

**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 2019 and 2020 Compliance Years.

Rulemaking 17-09-020  
(Filed September 28, 2017)

**COMMENTS OF THE INDEPENDENT ENERGY  
PRODUCERS ASSOCIATION ON THE FEBRUARY 22-23,  
2018 RESOURCE ADEQUACY WORKSHOP AND  
PARTIES' TRACK 1 PROPOSALS**

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In response to the invitation in the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (Scoping Memo) issued January 18, 2018, the Independent Energy Producers Association (IEP) offers its comments on the resource adequacy (RA) workshop held on February 22-23, 2018 and on parties' Track 1 proposals. The Scoping Memo established two tracks for the implementation of Rulemaking (R.) 17-09-020. Track 1 will consider system, local, and flexible RA capacity requirements for 2019 and time-sensitive refinements to the Commission's RA program. Track 2 will consider more complex and slightly less time-sensitive modifications and refinements to the Commission's RA program.<sup>1</sup>

The electric grid faces a number of significant and dynamic challenges in the next 3 to 5 years. In light of these challenges, IEP recommends that in the Track 1 Decision, the Commission should:

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<sup>1</sup> Scoping Memo, pp. 5-7.

- Adopt a multi-year RA framework (as proposed by either the Energy Division or IEP);
- Determine that behind-the-meter (BTM) solar will be treated as a supply resource in the Effective Load Carrying Capacity (ELCC) methodology;
- Align the Commission’s RA Hours and California Independent System Operator (CAISO) Availability Assessment Hours as quickly as possible;
- Determine that, in the absence of final studies, 2019 Local Capacity Requirements (LCRs) and 2019 Flexible Capacity Requirements (FCRs) will be based on preliminary studies, including a “dead-band” condition; and
- As a transitional requirement pending completion of the CAISO’s Flexible Resource Adequacy Criteria and Must Offer Obligations 2 (FRACMOO2) initiative, establish transitional Fast Flex Capacity Requirements or, alternatively, rule that Fast Flex Capacity Requirements will be determined in Track 2.

Each of IEP’s recommendations is discussed in greater detail below.

## **I. MULTI-YEAR RA FRAMEWORK**

The Energy Division made a compelling case for a multi-year RA program when it presented the background and current trends that raise concerns about resource adequacy and grid reliability in the near term.<sup>2</sup> These trends include the need to integrate increasing amounts of renewable power; the impending retirement of a significant amount of capacity that currently meets California’s resource adequacy needs; rapid expansion of Community Choice Aggregation (CCA); the increasing incidence of backstop capacity procurement by the CAISO; and the increasing filing of year-ahead local deficiency waivers by load-serving entities (LSEs). These

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<sup>2</sup> See *Current Trends in California’s Resource Adequacy Program*, Energy Division Working Draft Staff Proposal, February 16, 2018.

factors compel the need to adopt a meaningful multi-year forward RA program now, recognizing that additional reforms can be implemented over time as the Commission considers further refinements.

In addition to the Energy Division, parties representing a broad array of stakeholder interests expressed support for a multi-year forward RA framework. These parties include retailers (Alliance for Retail Energy Markets (AReM)), generators (IEP, NRG Energy, Inc., Middle River Power, LLC, Diamond Generating Corporation), and wholesale traders (Western Power Trading Forum (WPTF)).<sup>3</sup> In addition, Pacific Gas and Electric Company (PG&E) and San Diego Gas & Electric Company (SDG&E) individually submitted proposals for procurement of resource adequacy capacity 1-5 years forward using a central procurement entity.<sup>4</sup>

The range of interests offering multi-year RA proposals is impressive. Parties' proposals differ on essentially two critical issues: (a) the duration of the multi-year framework (*i.e.*, the number of years forward) and (b) setting the forward obligation as a percentage of need.

**A. Duration of the Multi-year Forward Framework**

The Energy Division proposed a 5-year forward RA obligation. IEP proposed a minimum 3-year forward obligation.<sup>5</sup> WPTF supported a 3-5 year forward obligation. AReM presented a 3-year forward obligation.

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<sup>3</sup> Current Trends in California's Resource Adequacy Program, Energy Division Working Draft Staff Proposal, pp. 52-53; Track 1 Proposals of the Alliance for Retail Energy Markets, pp. 5-6; Proposal of the Independent Energy Producers Association for Multi-year Resource Adequacy Framework; NRG Energy, Inc., p. 3; Track 1 Resource Adequacy Proposal of Middle River Power, LLC, pp. 4-5; Diamond Generating Corporation, Track 1 Proposals, pp. 1-3; Resource Adequacy Proposals of the Western Power Trading Forum, p. 3.

<sup>4</sup> Track 1 Proposal of Pacific Gas and Electric Company, p. 7. San Diego Gas & Electric Company, Track 1 Proposal, pp. 4-5.

<sup>5</sup> In the previous RA proceeding, IEP supported a 5-year forward RA obligation; this issue was deferred to the present proceeding.

When comparing a 3-year forward obligation with a 5-year forward obligation, the Energy Division makes a compelling case that a 5-year forward obligation provides greater transparency about whether LSEs individually and collectively are procuring resources forecasted to be needed to help maintain grid reliability during a period when significant changes in the electric sector are occurring. IEP supports the Energy Division’s proposal for a 5-year forward RA requirement. For the multi-year forward RA framework to be meaningful, the duration should be no less than 3-years forward.

**B. Setting the Forward RA Obligation**

The Commission must set meaningful RA obligations in the forward years to ensure that the adopted multi-year framework functions as intended. The levels of the beginning (Year 1) obligation and the end-point (*e.g.*, Year 5) obligation are particularly critical. As presented in Table 1, three parties submitted specific proposals setting a forward LCR obligation as a percent of the LSE’s need.<sup>6</sup>

**Table 1  
Parties’ Proposals for Setting a Forward LCR**

|                               | <b>Year 1</b> | <b>Year 2</b> | <b>Year 3</b> | <b>Year 4</b> | <b>Year 5</b> |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b><i>Energy Division</i></b> | 100%          | 100%          | 80%           | 80%           | 80%           |
| <b><i>IEP</i></b>             | 100%          | 95%           | 90%           | 85% *         | 80%*          |
| <b><i>AReM</i></b>            | 100%          | 70%           | 30%           |               |               |

\*Percentages in Years 4 and 5 are presented by extension. IEP proposed a straight-line, 5% annual decline in the forward obligation.

Parties submitting proposals establishing a Year 1 forward obligation agree that the LCR requirement should be set at 100% of the forecasted need. IEP and the Energy Division

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<sup>6</sup> Not all parties submitting a proposal for a forward RA framework addressed the forward obligation as a percentage of the forecasted RA need.

agree that, under a 5-year RA framework, the obligation in the fifth year ought to be set at 80% of the forecasted need. For the intervening years, IEP supports setting a forward obligation on a straight-line, 5% annual declining basis to accommodate the reasonable risk of load departure among LSEs, particularly CCAs.<sup>7</sup>

AREM's proposal does not go beyond 3 years. AREM's proposal would set the forward obligations for Year 2 and Year 3 obligations at 70% and 30%, respectively. IEP is concerned that AREM's proposal will not ensure a greater level of grid reliability than would occur without any forward obligation. IEP does not support this aspect of AREM's proposal.

**C. Applying the Forward Obligation to System, Local, and Flexible RA**

The Scoping Memo asked parties to address Local RA in their proposals for a multi-year forward framework.<sup>8</sup> The IEP proposal, however, included a forward obligation for Flexible RA equivalent to its proposal for Local RA. IEP continues to recommend applying the multi-year forward framework (duration as well as percentage obligation) to local, flexible, and system RA, thereby placing all the RA requirements within a common framework.

**D. Impact of a Multi-year RA Framework on Preferred Resources**

In response to questions that arose at the RA workshop regarding the potential impact of a multi-year RA requirement on the development of "preferred resources," IEP notes that the RA framework is not designed to promote the development of new resources. Long-term procurements authorized in the Integrated Resource Plan (IRP) or the Renewable Portfolio Standard (RPS) proceedings or energy efficiency or demand response programs are the primary mechanisms for developing new resources.

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<sup>7</sup> Peninsula Clean Energy Authority indicates that its opt-out rate is approximately 2%. See *Comments of Peninsula Clean Energy Authority on Proposed Decision Setting Requirements for Load Serving Entities Filing Integrated Resource Plans*, January 17, 2018, p. 1.

<sup>8</sup> Scoping Memo, p. 6.

The existing one-year forward RA framework has proven inadequate to attract capital investment in any resources, including preferred resources. A multi-year framework of 3 to 5 years in duration will prove more beneficial than a one-year framework in this regard. Ultimately, the transition from the existing fleet of resources to a new fleet of preferred resources will occur naturally as the Commission uses its IRP and RPS processes to achieve the 2030 goals for renewable energy and greenhouse gas reduction. The Commission should support this transition in a manner that ensures a safe and reliable grid, and a multi-year forward RA framework will assist in this effort.

## **II. ALIGNMENT OF CPUC RA HOURS AND CAISO AVAILABILITY ASSESSMENT HOURS**

IEP supports the alignment of RA Hours and CAISO Availability Assessment Hours. IEP would be concerned, however, if consideration of this alignment forced a delay in the June 2018 Track 1 Decision on a multi-year RA framework. If consideration of the alignment or adoption of the specific numbers associated with the alignment impedes a Track 1 Decision, then this issue should be continued to Track 2.

## **III. TREATMENT OF BTM SOLAR IN THE ELCC METHODOLOGY**

Resolution of the treatment of BTM solar in the ELCC methodology is long overdue. Evidence shows that BTM solar has a significant effect on the ELCC calculations that help ensure that adequate capacity is available when and where needed. BTM solar has the same impact on RA values as central station solar.<sup>9</sup>

BTM solar should be treated consistently with other solar generation in the ELCC calculation to reduce biases in ELCC outcomes and ensure comparable treatment. The

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<sup>9</sup> *Proposal on ELCC Refinement*, Southern California Edison, Presentation, p. 3.

Commission should establish in Track 1 as a matter of policy that BTM solar will be treated as supply in the ELCC methodology. Implementation details may be considered in Track 2.

#### **IV. TREATMENT OF LATE LCR AND FCR STUDIES**

The Track 1 Decision should not be delayed beyond June 2018 if there is a delay in the issuance of the final CAISO LCR and FCR Studies. To accommodate timely decision-making in Track 1, IEP supports the “dead-band” proposal under which the Commission would adopt the 2019 LCR and FCR obligations based on the CAISO’s preliminary studies, and LSEs would procure RA resources based on the preliminary studies plus a “dead-band.” If the dead-band approach results in deficiencies in the forward obligation, any deficiencies may be addressed in the following year. This approach will allow RA procurement to proceed in a timely manner.

#### **V. TRANSITIONAL FAST FLEX CAPACITY REQUIREMENTS**

The evidence suggests that the CAISO real-time markets exhibit an insufficient supply of flexible capacity needed to help maintain grid reliability. Existing flexible capacity requirements failed to meet the maximum 3-hour net load ramp in nine out of twelve months, highlighting the ineffectiveness of the existing flexible RA framework.<sup>10</sup> This problem may grow as increasing amounts of BTM solar and intermittent renewable resources enter the system over the next few years.

Parties submitted proposals for setting a transitional “Fast Flex” RA requirement pending completion of the CAISO’s FRACMOO2 initiative.<sup>11</sup> In light of the growing need to integrate new renewables, including BTM solar, the importance of setting accurate flexible RA

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<sup>10</sup> *Transitional Fast-Flexible RA Program Proposal*, Cogentrix Presentation, February 23, 2018, p. 3.

<sup>11</sup> *Transitional Fast-Flexible RA Program Proposal*, Cogentrix Presentation, February 23, 2018. *Fast Flex RA Proposal*, Wellhead Electric Co. Inc. Presentation, February 23, 2018.

obligations increases annually. Studies assessing the future need for flexible, fast-ramping resources have been pending for some time, and their completion dates remain uncertain. Pending completion of the CAISO's FRACMOO2 initiative, the Commission should establish a transitional fast flex capacity obligation for 2019 or determine that a fast flex capacity component will be addressed in Track 2.

## **VI. TRACK 2 ISSUES**

A number of proposals submitted as part of Track 1 are relatively complex and require additional consideration beyond the time available if the Commission is to render a Track 1 Decision in June 2018. Issues that could be deferred to Track 2 include the following:

### **A. Central Procurement Entity**

The concept of a a central procurement entity (CPE) was raised as a potential Track 1 issue in the Scoping Memo.<sup>12</sup> Some parties proposed adopting a CPE in the context of adopting a multi-year RA Framework.<sup>13</sup> IEP notes, however, that the adoption of a multi-year forward RA framework is distinct from and not dependent on adoption of a CPE. While IEP is not necessarily opposed to a CPE conducting RA procurement, the roles and responsibilities of the CPE need to be fully examined. Consideration of a CPE should be taken up in Track 2.

### **B. Centralized Capacity Market**

Some parties proposed that a centralized capacity market should be considered in Track 1. The proposals usually suggest that the CAISO should administer the centralized capacity market.<sup>14</sup> While IEP supports a centralized capacity market, consideration of a

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<sup>12</sup> Scoping Memo, p. 6.

<sup>13</sup> Track 1 Proposal of Pacific Gas and Electric Company, p. 7. San Diego Gas & Electric Company, Track 1 Proposal, pp. 4-5.

<sup>14</sup>Resource Adequacy Proposals of the Western Power Trading Forum, p. 3; Track 1 Proposals of the Alliance for Retail Energy Markets, pp. 5-6; Track 1 Resource Adequacy Proposals of Middle River Power, LLC, p. 5.

centralized capacity market should not and need not impede consideration of a multi-year RA Framework in Track 1. The roles and responsibilities of the centralized capacity market should be fully examined. A centralized capacity market should be addressed in Track 2.

**C. Additional ELCC Refinements**

In addition to the issue of the treatment of BTM solar, some parties proposed additional refinements to the ELCC methodology, including consideration of marginal ELCC values and consideration of locational differences within specific technologies.<sup>15</sup> The ELCC methodology should strive for as much accuracy and transparency as feasible. While IEP supports consideration of marginal ELCC values and the locational differences within specific technologies, additional ELCC refinements such as locational attributes should be deferred to Track 2 for more detailed consideration.

**D. Preferred Resource Procurement**

Parties have proposed that the Commission conduct 2018 LCR procurements relying on a limited subset of “preferred resources” to meet LCR needs.<sup>16</sup> The RA paradigm, however, calls for the Commission and the CAISO to coordinate to identify specific RA products (*i.e.*, system, local, and flexible RA capacity) to meet various operational needs. LSEs then procure those products from those technologies that meet the product’s technical and operational specifications. The proposal of the Center for Energy Efficiency and Renewable Technologies (CEERT) seemingly sets this model on its head. Under CEERT’s proposal, resource adequacy products appear to be defined based on the operational characteristics of discrete preferred resources, rather than the operational needs identified by the Commission and the CAISO. Moreover, CEERT’s proposal appears designed to test and evaluate the performance of various

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<sup>15</sup> Proposal of ELCC Refinement, Southern California Edison Presentation, pp. 4-7.

<sup>16</sup> *2018 Preferred Resource LCR Procurements*, CEERT Presentation, February 23, 2018.

preferred resources, *i.e.*, RA procurements would be treated as “pilots” to guide changes in the future.<sup>17</sup>

When the goal is to meet the near-term and mid-term reliability needs of the grid, IEP is concerned that proposals for “one-off” procurements of emerging technologies to meet local area reliability needs are too risky and short-sighted. If the Commission authorizes a 2018 RA procurement to solicit new local reliability resources, any such procurement should be open to all resources, and bid evaluation and resource selection should be based on the Commission-approved least-cost and best-fit (LCBF) evaluation protocols.

**E. Determination of Flexible RA, Fast Flex RA**

As noted above, evidence presented at the workshop suggests that insufficient flexible capacity is available in the real-time market. Moreover, existing flexible capacity requirements failed to meet the maximum 3-hour net load ramp in nine out of twelve months, highlighting the ineffectiveness of the existing flexible RA framework.<sup>18</sup> Refinements to the flexible RA requirement, including consideration of a fast, flexible RA requirement, should be a primary issue to address in Track 2 so that the Commission’s determination can be implemented as soon as possible, but no later than the 2020 compliance year.

**F. CCA Load Migration and Waivers**

The Commission’s adoption of a multi-year forward RA framework should not be delayed pending finalization of the issues associated with CCA load migration and waivers. The Commission has adopted the Cost Allocation Mechanism (CAM). The Commission is currently conducting a rulemaking, R.17-06-026, to refine the Power Charge Indifference Adjustment

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<sup>17</sup> Track 1 Proposals of the Center for Energy Efficiency and Renewable Technologies, p. 3.

<sup>18</sup> *Transitional Fast-Flexible RA Program Proposal*, Cogentrix Presentation, February 23, 2018, p. 3.

(PCIA).<sup>19</sup> The PCIA rulemaking is scheduled to be completed this year. The Commission's adopted cost allocation mechanisms, as refined periodically, will continue to apply regardless of whether the RA obligation is set on a single-year or multi-year forward basis. In addition, Resolution E-4907 clarifies what is expected regarding future CCA formation or expansion and the timing of meeting RA obligations. Thus, the issue of CCA load migration does not present a barrier to moving forward now to adopt a multi-year forward RA requirement.

To mitigate the financial risk associated with the risk of load migration, however, the Commission should support the development of various tools (*e.g.*, an electronic bulletin board) to facilitate bilateral transactions that would enable LSEs to balance short-term RA supply with shifting load to mitigate the financial risk that an individual LSE might lose a relatively high percentage of its load in a relatively short period.

## **VII. SUMMARY**

A number of complex issues may require additional discussion as part of Track 2.

In Track 1, the Commission should resolve a number of time sensitive matters and should:

- Adopt a multi-year RA framework;
- Determine that BTM solar will be treated as a supply resource in the ELCC methodology;
- Align the Commission's RA Hours and CAISO's Availability Assessment Hours as quickly as possible;

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<sup>19</sup> The Commission opened this proceeding in June 2017 to consider alternatives to the amount that CCA and Direct Access customers departing from utility service pay to keep remaining utility customers financially unaffected by their departure, which is required by Public Utilities Code section 365.2. The statute also requires the Commission to ensure that departing customers will not experience cost increases as a result of an allocation of costs that were not incurred on behalf of the departing load.

- Determine that in the absence of final studies, LCRs and FCRs will be adopted based on preliminary studies, including a “dead-band” condition; and
- As a transitional requirement pending completion of the CAISO’s FRACMOO2 initiative, establish transitional Fast Flex Capacity Requirements or rule that Fast Flex Capacity Requirements will be determined in Track 2.

Respectfully submitted March 7, 2018, at San Francisco, California.

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