

INDEPENDENT ENERGY PRODUCERS

December 22, 2017

Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Comments of the Independent Energy Producers Association on Draft Resolution E-4909

Dear Sir or Madam:

The Independent Energy Producers Association (IEP) respectfully comments on Draft Resolution E-4909 (Draft Resolution) authorizing Pacific Gas and Electric Company (PG&E) to procure energy storage or preferred resources to address specific local area needs in three specific sub-areas of the PG&E service territory. The Draft Resolution is a product of the Energy Division's (ED) own motion. The Draft Resolution specifies that the procured resources must be located within the relevant sub-areas(s) and be interconnected at location(s) that will mitigate local capacity and voltage issues sufficient to obviate the need for 2019 Reliability-Must-Run (RMR) agreements with three generating facilities: specifically, the Metcalf Energy Center (580 MW), the Yuba City Energy Center (47.6 MW), the Feather River Energy Center (47.6 MW). Selected resources will be subject to must-offer obligations (MOO). The Draft Resolution directs PG&E to file Tier 3 Advice Letters for Commission approval of contracts resulting from the solicitation.

For the reasons outlined herein, IEP opposes the Draft Resolution. First, and most importantly, the Draft Resolution highlights a critical flaw in the overall design of the current resource adequacy (RA) framework rather than demonstrates behavior outside the "normal procurement process" as suggested.¹ Second, the Draft Resolution proposes an expedited procurement for a subset of new resources outside the normal long-term procurement process without any compelling evidence that the proposed procurement will actually resolve the near-

¹ Draft Resolution, p. 3.

term RA and grid resiliency concerns in the local sub-areas. Third, the proposed solicitation likely will fail in its purpose, namely mitigating the need for three specific sub-area RMR agreements to serve 2019 grid reliability needs.

In spite of IEP's opposition to the proposed remedy for the California Independent System Operator (CAISO) entering into three RMR contracts, if the Commission determines that the conditions necessitate an accelerated, expedited procurement to meet specific local needs in specific PG&E sub-areas, the Commission should modify the Draft Resolution as follows:

- Direct PG&E to conduct an all-source solicitation to meet the local sub-area requirements in the specified local sub-areas (similar to the 2014 Southern California Local Area Reliability Procurement).
- Direct PG&E to make more transparent bid evaluation criteria and bid-selection outcomes (in aggregated format), given the unique nature of this solicitation and to address concerns over utility self-dealing.
- Clarify that the definition of "preferred resources" in the Draft Resolution is consistent with the state's Energy Action Plan II.

IEP discusses these matters more fully below.

I. CAISO Backstop Procurement Is a Sign of Poor Market Design

The Commission's existing one-year forward resource adequacy framework fails to provide market signals to incent existing (and new) resources, whether preferred or otherwise, to be available to help ensure resource adequacy or maintain grid reliability. As a result, it should not be surprising that resources available to help ensure resource adequacy and grid reliability may not get procured by load-serving entities (LSEs) under the current framework. The existing one-year RA Framework is not transparent nor does it signal near-term (1-5 years) market needs/opportunities, as would be the case if the Commission adopted a multi-year forward RA reporting and procurement obligation or, alternatively, a centralized capacity market.

The need for fundamental change in the resource adequacy framework has been present for many years. As early as 2004, the Commission remarked on the necessity for market

redesign to mitigate the need for CAISO backstop procurement, and it placed that responsibility on itself: “The specific situation whereby the CAISO has to re-dispatch the system to make up for non-deliverable resources scheduled or procured by utilities must be addressed, and *addressed now*, since it affects reliability for the summer of 2004. The long-term solutions to these problems will be found in market-design changes and the resolution and implementation of resource adequacy issues in *this ongoing docket*.”² [Emphasis added] Moreover, as noted by the Federal Energy Regulatory Commission (FERC) in 2008, the purpose of CAISO backstop procurement is to “enable the CAISO to acquire generation capacity to maintain grid reliability if load serving entities (LSEs) fail to meet resource adequacy requirements, procured resource adequacy resources are insufficient; or unexpected conditions create the need for additional capacity.”³

In order to mitigate the need for CAISO backstop procurement, IEP has advocated in successive RA proceedings for meaningful market redesign in the form of a centralized capacity market or, alternatively, a multi-year RA framework. Yet, the Commission has repeatedly deferred this matter. Indeed, as recently as June 2017, the Commission determined that it was “not practical at this time” to adopt either a multi-year RA framework or a durable flexible capacity product as proposed by parties in the RA proceeding.⁴ In the absence of these reforms, market participants have endured endless debate and litigation over successive CAISO “backstop” procurement tools such as the Reliability Capacity Service Tariff (RCST), the Transitional Capacity Procurement Mechanism (TCPM), the Interim Capacity Procurement Mechanism (ICPM), and the Capacity Procurement Mechanism (CPM) in addition to RMR.

Rather than actually fix the flawed RA program with meaningful market-design to mitigate the need for CAISO backstop procurement, the Draft Resolution proposes a one-off, competitive solicitation for a discrete set of “preferred resources” and energy storage devices.⁵ Yet, the Draft Resolution offers little real evidence that these resources can address the needs of the grid, particularly at the scope and scale represented by the three RMR contracts at issue. Moreover, the procurement of these new resources, on a long-term basis, would occur outside

² Decision 04-07-028, p. 6.

³ 102 FERC 61,053 Order Accepting Tariff Filing Subject to Modification. Docket No. ER08-556-000 (October 16, 2008) at 1.

⁴ Decision 17-06-017, Finding of Fact #6.

⁵ Draft Resolution, p. 6.

the existing integrated resource planning, competitive long-term procurement framework administered by the Commission (e.g. IRP/LTPP, RPS, DER/IDER). This proposal is particularly noteworthy given the recent decision by the Commission in the RPS Plan Proceeding and the proposed decision in the Diablo Canyon Replacement Proceeding, both of which defer consideration of expedited, incremental procurement to the Commission's IRP proceeding.

II. The Draft Resolution Fails To Provide Any Compelling Evidence To Support Conducting an Expedited Long-term Procurement Outside the Normal Long-term Procurement Process

The Draft Resolution asserts that the “normal procurement process” was not followed prior to the award of three RMR agreements by the CAISO.⁶ Specifically, the Draft Resolution alleges that these contracts were developed outside the existing RA procurement process and further, that the CAISO's CPM was not initiated.⁷

IEP remains unconvinced that the normal procurement process was not followed in this case. Pursuant to its Tariff, the CAISO's backstop procurement authorities are designed to meet short-term gaps in capacity needed to maintain grid resiliency and ensure grid reliability. Whether the CAISO employs CPM to ensure resource adequacy or enters into RMR agreements to ensure grid reliability is condition-specific.⁸ Accordingly, if the exercise of the CPM mechanism or, alternatively, the execution of RMR agreements is accomplished within the bounds of the approved Tariff, then these acts are fully consistent with the normal regulatory process that governs today.

Importantly, the Draft Resolution provides no reasonable foundation for the assertion that the normal procurement process was not followed. For example, the Draft Resolution does not allege that PG&E improperly administered its RA program in a manner inconsistent with the Commission's existing RA framework (adopted by the Commission in consultation with the CAISO). Moreover, the Draft Resolution does not allege that the CAISO improperly administered its tariff authorities with regards to ensuring local grid reliability, i.e.

⁶ Ibid, p. 3.

⁷ Ibid, p. 4.

⁸ 102 FERC 61,352. “An RMR Unit is a generator that a transmission provider can call upon when necessary to provide energy and ancillary services essential to the reliability of the transmission network. That is, some generating units ‘must run’ at certain times to protect the transmission system from voltage collapse, instability, and thermal overloading.” Docket No. ER03-510-000 (March 31, 2003).

back-stopping the Commission's RA framework (adopted by the CAISO in consultation with the Commission). In addition, the Draft Resolution fails to provide evidence that a generating facility must bid into LSE RA solicitations (or enter into bilateral negotiations) as a pre-condition to obtaining a RMR agreement from the CAISO. Finally, the Draft Resolution provides no evidence that the CAISO is precluded from entering into an RMR agreement with a resource to ensure resource adequacy and maintain grid reliability when it finds a local area shortage.

The Draft Resolution is more a reflection of dissatisfaction with the *outcome(s)* of the normal regulatory process rather than its implementation. In an effort to better manage outcomes of the existing procurement process, the Draft Resolution proposes to conduct an expedited solicitation for new resources outside the normal procurement process for new resources (e.g. LTPP/IRP, RPS, DERs). This should be rejected.

III. The Proposed Solicitation Is Unlikely To Result in Incremental Resources Being Available in 2019 to Mitigate Concerns

The Draft Resolution's proposed resource solicitation is unlikely to realize its ostensible objective of mitigating 2019 RMR agreements.⁹ First, whether preferred resources can be developed and brought online at the scope and scale needed to replace the RMR contracts at issue is questionable. Collectively, the RMR contracts represent approximately 650 MWs across three geographically dispersed PG&E sub-areas, including 580 MWs in a single sub-area. The Draft Resolution makes an assumption that preferred resources are available based on the results of the Southern California Edison (SCE) 2014 all-source solicitation to replace the Once-Through-Cooling (OTC) units and to address the unexpected closure of the San Onofre Nuclear Generating Station (SONGS).¹⁰ Yet, the facts and circumstances between the OTC/SONGS replacement situation and the PGE&E sub-area situation differ markedly. In the OTC/SONGS replacement situation, SCE procured 510.66 MW of energy storage and preferred resources as directed by the Commission. The Commission also directed the procurement of thermal resources to help ensure overall grid reliability. It is noteworthy that SCE recently reported that only 67.4 MWs were "deployed" (i.e. online) of the 656.45 MWs of preferred resources

⁹ It is not a given that there will be a need for RMR agreements in the specified local sub-areas. The need for RMR agreements is a function of many factors, including procurement practices, load growth/reduction, transmission flows, etc.

¹⁰ Draft Resolution, p. 6.

procured.¹¹ Essentially, the thermal resources procured by SCE in the OTC/SONGs all-source replacement solicitation (i.e. over 1,000 MWs) provided the reliability umbrella within which the procurement of emerging energy storage and preferred resources could be contracted without unreasonably impairing reliability.

Second, whether the proposed procurement will result in any new resources (preferred or otherwise) coming online such that PG&E can include them as procured and available when it makes its RA “showing” in October 2018 is highly questionable.¹² Assuming procurement begins as soon as March 2018, the utility must conduct the solicitation, negotiate terms, and submit final contracts to the Commission for approval.¹³ Typically, a pre-condition for an investment in new resources (such as those apparently sought in this solicitation) is that the procurement contract with the utility be no longer appealable. This adds an additional month to the process. Accordingly, it is highly doubtful that the resources selected in the proposed competitive solicitation will actually be online and available to mitigate the concerns raised by the Draft Resolution.

IV. Proposed Changes to the Draft Resolution

As noted above, IEP opposes the Draft Resolution for a number of reasons, not the least of which is that it undermines the Commission’s normal long-term procurement process without any compelling reason to do so. However, to the extent that the Commission determines moving forward under the auspices of the Draft Resolution, the Commission should modify the Draft Resolution in a number of ways to align with existing procurement practices and development realities.

First, the Commission should direct PG&E to conduct an all-source solicitation to meet the local sub-area requirements currently met through the three RMR contracts described in the resolution, i.e. similar to the procurement authorized in the context of the OTC/SONGS replacement to meet local area reliability needs. Yet, due to the need to ensure local resource adequacy in the near-term, the procurement in this case should be open to new and existing

¹¹ Southern California Edison, “*Preferred Resources Reliability Contributions: Southern California and PRP Region Update*,” 2017 IEPR Joint Agency Workshop, May 22, 2017.

¹² PG&E submits by October 31, 2018 its annual local RA filings showing that that 100% of their local capacity requirements are covered for all 12 months of the coming 2019 compliance year. Specifically, “All LSEs are required to make a 12 month showing of their local requirement on or around October 31, with their system year-ahead showing.” Energy Division, *The 2015 Resource Adequacy Report (January 2017)*, p. 16.

¹³ Draft Resolution, Ordering Paragraph 10, p. 10.

resources. An all-source solicitation will enable the Commission to compare the competitiveness of various technologies, including all the preferred technologies, in the context of a single procurement.

Second, the Commission should direct PG&E to provide a higher level of transparency in the conduct of the solicitation, given the unique nature of this solicitation. The uniqueness of this proposal makes it incumbent that the procurement be conducted at a higher level of transparency that typically occurs in PG&E solicitations. Specifically, the Commission should direct PG&E to publicly release information related to the pool of bidders (e.g. number of bidders by name, number of projects bid by sub-area, etc.); the Commission should direct PG&E to release *in aggregate form*, information related to types of resources bid (e.g. bids by technology by sub-area); and, the Commission should direct PG&E to release *in aggregate form* information related to actual bids submitted (e.g. average, median, standard deviation, high/low bid prices by technology/resource). Finally, given PG&E's expressed interest in owning/operating preferred resources, particularly storage resources,¹⁴ the Commission should direct PG&E to report publicly how utility-owned-generation/resources bid in the solicitation, if any, compare against all other bids of similar technology and scale based on price, procurement duration, and other key factors related to bid selection. Transparency in bidding, bid evaluation, and bid selection will help the Commission's review of the reasonableness of any contractual agreements that derive from the solicitation.

Third, the Commission should clarify that the definition of preferred resources used for purposes of the solicitation is the definition employed in the State Energy Action Plan II including energy efficiency, demand response, renewable resources, distributed generation and efficient fossil-fired generation.¹⁵ Using this definition will align the implementation of the procurement with Commission policy and practice.¹⁶

¹⁴ *AB2868 Implementation: PG&E Proposal Preview*, PG&E Presentation, December 15, 2017.

¹⁵ Preferred Resources are defined in the State's Energy Action Plan II, p. 2, as follows: "The loading order identifies energy efficiency and demand response as the State's preferred means of meeting growing energy needs. After cost-effective [energy] efficiency and demand response, we rely on renewable sources of power and distributed generation, such as combined heat and power applications. To the extent [energy efficiency, demand response, renewable resources, and distributed generation are unable to satisfy increasing energy and capacity needs, we support clean and efficient fossil-fired generation."

¹⁶ "To the extent efficiency, demand response, renewable resources, and distributed generation are unable to satisfy increasing energy and capacity needs, we support clean and efficient fossil-fired generation.... Energy Storage is a potential enabling technology, but is not a Preferred Resource because it stores power regardless of how that power

In urging the Commission's rejection of the Draft Resolution for the many reasons stated, IEP again requests that the Commission actually implement a durable, multi-year resource adequacy framework to provide a stable market to meet grid reliability needs.

Respectfully submitted,

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive style with a large, sweeping flourish at the end.

Steven Kelly
Policy Director
Independent Energy Producers Association
916-448-9499

is produced.” *Decision Authorizing Long-Term Procurement for Local Capacity Requirements Due to Permanent Retirement of the San Onofre Nuclear Generating Stations*, p. 6, Footnote 3.