables Portfolio Standard Procurement Plans Pursuant to Public Utilities Code Sections 399.11 et seq. and Requesting Comments on New Proposals* in Rulemaking 11-05-005 ("RPS ACR"). The RPS ACR includes several proposals for revising the RPS procurement process, including proposals that address issues raised by CalWEA in both the RPS proceeding and this RA proceeding.[11] For example, the RPS ACR includes a specific proposal requiring the IOUs to expressly value the RA capacity provided by a given project and the associated incremental transmission costs for delivery network upgrades and ensure that the inputs and calculations the IOUs use are "publicly disclosed to the greatest extent possible."[12] The RPS ACR also includes a general request for parties to provide alternative proposals addressing how the Commission can reduce the excessive costs of transmission network upgrades required for projects to be deemed "deliverable."[13]

Accordingly, CalWEA submits that the issues raised by CalWEA in its comments to the Phase 1 Scoping Memo can now be addressed in the RPS proceeding, as SCE suggests. CalWEA looks forward to addressing these issues with SCE, and other interested parties, in the RPS proceeding.

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[11] *See* RPS ACR at 16-29.
[12] *See id.* at 16-18.
[13] *See id.* at 24-29.

III. CONCLUSION

For the foregoing reasons, the Commission should implement the recommendations described above.

Respectfully submitted,

/s/ Nancy Rader

Nancy Rader
Executive Director
California Wind Energy Association
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Berkeley, California 94710
Telephone: (510) 845-5077
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