

**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)

**COMMENTS OF THE INDEPENDENT ENERGY
PRODUCERS ASSOCIATION ON PRELIMINARY
PHASE 3 PROPOSALS**

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Dated: January 13, 2017

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As authorized by the *Assigned Commissioner and Administrative Law Judge's Phase 3 Scoping Memo and Ruling*, issued on September 13, 2016, the Independent Energy Producers Association (IEP) offers its comments on preliminary proposals on Phase 3 issues. IEP's comments focus on the Energy Division Draft Staff Working Paper entitled *An Assessment of Capacity Under Contract*, issued on December 22, 2016 (Staff Paper). The Staff Paper is relevant to the issues related to multiyear Resource Adequacy (RA) capacity requirements, which the Scoping Memo identified as a Phase 3 issue.

The Scoping Memo is unclear about whether the Staff Paper, originally scheduled to be issued in October 2016, is considered a preliminary Phase 3 proposal. Because the Staff Paper addresses multiyear RA capacity procurement, a Phase 3 issue, IEP uses these comments to react to the Staff Paper and to discuss how the Staff Paper interacts with IEP's Preliminary Phase 3 Proposals filed on December 16, 2016.

In its Preliminary Proposals, IEP urged the Commission to adopt a multiyear RA capacity **reporting** requirement and to make a policy decision about the level of RA capacity

LSEs should procure three and five years forward. The Staff Paper provides information that underscores the need for the measures IEP recommended.

The Staff Paper confirms that now is the time for the Commission to adopt a prudent program for reporting forward procurement of RA capacity. The Staff Paper shows that as of October 2015, load-serving entities (LSEs) as a whole had procured modest amounts of forward capacity. However, the Staff Paper also demonstrates that significant challenges to maintaining adequate RA capacity could emerge precipitously. As of October 2015, “[t]he majority of forward contracted capacity comes from fossil resources.”¹ By 2025, however, “the net amount of fossil capacity available to the system in 2016 is reduced by 9,212 MW,” even after accounting for planned replacement generation.²

Where will the replacements for 9200 MW of potential RA capacity come from? That is the question that IEP’s Preliminary Proposals are designed to begin to answer.

I. A REGULAR MULTIYEAR RA CAPACITY REPORTING REQUIREMENT IS NEEDED

In its Preliminary Proposals, IEP advised the Commission to adopt a multiyear RA capacity **reporting** requirement. IEP noted the need for better public information on mid-term RA capacity procurement by LSEs subject to the Commission’s jurisdiction, particularly in light of the considerable uncertainty and risks confronting planners in the next three to five years. Those uncertainties and risks include increasing reliance on emerging technologies, the rise of Community Choice Aggregators (CCAs) and related load variability for the incumbent utilities, the growth of behind-the-meter generation, changes in the calculation of Net Qualifying Capacity for variable generation resources, the risk of retirement of existing thermal resources, and uncertain federal policies. IEP feared, and continues to fear, that these risks and

¹ Staff Paper, p. 10.

² Staff Paper, p. 14.

uncertainties would lead LSEs—investor-owned utilities, CCAs, and electric service providers (ESPs)—to focus on near-term commitments in their procurement of RA capacity, which would create a risk of a mid-term shortfall in the types of capacity needed to maintain grid reliability.

Moreover, IEP is concerned that the potential for significant shifts in load among various LSEs, without actually changing overall load patterns, could create a procurement gap. The utilities view the threat of future CCA formation as significant, and this threat of future load departure may impede the forward procurement needed to help ensure a reliable grid. For example, in a reference case prepared for analysis of the proposal of Pacific Gas and Electric Company (PG&E) to retire its Diablo Canyon Power Plant, PG&E projects that loss of customers to CCAs and to Direct Access will reduce its bundled customer sales by over 34,000 GWh by 2025.³ Southern California Edison Company and San Diego Gas & Electric Company have also indicated that future CCA growth in their service territories imposes a risk of significant load shift over a similar timeframe. This load is not going away; the retail provider of power to meet this load would simply shift from the utilities to another LSE. However, if the utility currently LSE serving the load declines to procure RA capacity for that potentially departing load, and there is no current or future CCA or ESP procuring capacity to serve that future departing load, then a procurement gap will result. A simple way for the Commission to begin to protect against a procurement gap arising due to the existence or threat of future departing load is to impose a forward reporting obligation on all LSEs.

To provide an early warning of any impending shortfalls in RA capacity, IEP recommended a multiyear reporting requirement for LSEs. Under this proposal, LSEs would report the extent of their forward procurement of system, local, and flexible RA capacity to the

³ Diablo Canyon Retirement Joint Proposal Application: Workshop on Replacement Procurement and Cost Allocation (PG&E Presentation), Slide 8, December 8, 2016.

Commission (Energy Division staff), which would prepare a public report to inform the public and interested parties about the extent of RA capacity procurement three and five years forward.

The Staff Paper resembles the type of report that IEP proposed. The report on forward procurement of RA capacity should be updated annually, as the Staff Paper notes,⁴ so that the assessment is not stale, and the information-gathering process should be streamlined by requiring the LSEs to report their procurement of forward System, Local, and Flexible RA capacity annually when they make their annual reports of RA procurement for the compliance year around October 31 of each year.

II. THE COMMISSION SHOULD DETERMINE THE APPROPRIATE LEVEL OF FORWARD PROCUREMENT FOR ALL LSEs

IEP's preliminary proposals included a recommendation that the Commission should provide policy guidance as to the appropriate level of forward, mid-term RA capacity procurement by LSEs. As required by the Public Utilities Code, **all** LSEs subject to the Commission's jurisdiction—investor-owned utilities, ESPs, CCAs—must be subject to the same RA obligations, and the Commission must enforce its RA requirements in a nondiscriminatory way.⁵ Any RA capacity procurement *standard* for the mid-term would apply to all LSEs and would be in addition to the current requirement for annual and monthly showings of procurement of RA capacity.

As a general guideline, IEP recommends the following:

⁴ Staff Paper, p. 4.

⁵ Pub. Util. Code § 380(e): "The commission shall implement and enforce the resource adequacy requirements established in accordance with this section in a nondiscriminatory manner. Each load-serving entity shall be subject to the same requirements for resource adequacy . . . that are applicable to electrical corporations pursuant to this section, or otherwise required by law, or by order or decision of the commission."

- Forward Year 1 (the subject of the current annual showing, *i.e.*, 2018 for the next Year-Ahead showing on October 31, 2017): The existing reporting requirements would continue to apply.
- Forward Year 3 (*i.e.*, 2020 for the October 31, 2017 Year-Ahead showing): 75% of the appropriate procurement target (discussed below).
- Forward Year 5 (*i.e.*, 2022 for the October 31, 2017 Year-Ahead showing): 50% of the appropriate procurement target.

These general guidelines appear to be broadly aligned with the forward procurement practices of the LSEs as of October 2015, as reported in the Staff Paper. These guidelines could be modified as the Commission sees fit or as experience suggests. Application of these guidelines to the different varieties of RA capacity requires further discussion. IEP does not propose to change the current methodology for allocating RA capacity procurement responsibility (system, local, and flexible) among individual LSEs. The existing allocation methodologies do not need to change merely because the RA reporting obligation is extended forward three and five years.

A. Procurement Targets for System RA Capacity

The methodology Energy Division used to derive the total System RA capacity requirement is a reasonable approach for establishing the procurement targets for Forward Year 3 and Forward Year 5. Energy Division used information developed by the California Energy Commission (CEC) in its current Integrated Energy Planning Report (IEPR). Energy Division started with the mid-energy demand case, mid-Additional Achievable Energy Efficiency Savings (mid-mid) results, adjusted for the 1-in-2 weather year California Independent System Operator (CAISO) Coincident Peak Demand Forecast, further adjusted for the August load share of

Commission-jurisdictional LSEs, and added the 15% Planning Reserve Margin to arrive at the forecasted System RA capacity requirement.⁶ Energy Division focused on RA capacity procurement in August, typically the month of peak system demand.

B. Procurement Targets for Local RA Capacity

The CAISO performs annual technical studies of the Local RA capacity needs of the ten local capacity areas for the upcoming RA compliance year. The CAISO formerly also performed a technical study of Local RA capacity needs five years forward, but it has not produced a five-year forward study since it released its 2020 study in 2015.⁷ In the absence of additional CAISO studies of forward Local RA capacity needs, the Forward Year 3 and Forward Year 5 procurement targets for Local RA capacity should be based on the most recent annual Local RA capacity technical study. If technical studies are available for both Forward Year 1 and Forward Year 5, the target for Forward Year 3 should be the result of a simple interpolation of the results for years 1 and 5. The uncertainty associated with forecasts of capacity needs in future years is accounted for by reducing the procurement requirement percentage in the forward years.

Energy Division focused on the aggregated need of Northern California and Southern California local areas and did not study the needs of sub-areas within the local areas.⁸ The capacity of individual local areas and sub-areas could become very important to mid-term reliability, however, and a public discussion of any local capacity shortfalls could provide the information needed to avoid impending reliability problems and to stimulate investment in the generation and transmission infrastructure required to eliminate the conditions that define the local area or sub-area.

⁶ Staff Paper, p. 8.

⁷ The CAISO is currently performing a Local Capacity Technical Study for 2018 and 2022.

⁸ Staff Paper, p. 8.

C. Procurement Targets for Flexible RA Capacity

Each year, the CAISO performs an assessment of flexible capacity needs for the RA compliance year and two subsequent years.⁹ The Forward Year 3 Flexible RA capacity target should be based on the results of the CAISO's assessment for that year. In the absence of additional forecasting of flexible capacity needs for Forward Year 5, the assessment for Forward Year 3 should also be the target for Forward Year 5. Although the definition of flexible capacity products is under discussion in Phase 3, the general contours of needed flexibility are unlikely to change precipitously. Consequently, LSEs should not avoid forward procurement of modest amounts of flexible capacity as currently defined. If anything, the CAISO's recent experience (*e.g.*, an upward 3-hour ramp of 12,960 MW on Sunday, December 18, 2016) suggests that procurement of higher levels of flexible capacity—however defined— will be needed sooner than expected.

In the public report on forward procurement of RA capacity that IEP proposes, LSEs' procurement of multiyear Flexible RA capacity should be grouped by ramp rate, duration, and any other attribute that becomes part of the Flexible RA capacity product. Information about these attributes will be needed to identify any impending threats to reliability.

III. A FORWARD PROCUREMENT OBLIGATION

If the multiyear RA reports show a shortfall of needed RA capacity in future years, the Commission should respond quickly and initiate a proceeding to authorize timely procurement of the resources needed to ensure grid reliability. Moreover, the Commission should consider implementing a multiyear forward RA capacity **procurement** obligation for LSEs, which would require all LSEs to procure the target percentages of Forward Year 3 and 5

⁹ The CAISO was unable to complete its assessment of flexible capacity needs for 2018 and 2019 in time to include those years in its flexible capacity needs assessment for 2017.

of each type of RA capacity. As the Staff Paper found, the level of forward RA capacity procurement declines after the RA compliance year,¹⁰ which creates a potential for reliability problems to arise in the mid-term.

In its Comprehensive Forward Capacity Procurement Framework briefing paper, dated February 26, 2013, the CAISO commented on the benefits of mid-term procurement of capacity:

Intermediate-term procurement in the three to five-year forward timeframe would help 1) address “revenue adequacy” for existing resources that possess operational attributes needed in future years; 2) inform whether an existing resource should repower or retire; and 3) provide an opportunity to commit non-generation and preferred resources that require a shorter development lead time and, which are generally not well suited to making 10-year advance commitments. Such a procurement opportunity would further advance the state’s loading order while ensuring sufficient flexible capacity resources are preserved and committed within the balancing area.¹¹

Those benefits continue to apply to mid-term forward RA capacity procurement, and if anything the need for a mid-term forward procurement mechanism has only increased over the last four years. The uncertainties listed in IEP’s Preliminary Proposals are more acute now than in 2013.

Some LSEs have voiced a reluctance to procure forward RA capacity because of uncertainty about their future load share and RA capacity requirements. Uncertainty about the future is exactly the reason that a multiyear procurement obligation is needed. If LSEs are required to procure a modest amount of RA capacity for future years, *e.g.*, 50% of RA capacity requirements for Forward Year 5, then the grid is much less likely to encounter unexpected capacity shortages that could affect reliability. By feathering in procurement of future RA

¹⁰ Staff Paper, p. 4.

¹¹ Available at <https://www.caiso.com/Documents/CaliforniaISO-BriefingPaper-LongTermResourceAdequacySummit.pdf>.

capacity obligations, LSEs would have less need to engage in last-minute procurement to avert threats to grid reliability.

A steady procurement of forward RA capacity will also mitigate the rate effects of the RA program. If procurement is delayed until reliability is threatened by a capacity shortage, the price of needed capacity will be higher than if procurement is conducted when the supply of capacity is sufficient to meet demand.

Even if grid needs change over time, as might be reflected in the current effort to derive a “durable” Flexible RA capacity requirement, forward procurement of modest levels of Flexible RA capacity as currently defined will help reduce incremental flexibility needs in the future. Even if flexible capacity is defined by a one-hour ramp in the future, the grid will be better off if supplies of resources procured under the existing definition (a three-hour ramp) are available than if no forward flexible capacity has been procured. In short, uncertainty about the future is a fundamental reason for the Commission to implement a forward RA capacity procurement obligation, not a reason to avoid entering into reasonable levels of forward obligations.

IV. CONCLUSION

At the beginning of these comments, IEP posed a question based on information from the Staff Paper: Where will the replacements for 9200 MW of potential RA capacity come from? Looking at procurement of RA capacity three and five years forward, as IEP has proposed, will begin to answer that question and to alert the Commission and the public to any impending shortfalls that could threaten reliability.

For that reason, IEP again respectfully urges the Commission, as part of Phase 3,

to:

- Adopt a multiyear forward RA capacity reporting obligation for all LSEs.

The Commission would then assemble the LSEs' reports and issue a public summary of the status of multiyear forward RA capacity procurement.

- Decide as a matter of policy what, if any, level of forward RA capacity LSEs should procure three and five years forward.

Respectfully submitted January 13, 2017, at San Francisco, California.

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