



Comments of the  
Staff of the California Public Utilities Commission

**Flexible Resource Adequacy Criteria and Must-Offer Obligation  
Draft Final Proposal (Feb. 7, 2014)**

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The Staff of the California Public Utilities Commission (CPUC Staff, or Staff) appreciates this opportunity to submit comments on the California Independent System Operator’s (CAISO) Draft Final Proposal for the Flexible Resource Adequacy Criteria and Must-Offer Obligation (FRAC-MOO). While the CPUC Staff did not submit written comments in response to the December 13, 2013 working group or the CAISO’s Fifth Revised Straw Proposal (Jan. 17, 2014), Staff has met twice with the CAISO staff since December, when the CAISO first indicated that it was proposing to shift away from technology-based must offer requirements and instead institute multiple “flexible capacity requirement categories,” in order to articulate Staff’s concerns with the new direction of the FRAC-MOO proposal.

Unfortunately, the CPUC Staff cannot recommend that the CPUC support the CAISO’s Draft Final Proposal in its current form, for the reasons described in the following comments. In short, Staff is concerned that various aspects of the CAISO’s FRAC-MOO proposal do not conform to the current oversight roles established for CPUC-CAISO implementation of the Resource Adequacy (RA) program through CPUC decisions, CAISO tariff, and business practice manuals. This is primarily because certain provisions of the FRAC-MOO proposal remove the Local Regulatory Authority (LRA’s) role in quantifying the eligible flexible capacity for the LRA’s jurisdictional Load Serving Entities (LSEs). The CPUC Staff requests that the CAISO address these critical issues before submitting the FRAC-MOO proposal for approval by the CAISO’s Board of Governors.



1. Defining resource eligibility to meet reliability and RA obligations should remain the jurisdiction of the LRA, and the CAISO should focus on ensuring deliverability of RA resources to meet both peak and flexible needs.

The CPUC adopted a flexible capacity procurement framework in Decision (D.)13-06-024 and adopted a methodology for quantifying the amount of Flexible RA capacity eligible from conventional and hydro resources in its 2014 Resource Adequacy (RA) proceeding. The decision further instructed parties and the Energy Division to develop counting conventions for storage, preferred and use limited resources. Subsequently, the Energy Division issued proposals for counting Effective Flexible Capacity (EFC) within demand response (DR) and storage<sup>1</sup> with a recommendation that the CPUC adopt these methodologies for the 2015 RA year.

The FRAC-MOO proposal includes EFC counting conventions for various resources including conventional, hydro, CHP, storage, and demand response. CPUC Staff strongly opposes this provision in the FRAC-MOO proposal because Staff believes that the LRA (e.g., the CPUC) should calculate the eligible EFC amounts and determine the counting rules for its jurisdictional LSEs. This would be consistent with the current oversight roles which give the CPUC jurisdiction over Qualifying Capacity (QC) process. D.10-06-036 adopted a QC manual that describes the methodologies used to calculate QC values for all resources. The difference between QC and Net Qualifying Capacity (NQC) as currently administered is the limitation that the NQC for a resource cannot exceed its “deliverable” MW quantity<sup>2</sup>. The CAISO conducts these deliverability tests to determine a final NQC. The QC-NQC process is jurisdictionally sound because the LRA determines procurement rules that describe how resources should count towards RA system and local need, while the CAISO has the right to decrement the LRA-determined RA value to account for operational considerations.

CPUC Staff believe the current oversight roles for QC rules do and should extend to the flexible capacity rules. It is unclear what, if any, restrictions on the flexible capacity calculations performed by the LRA might be imposed by the CAISO. In accordance with Section 40.4.5 of the CAISO tariff, the CAISO should retain the right for reductions in performance criteria—but not determine the EFC amounts for resources in the first instance.

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<sup>1</sup> [http://www.cpuc.ca.gov/NR/rdonlyres/665A63B2-2EED-479D-85FF-A02380AC93AA/0/R1110023StaffProposal\\_QCandEFCMethodologiesforStorage.pdf](http://www.cpuc.ca.gov/NR/rdonlyres/665A63B2-2EED-479D-85FF-A02380AC93AA/0/R1110023StaffProposal_QCandEFCMethodologiesforStorage.pdf)

<sup>2</sup> The CAISO’s deliverability study methodology for resource adequacy purposes was discussed extensively in the CPUC’s Resource Adequacy Proceeding in 2004, and was generally adopted in that proceeding. It was also accepted by FERC as a reasonable implementation of LGIP Section 3.3.3, during the FERC Order 2003 compliance filing process.



Staff is also concerned that the deliverability assessments performed by CAISO staff for system RA resources may not equate or translate onto the flexibility construct. System and local RA procurement is geared towards meeting system needs during the peak hour, but flexibility needs to not correspond to peak demand. Because the current deliverability assessment is focused on on-peak hours it may not be an effective tool for assessing performance criteria or “deliverability” of flexible resources.

In conclusion, the CPUC Staff urges the CAISO to look to the current balance of oversight for QC calculations to guide the CAISO’s proposal for determining flexible capacity EFC calculations for resources.

2. Flexible categories should be established in the first instance by the LRA and incorporated into the CAISO tariff (if at all) as default provisions.

The CPUC has the jurisdictional authority and responsibility to establish a procurement RA framework for its jurisdictional LSEs.<sup>3</sup> If the CAISO prefers a structure that limits procurement of resources with certain types of operating characteristics beyond the CPUC-adopted definition flexible capacity in order to satisfy Resource Adequacy procurement requirements, then the CAISO should submit a proposal to the RA proceeding similar requesting that the CPUC impose a structure that limits LSE reliance on contractually limited resources (such as a structure similar to the current MCC buckets). Propose categories of reliability requirements in the CAISO’s tariff (which would need to be implemented via the IRR or SIRA database) will to disturb the existing roles of oversight that has held since the beginning of the RA program in 2006.<sup>4</sup>

Staff also has reservations about the analytical process used by the CAISO to establish the flexible categories. CPUC Staff believe that further analysis of the underlying data should be undertaken before instituting flexible categories. Such analysis can be accommodated because the FRAC-MOO is an interim requirement and the currently adopted flexible RA structure is adequate for now.

First, the CPUC has adopted a maximum three-hour continuous ramp in each month and has mandated that its jurisdictional LSEs to engage in contracts that mandate economic bidding behavior from generators with specific operational capabilities to meet this ramping need. The CAISO did not examine whether the current fleet could meet the newly

<sup>3</sup> See California Public Utilities Code Section 380. See also e.g. 116 FERC ¶ 61,274 P. 1117-1119 (noting that although FERC has a general responsibility to ensure that a workable resource adequacy requirement exists in the CAISO market, “[t]his does not mean that we must determine all elements of such a program in the first instance,” and recognizing division of roles between state and Local Regulatory Authorities and the CAISO in determining system and local resource adequacy requirements).

<sup>4</sup> Id.



prescribed secondary ramps that the CAISO used to define the flexibility categories. It would be more prudent to establish new “flexible categories” based on more (preferably probabilistic) analysis and only if data shows that the current definition of flexible resources is insufficient to meet new ramps.

Second, the CAISO uses net load data that is based on only one year of load and only one year of resource performance. It is not clear to CPUC Staff that the evaluation accounts for sufficient variability within both load and resource performance profiles (e.g. using more than one year of loads and profiles) to recommend the creation of the flexibility categories.

Third, the CPUC will design a long-term approach to meeting flexibility in the ongoing RA docket with an eye toward enabling greater consistency with the State’s loading order for preferred resources to meet flexible capacity requirements. The CPUC approach will be based on learning following implementation of the CPUC’s proposal (which includes probabilistic analysis). This may include a structure of categories similar to the CAISO’s proposal and it may establish percentages or timing limitations on the resources used to satisfy flexible categories –but these limitations would be instituted after parties have had an opportunity to weigh in on the data and analysis used to determine the need for and the propriety of the flexible categories as they are proposed.

Although the CPUC Staff does not agree that the CAISO should establish the three flexible categories at this time (and prior to their consideration, in the first instance, by state and Local Regulatory Authorities), the CPUC Staff understands that the CAISO is concerned with the implications of creating a flexible fleet with an over reliance on physically and regulatory use-limited resources. Therefore, Staff recommended adopting flexible categories as part of the staff flexible capacity implementation proposal through the 2013 RA proceeding. These fixed percentage categories are less proscriptive than the CAISO’s categories, which vary every month. The CPUC Staff also considered reliability along with administrative ease and State Policy before proposing flexible categories. Accordingly, Staff supports (and proposed) allowing participation of use-limited resources through the creation of categories in the interim period (through the end of 2017) while acknowledging that the CPUC and CAISO must develop a long-term framework to further enable the participation of all qualifying resources in meeting operational flexibility needs.

In sum, Staff believes that the existing balance of oversight between the LRA (e.g. the CPUC) and the CAISO should remain as it currently exists for system requirements. The LRA should retain the right to create and enforce any procurement category and adjust these categories according to LSE procurement rules and State mandated policy. Accordingly, the CPUC Staff opposes including flexible categories in the CAISO tariff and instead recommends their development in the CPUC’s RA proceeding.



3. FRAC-MOO rules instituted in the CAISO tariff should sunset at the end of 2017.

In D.13-06-024 the CPUC adopted flexibility as an interim requirement for years 2014-2017. Most likely the CPUC will continue development of the flexible capacity framework, and tailor the program to the future state of reliability needs after the interim approach ends in 2017. Specifically, the bulk of OTC compliance, RPS investment, and management of SONGS closure will have been figured out and implemented by then, which will have strongly determinative impact on the need for and method for protecting reliability given the flexible capacity procurement framework.

On January 28, 2013 the CAISO issued the “Reliability Services Initiative.” Among other things the CAISO proposes that the scope of the initiative include should enhancing the minimum eligibility criteria for system, local, and flexible RA capacity where needed and modifying must-offer rules where required, in particular for use-limited resources, in order to standardize must-offer requirements for different technology types. On February 5, the CPUC issued the “Order Instituting Rulemaking”<sup>5</sup> of the Joint Reliability Plan to consider forward multi-year RA requirements, implementation of a long-term planning assessment, and determining rules and the CPUC policy position with respect to the CAISO’s proposal for a market-based backstop procurement mechanism. Both of these initiatives will have a significant impact on flexible RA procurement. The categories and procurement limitations the CAISO has developed in the FRAC-MOO proposal should also remain open to change based on developments in the CPUC’s proceeding and the CAISO’s RSI initiative.

The CPUC Staff thus opposes cementing complex restrictions on the ability of use-limited resources to satisfy flexibility needs in the CAISO tariff at this time—at least without an explicit sunset or expiration date. The CPUC staff is concerned that instituting flexible categories in the CAISO tariff will become the default position on a long term basis, and thus will not allow them to shift in response to rules developed through ongoing proceedings at the CPUC and the CAISO to implement the Joint Reliability Framework. Staff is particularly concerned that if the CAISO implements flexible categories in its tariff, these “buckets” will become the default starting point for further procurement rules even though they were proposed only very recently and market participants have had very little time and received no data to evaluate the proposal. Staff therefore requests that the CAISO’ adopt interim approach for the FRAC-MOO and clarify for stakeholders that whatever tariff provisions are adopted will expire on or before December 31, 2017.

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<sup>5</sup> R.14-02-001.