



Stakeholder Comments

**Flexible Resource Adequacy Criteria and Must-Offer Obligation
Draft Final Draft Proposal, Posted February 7, 2014**

Submitted by	Company	Date Submitted
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The Office of Ratepayer Advocates (ORA) provides the following stakeholder comments on the Flexible Resource Adequacy Criteria and Must-Offer Obligation (FRAC-MOO) Draft Final Proposal, posted February 7, 2014.

- ORA opposes adoption of the FRAC-MOO Draft Final Proposal because it defines procurement categories, which should be designed by the California Public Utilities Commission (CPUC) pursuant to its jurisdiction over procurement issues.
- The ISO should issue a simplified FRAC-MOO proposal without procurement categories.

The FRAC-MOO Draft Final Proposal infringes on the CPUC’s jurisdiction over procurement issues.

The Draft Final Proposal creates flexible capacity categories with associated requirements and procurement percentage limitations. The Draft Final Proposal would inappropriately move the California Independent System Operator Corporation (CAISO or ISO) from its traditional role of operating the grid into designing and controlling procurement in California, which is the role of the CPUC. The CAISO and the Commission have different and complementary roles in implementing California’s energy policy. The CAISO’s primary



mission is to ensure efficient use and reliable operation of the transmission grid,¹ while the CPUC must balance reliability with compliance with the loading order and rates that are just and reasonable.²

ORA agrees with PG&E's February 3, 2014 comment that the ISO proposal "infringes upon the jurisdiction of the CPUC and other LRAs by developing prescriptive requirements for the counting of resources."³ Although PG&E's comment related to an earlier FRAC-MOO straw proposal, the Draft Final Proposal still attempts to develop prescriptive requirements for counting resources. The FRAC-MOO tariff should not define procurement categories independently of the CPUC. Instead, the FRAC-MOO tariff should focus on grid operational requirements including flexible capacity requirement assessments, allocation of flexible capacity needs, flexible capacity must-offer obligations requiring economic bidding, flexible capacity showings and replacement, and flexible capacity backstop procurement.

The RA paradigm for general resource adequacy is working effectively. The existing CPUC RA program includes procurement categories or buckets for resources with limited run times, similar to the Draft Final Proposal's recommended flexible capacity categories. These RA procurement categories or buckets are not included in the CAISO tariff. Instead, the tariff focuses on aspects of the RA program necessary to support the grid, including assessing capacity needs, apportioning the needs to the local regulatory agencies, reporting requirement including penalties to ensure compliance, and backstop procurement. The current RA capacity buckets were developed and adopted at the CPUC in stakeholder processes. Using the capacity buckets developed in the CPUC's RA proceeding allows the CAISO to meet its operational needs, while allowing the CPUC to determine options for LSE procurement. The CPUC's procurement options include provisions for preferred resources and programs such as demand response.

Consistent with the CPUC's jurisdiction over LSE procurement authority and the Energy Division's role in the CPUC's RA program, the Energy Division recently released its staff proposal for a flexible capacity procurement framework. The staff proposal recommends

¹ Public Utilities Code Section 345.

² Public Utilities Code Sections 451(just and reasonable rates) and 454.5(b)(9)(C) (compliance with the loading order).

³ Comments of Pacific Gas and Electric Company Flexible Resource Adequacy Criteria and Must-Offer Obligation Fifth Revised Straw Proposal, February 3, 2014, p. 2.



flexible capacity procurement categories (or buckets) while calling for the elimination of the existing RA procurement capacity buckets.⁴ The ISO should abandon its attempts to create FERC tariff-regulated procurement categories for flexible capacity and allow the CPUC to continue its current obligations.

The ISO should issue a simplified FRAC-MOO proposal without procurement categories.

On February 7, 2014, the ISO issued the Draft Final Proposal which lists six significant changes from the prior proposal issued only three weeks earlier.⁵ Stakeholders have one opportunity to file comments on February 21, 2014, prior to a March ISO Board meeting in which the proposal is expected to be adopted and submitted to FERC for tariff approval.

ORA recognizes the need to have a FRAC-MOO tariff in place for the 2015 RA program year in order to begin implementing flexible capacity requirements. The CPUC's RA proceeding issues a decision each June for the following year's RA program. Rather than rushing a complex and inadequately vetted proposal to meet timelines for the CPUC RA calendar year, the ISO should instead issue a simplified proposal without procurement categories.

The FRAC-MOO should be a product of the cooperative relationship the CPUC and ISO have developed.

The Joint Reliability Plan adopted by both the ISO and CPUC calls for the two organizations to renew their joint commitment to providing a reliable electric supply.⁶ The Draft Final Proposal appears to contradict a recent pledge of joint efforts on future issues. Participants at the February 12, 2014 stakeholder workshop heard CPUC Energy Division staff voicing opposition to the expansion of the ISO into the CPUC's historic role of capacity procurement. The ED Staff proposal on a flexible capacity framework recommends a significantly different approach to procuring flexible capacity as part of the CPUC's RA program.⁷ ORA recommends that the ISO

⁴ Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework, CPUC Energy Division Staff, February 10, 2014, pp. 15-16.

⁵ Draft Final Proposal, pp. 6-7.

⁶ Joint Reliability Plan of the California Public Utilities Commission and the California Independent System Operator Corporation, November 8, 2013, p. 1.

⁷ Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework, CPUC Energy Division Staff, February 10, 2014, pp. 13-14.



work cooperatively with the CPUC to resolve differences rather than rushing forward with tariff language that puts the ISO at odds with the CPUC.

The FRAC-MOO Proposal should be narrowly focused and should not presuppose or influence the outcomes of other stakeholder proceedings.

The ISO states that the Draft Final Proposal “is narrowly focused on how to consider and operationally utilize flexible capabilities in the ISO market,”⁸ yet the Draft Final Proposal broadly refers to “holistic”⁹ solutions. The broader holistic efforts properly belong and are already included, in other proceedings. The ISO and CPUC issued a Joint Reliability Plan on July 10, 2013, to develop and coordinate procurement efforts. Recently, the ISO initiated its Reliability Services Initiative and the CPUC adopted a new proceeding for stakeholder input on a Joint Reliability Plan. The joint efforts will focus both on flexible capacity needs and ensuring reliability in future years. The Draft Final Proposal should focus on a simple, interim step that is coordinated with the CPUC rather than embedding a broader solution in tariff language. In the spirit of the joint reliability agreement and with proceedings initiated at both the ISO and CPUC, the ISO should not take actions now that presuppose or influence the outcomes of those stakeholder proceedings.

⁸ Draft Final Proposal, p. 4.

⁹ Draft Final Proposal, p. 4.