

## Stakeholder Comments Template

# Flexible Resource Adequacy Criteria and Must-Offer Obligation Third Revised Straw Proposal, Posted October 3, 2013

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the Flexible Resource Adequacy Criteria and Must-Offer Obligation third revised straw proposal on October 3, 2013, and issues discussed during the stakeholder meeting on October 9, 2013.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to <u>fcp@caiso.com</u> no later than the close of business on <u>October 16, 2013</u>.

SCE comments below will expand upon the following major concerns:

#### 1. ISO's Flex Must Offer Proposal(s)

- The ISO's proposed resource-specific MOOs are unduly discriminatory, ineffective, unfair and must be abandoned
- To the extent any forward Flex offer obligations are imposed, they must be "technology neutral" and based on underlying resource operating characteristics and Flex capabilities
- To the extent multiple forward offer obligations are developed to address Flex resource use limitations, the ISO must align these different obligations with the ISO's relative Flex needs to ensure the Flex services delivered from different resources are comparable and have equivalent reliability value
- SCE is not convinced imposing forward Flex offer obligations can achieve the stated objectives of such obligations – certainly not in the form currently proposed and perhaps not in the form suggested above – and asks the ISO to consider whether spot market mechanisms either alone, or in conjunction with some "reduced form" forward obligation is not a more effective approach to ensuring adequate Flex resource availability

## 2. ISO's Proposed CPM Adder should be rejected

#### M&ID/KMeeusen



- The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. It is based on one possible measurement of the proportion of the system flexible capacity requirement to each LRA and calculated as the cumulative contribution of the LRA's jurisdictional LSE's contribution to the ISO's largest 3-hour net load ramp each month. Please provide comments regarding the equity and efficiency of the ISO proposed allocation. Specifically, please comment on:
  - The ISO's proposal to use an LSEs average contribution to historic daily ISO maximum 3-hour load changes to allocate the Δ load component of the flexible capacity requirement

SCE's supports the ISO's proposal to allocate changes in load by using two years of historic metered load data to measure monthly average 3-hour maximum continuous load ramps vs. the previously proposed method to use peak-load share and monthly load factors to allocate changes in load.

b. The potential of using historic average daily maximum 3-hour net-load ramps or time of day system maximum 3-hour load ramps (morning vs. evening ramps).

SCE has no comment at this time on this issue.

c. What other measurement or allocation factor should the ISO consider to determine an LRA's contribution to the change in load component of the flexible capacity requirement?

See response to 1.d

d. Should the ISO consider seasonal allocations for each component? What would these seasonal allocations look like?

The following expands upon SCE's last set of comments in which we recommended consolidating the 12 monthly allocation factors into just two factors, non-summer and summer.

As the data in the following table illustrates, while using a seasonal average allocation initially sounds viable, a closer look at the individual monthly values reveals that the average values for each Fall sector would be skewed by the respective September values.

SCE continues to propose that the best overall allocation approach is to develop an average June – September (i.e. "summer") allocation factor and an Oct – May (i.e. "non-summer") allocation factor.



Consistent with this approach, SCE also supports the ISO's consideration of merging Solar PV and solar thermal allocation factors.

	2015 Share Calculations					
			Solar			
Month	Load	Wind	PV	Thermal	DER PV	
Dec	65%	2%	25%	7%		
Jan	61%	6%	25%	7%		
Feb	64%	8%	20%	8%		
Mar	56%	2%	33%	9%		
Apr	51%	4%	35%	10%		
May	50%	0%	37%	13%		
Jun	90%	23%	-12%	0%		
Jul	98%	20%	-18%	0%		
Aug	129%	4%	-18%	-15%		
Sep	84%	16%	0%	0%		
Oct	52%	4%	34%	10%		
Nov	62%	1%	29%	8%		
Avg.	72%	8%	15%	5%		

## Allocations with DER PV netted with Load













2. The ISO believes the proposed methodology reflects causation principles. Specific to allocating flexible capacity requirements, what does "causation" mean to your organization and how would this definition be most accurately reflected in a flexible capacity requirements allocation process?

As mentioned in previous comments and workshops, SCE continues to support an allocation mechanism that allocates the obligation for the provision of flexible resources to those that cause the need for flexible resources. And, as a general matter, SCE believes that the CAISO's intent to allocate the obligation based on those load serving entities that have contracts with intermittent resources is a step in the right direction.

SCE supports the methodology being used by the ISO to determine the amount of flexibility required to maintain grid reliability. We concur that using a max 3-hour net-load ramping change to determining the required amount of flexible capacity, and requiring this amount of flexible capacity to be available during a daily 18-hour period, should ensure a sufficient amount of flexible capacity is available.

However, SCE believes that requiring flexible capacity to be available during 18-hour daily periods explicitly illustrates the inappropriateness of then allocating 100% of causation upon only a 3-hr time period. SCE believes that the ISO's currently proposed allocation methodology does not achieve the goal of allocating the obligation for the provision of flexible resources to those that cause the need for flexible resources, and in fact provides spurious results. SCE is concerned that the allocation results of this method are driven more by the modeling methodology than actual contribution to the ramping need in some instances. Our analysis (SCE comments on FRAC-MOO 2<sup>nd</sup> Straw) appears to demonstrate that the effective flex credit received by solar is entirely an artifact of the ISO's analytical approach (i.e., allocating based on a 3-hr net load ramp when the load ramps in summer are longer and forcing the annual peak load to occur in August) and does not fairly represent solar's "true" contribution to flex needs. In addition, the erratic behavior of the allocations in the summer months do not make rational sense and could be indicative of further difficulty for the data to fully describe the contribution to flex need of each group and therefore is not a reliable basis for allocation.

As also mentioned in SCE's July 25 comments, SCE believes that another situation may arise for which the ISO's proposed allocation methodology does not appropriately address cost causation. That example is a situation in which a load serving entity that is not a CAISO entity procures intermittent resources from the CAISO controlled grid and exports them to serve load outside of the CAISO. Indeed, this example already exists. In



this circumstance, the CAISO proposal lacks in its ability to allocate flex requirements to that entity. SCE is concerned that this example will continue to grow in the future and produce a skewed allocation. SCE urges the CAISO to address this deficiency as soon as possible.

So what allocation method is appropriate? SCE believes that until there is sufficient agreement among stakeholders regarding how each of the various resources can potentially provide (or create the need for) flex, a fixed allocation factor should be used. We've previously suggested that the first step should be to determine the average annual contribution to flex for each resource type and to use this annual value to establish one set of allocating factors for the entire year. We believe fixed seasonal factors (i.e. summer and non-summer) are a good compromise. We believe that this approach is a reasonable step towards developing causation based allocation rules and does not create procurement consequences that are not inseparable (i.e. solar provides flex in some months while creating the need to procure flex in other months).

SCE also strongly recommends that whichever allocation method adopted by the CAISO should be classified as interim.

3. What are the appropriate bounds for the maximum and minimum for the error term as well as how to address year-to-year variability? What are the appropriate actions if such bounds are reached?

#### See response to 4.d.

- 4. The ISO has proposed must-offer obligations for various types of resources. Please provide comments and recommendations regarding the ISO's proposed must-offer obligations for the following resources types:
  - a. Resources not identified as use-limited

#### See response to 4.d

- b. Dispatchable gas-fired use-limited resources
  - 1. Please provide comments regarding the ISO's proposal that would allow resources with use- limitations to include the opportunity costs in the resource's default energy bid, start-up cost, and minimum load cost.

See response to 4.d



2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

See response to 4.d

c. Hydro Resources

See response to 4.d

- d. Specialized must-offer obligations (please also include any recommended changes for the duration or timing of the proposed must-offer obligation):
  - 1. Demand response resources.
  - 2. Storage resources.
  - 3. Variable energy resources.

SCE opposes the ISO's proposed "custom" offer obligations based on resource type (DR, storage, dispatchable VERS, and use-limited resources). Given the growing complexity and obvious problems associated with developing Flex offer obligations, SCE now questions the need for any forward offer obligations associated with the Flex capacity attribute. Instead, SCE believes that the ISO spot markets should be explored as the more appropriate place to incent Flex resources to submit economic bids. Major concerns with the current MOO proposals include:

1. The ISO's must offer proposals are unduly discriminatory. Rather than forward Flex offer obligations based on a defined set of flexible operating and use characteristics, the ISO's proposal ties each specific MOO to a resource type (e.g., DR, storage, VER, ULR) regardless of resource operating characteristics. For example, DR is afforded a choice of two offer periods - both significantly shorter than the proposed "default" period of 5:00 AM to 10:00 PM daily - simply because it is DR. A use-limited thermal or hydro resource with identical availability and operating characteristics as a DR resource would be denied access to this two-period offer obligation simply because it is not DR. In another example, only storage resources will be afforded the opportunity to meet their Flex offer obligation by bidding only Regulation, which effectively exempts these resources from having to submit economic energy bids<sup>1</sup>. Again, other Flex resources with similar use-limitations and regulation capabilities would not qualify for this MOO simply because they are not storage. Offer rules based on resource type as opposed to underlying resource capabilities are not only prima facie discriminatory, they create additional problems of effectiveness and fairness

<sup>&</sup>lt;sup>1</sup> SCE is not disputing whether Regulation is the best use of a storage resource and is not taking any position on whether and how storage resources provide energy to fulfill their eventual RA obligations. SCE is only commenting on the unequal treatment of resources with similar or identical operating characteristics.



described below. Looking ahead, it is difficult to see how FERC could accept the ISO's proposal as currently configured, which, in addition to being discriminatory, increases the level of uncertainty resource owners and LSEs face for 2015. It is even more difficult to see how the ISO's MOO proposal transitions into the multiyear forward Joint Reliability Framework (with associated RSA) where multiple Flex capacity attributes may reemerge and where "technology neutrality" has been espoused as a core principle. If forward offer obligations are in fact needed for Flex RA capacity – a need SCE now seriously questions – and these forward obligations are to be fair, feasible and sustainable, they must be based on resource use limitations and operating characteristics and not on resource type.

- 2. The multiple, resource-specific MOOs are ineffective. The very purpose of forward offer obligations is to ensure the availability of resources when needed. The generic RA capacity MOO is effective because, together with NQC counting rules, explicit limits on quantities of use-limited resources (i.e., CPUC's MCC buckets) and an appropriately-focused SCP mechanism, it ensures RA resources are aligned and available in sufficient quantities when needed (i.e., peak load hours). Unlike peak-load requirements, which are relatively predictable, and occur only at specific points in time, Flex requirements are pervasive, less predictable, and, according to the "duck chart", ever changing. Clearly, these added dimensions of time and uncertainty make defining and measuring the adequate, hour-by-hour availability of Flex capacity a challenge. However, the ISO's Flex MOO proposal, as currently designed, does not address this challenge. The ISO's proposal allows Flex capacity to be parsed into different spot market services and different time periods without any attempt to coordinate how much Flex capacity will be available in any given hour and in what form. Instead, both by the ISO's design of MOO rules and by LSE/resource owners' choices within these rules<sup>2</sup>, the ISO will essentially "get what it gets when it gets it". Whether that collective result is adequate in any given hour will be much more a matter of coincidence than design.<sup>3</sup> SCE understands that offer obligations by themselves cannot ensure hour-by-hour adequacy. That it takes the collective set of RA program rules to accomplish that result. But it is clear to SCE the collective rules that apply to Flex RA capacity – those already adopted and those proposed - along with the resource-specific MOOs proposed by the ISO add significant complexity without achieving any assurance of achieving the reliability objectives of forward offer obligations.
- 3. **The ISO's Flex MOO proposal is unfair to LSEs**. One of the core principles of the RA program has been, by meeting their forward RA procurement and showing requirements, LSE's have substantially reduced their exposure to

<sup>&</sup>lt;sup>2</sup> The ISO's proposal pre-specifies time periods (DR and VERS) and products (storage), but leaves it to resource owners to select which time periods and products (DR and storage). Also, there is currently no mechanism in the Flex RA framework (CPUC or ISO) that limits how much of any Flex resource type an LSE can use to meet its allocated Flex showing requirement.

<sup>&</sup>lt;sup>3</sup> A particular concern when one considers the frequent ISO admonition to stakeholders "the 3-hr net load ramp is not the only flex requirement the ISO must meet; we must meet all the flex needs all the time."



additional capacity costs above and beyond those forward requirements. That any residual cost exposure is due largely, if not entirely, to some unforeseen event or significant forecast error, the likelihood of either, by RA program design, is very small. Another core principle has been that each individual LSE's RA requirements are not directly or unduly impacted by how other LSEs choose to meet their own RA requirements4. The former is achieved by having coherent RA program rules that reasonably ensure the program's reliability objectives are met in actual practice; the latter by using well-defined, uniform (aka "standard") capacity products to meet program requirements.5 SCE believes the ISO's current Flex MOO proposal runs contrary to both of these principles. First, because there is no apparent way to ensure adequate Flex capacity is available hour-by-hour, nor that the Flex capacity that is available effectively meets the ISO's ramping needs, LSEs are unreasonably exposed to ISO backstop costs (due to intra-year Flex deficiencies) and uncertain increases in future Flex requirements (due to increased use of the error term in the ISO's requirements formula6). Second, because the resource-specific MOOs proposed by the ISO clearly imply differential contributions to reliability by resource type (i.e., the Flex product across resource types is neither well defined nor uniform) and there are no proposed limits on which eligible Flex resources LSEs use to meet their individual requirements, the potential for one LSE's choices to impact another LSE's requirements is clearly set.7 The practical consequences of these core RA principle violations may seem small in the near term because the relative volume of "non-standard" Flex resources will be low. However, we must recognize that there is significant potential for the volume of these resources to increase and the ability to re-visit RA rules in light of such growth could prove difficult. For any rules to be effective, they must be durable. This is particularly true for forward capacity procurement. It makes no sense to adopt must offer rules for the near-term that could easily become challenged before 20178 and which, as stated above, cannot effectively transition to the JRF/RSA.

4. The ISO's Flex MOO proposal is unfair to Flex generator owners. As SCE notes above, an unavoidable consequence of resource-specific offer obligations is the reliability product delivered by each resource type will not be uniform or standard. This creates problems for generators just as it does for LSEs. Some

<sup>&</sup>lt;sup>4</sup> SCE understands this potential exists in local RA procurement due to resource effectiveness factors, but this exposure is very small due to the nature and configuration of each local area (there is little to no "excess" eligible generation in most local areas).

<sup>&</sup>lt;sup>5</sup> where "well-defined and standard" mean resources have been pre-qualified (by counting rules, location designations, ramping capabilities, etc) to meet a stated reliability objective such that the ISO is indifferent to which subset of qualified resources LSEs use to meet their individual and collective RA requirements.

<sup>&</sup>lt;sup>6</sup> Given the existing Flex RA framework as it currently stands, SCE does not see any other means for the ISO to compensate for collectively ineffective Flex showings.

<sup>&</sup>lt;sup>7</sup> If the ISO uses backstop procurement or increases the size of the error term in response to deficiencies in the Flex RA fleet, and those deficiencies are attributable to an over-dependence on Flex resources that have "non-standard" MOOs, then those increased procurement costs and/or increased future requirements apply to all LSEs without regard to how much or how little they used over-depended resources to meet their individual showings. <sup>8</sup> 2017 is currently the end of the so-called "interim period" for incorporating Flex RA.



resources will provide Flex services more hours of each day, some less, some when the value of that service is higher, some when it's lower, and still some in forms of service that may or may not contribute to meeting Flex needs.<sup>9</sup> Yet the ISO's proposal is to treat all eligible Flex resources as if they were standard and impose Flex resource substitution rules, do backstop procurement and, potentially, increase the size of the error term accordingly. Most importantly, the ISO has proposed a "one-size-fits-all" CPM price adder. Aside from the obvious resource inequities – why should a 5-hr resource be counted and paid the same as a 17-hr resource when there has been no attempt to ensure the quality or value of reliability services provided by each are equivalent – generator owners should be concerned about the incentives these inequities may create for LSEs. Specifically, LSEs may be incented to contract with less available resources that have lower exposure to performance risk and the backstop procurement costs for which get partly allocated to other LSEs.

## 5. The ISO's proposed MOOs are incompatible with other RA offer **obligations.** Currently, the Flex RA framework adopted by the CPUC requires Flex resources to have underlying generic RA capability (i.e., have a designated NQC) and that the Flex capacity cannot exceed that generic RA capability. Assuming most LSEs will show all relevant RA capacity attributes of a given resource needed to meet that LSEs RA requirements (system, local and Flex), it is reasonable to conclude most Flex capacity included in showings will also have generic RA capacity obligations to meet. As such, the offer and availability obligations of these resources must be compatible. As proposed, some are not. The ISO's proposed Flex offer periods for DR and storage do not completely overlap with - and in one instance is not even contiguous with - the SCP availability period for generic RA capacity. Each resource-specific MOO in the ISO's proposal was presumably designed around the perceived capabilities of each resource type and, in most cases, limited so as not to exceed those capabilities.<sup>10</sup> This begs the question whether some resources can in fact do "double duty" and meet both generic and flex requirements. It is not SCE's intention in these comments to opine on how potentially competing RA requirements should be reconciled for certain resource types (DR, storage, and flexible VERs). It is, however, our intention to state any such reconciliation should not be "backed into" by the imposition of offer obligations, particularly for resources whose underlying generic RA capabilities have yet to be determined. If forward offer obligations and Flex performance standards are going to be imposed, the ISO, CPUC and stakeholders must first address questions of which RA services resources can provide and which they must provide and how to reconcile any differences. Only then can coherent offer rules be set.

<sup>&</sup>lt;sup>9</sup> It makes no sense to allow storage to elect to meet its Flex obligations by offering only Regulation if there is an abundance of Reg in the market and a relative shortage of ramping. Nor does it make sense to allow DR to elect an "evening" offer period in summer when the ISO has claimed its predominant ramping needs will be in the morning. <sup>10</sup> This is particularly true in the case of Flexible Solar resources, but also DR, storage and hydro.



6. Is there even a need for forward Flex offer obligations? SCE has been clear in these comments that resource-specific Flex offer obligations appear unworkable. That any forward Flex offer obligations – to the extent they are needed at all – must be based on underlying resource capabilities without regard to resource type. And that any differential in forward Flex offer obligations intended to accommodate various resource use limitations must be done in recognition of the ISO's relative flex needs in order to ensure all Flex resources are providing comparable reliability value.

Given the significant challenges revealed in developing forward offer obligations to date, SCE has stepped back and asked if forward offer obligations are needed at all? Moreover, can they even work? Two basic objectives have been held up as justification of need for forward Flex offer obligations; 1) to ensure Flex resources are available during periods of greatest flex need (the default being 5:00 AM to 10:00 PM daily), and 2) to ensure resources submit economic bids rather than self-schedule. SCE believes it is reasonable to assume the vast majority of Flex resources included in LSEs' showings will also be counted towards meeting their generic system and local RA requirements as well. The existing offer obligation on generic capacity already requires resources to offer into the ISO's day-ahead and real-time markets whenever they are available. So it appears the first stated objective for forward Flex offer obligations is not needed for most Flex resources. If so, the only remaining purpose for a forward Flex MOO is to incent desired bidding behavior.

SCE's comments have made abundantly clear the problems associated with trying to align structured forward incentives (i.e., offer obligations) with actual market conditions and reliability needs for something as variable and timedimensional as "flex". But aligning incentives and needs is precisely the job of spot markets. It is, after all, one of the main reasons we have an ISO-run spot market; to set requirements based on contemporaneous needs, and create price signals that make it the economic interest of market participants to meet those needs. SCE does not disagree with the ISO's desire to have access to the flex attributes of resources when needed and avoid ramping shortages that would upset normal market function and potentially create reliability issues. But, given the unique and dynamic nature of ramping requirements that will only grow and change over time, SCE is doubtful any set of forward offer obligations can "get it right".

Alternatively, it seems altogether plausible, and perhaps even desirable for the ISO to develop spot market mechanisms that incent Flex resources to bid Flex services in time periods of greatest need – such as Flexi-Ramp products that produce specific needs and price signals and scarcity pricing mechanisms that allocate the cost of ramping shortages back to Flex resources that were self-scheduling during the periods of shortage. Notwithstanding the adoption of the ISO's proposed Flex MOO's, it is SCE belief the ISO will have to develop these



spot market mechanisms anyway. It is not hard to understand the problems that will arise when these forward and spot incentives don't align.

SCE does not have any specific proposal for precise spot-market mechanisms to either take the place of forward Flex offer obligations or work in conjunction with some "reduced form" forward offer obligations. At this point, SCE is only asking the ISO and stakeholders to consider that the path we're on now won't work. At the very least we have to go back and approach any forward obligations from the perspective of resource capability and ISO need, not resource type. In so doing one should ask what are we really trying to accomplish with forward obligations and is there a better, more durable way.

5. The ISO has proposed a flexible capacity availability incentive mechanism Please provide comments of the following aspects of this mechanism:

See response to 5.f.

- a. The selection of the adder method as the preferred option
  - 1. Should the ISO still consider the bucket method, the "worse-of" method, or some other method not already considered? Why?

See response to 5.f.

b. The price for the flexibility adder. Specifically, if the ISO proposed price is not correct, what price or data source should the ISO consider and why?

See response to 5.f.

c. The interaction between the existing SCP and the proposed SFCP

See response to 5.f.

d. The proposed SFCP evaluation mechanism/formula

See response to 5.f.

- 1. The formula used to calculate compliance (including the treatment of longstart and use-limited resources)
- 2. The treatment of forced and planned outages



- 3. The minimum availability thresholds for use-limited resources
- e. The proposed substation rules for forced outages

## See response to 5.f

f. Please also include comments regarding issues the ISO must consider as part of the evaluation mechanism that are not discussed in this proposal.

## The ISO's proposed CPM adder should be rejected.

The ISO has proposed a CPM price adder of \$23.25 be used to assess Flex performance bonuses and penalties and applied to any backstop purchase of Flex capacity. For the following reasons, this proposal should be rejected:

- a. The ISO has not laid any credible foundation why Flex capacity should receive higher backstop capacity payments than generic capacity. They have simply presumed Flex capacity is more valuable, assumed existing CPM rates are "deficient" and invented a method for producing a value that draws unfounded conclusions from unrelated reports.<sup>11</sup>
- b. There is no evidence the commitments made or services provided by a Flex resource require any forward capacity compensation. As currently proposed, the essential commitment made by selling Flex is to forego the opportunity to submit self-schedules during certain hours. The service provided is ramping. The ISO has presented no evidence to suggest the "lost self-scheduling opportunity" and ramping services cannot be fully compensated by spot market revenues. In fact, the ISO's own proposal for use-limited Flex resources<sup>12</sup> explicitly relies on the assumption resources can fully capture Flex opportunity costs in their spot market capacity and energy bids.
- c. If a CPM adder is to be imposed, and given the ISO's current Flex MOO proposal, the idea that a single adder should apply to all Flex resources, when the relative services provided are far from uniform, is patently unfair and would create a host of negative untended consequences.
- 6. The ISO has proposed to include a backstop procurement provision that would allow the ISO to procure flexible capacity resources to cure deficiencies in LSE SC flexible capacity showings. Please provide comments regarding the following issues of ISO's proposed flexible capacity backstop procurement proposal:
  - a. The inclusion of the adder methodology

<sup>&</sup>lt;sup>11</sup> SCE notes that since 2010, there have been 22 resources designated as CPM or ICPM. Of those 22 resource designations, there is only one resource that SCE could not verify as being a flexible resource. Thus, roughly 95% of all CPM designations have been to Flex eligible resources.

<sup>&</sup>lt;sup>12</sup> The ISO proposal is to modify a resource's default start-up, min load and energy bids to account for any lost opportunities incurred by providing Flex and to ration the use of Flex over time.



#### See response to 5.f.

b. The opportunity for LSEs to provide a list of uncommitted flexible capacity that can be used to help cure flexible capacity deficiencies.

SCE is neutral on this aspect of the proposal.

7. Are there any additional comments your organization wishes to make at this time?

As mentioned in our previous comments, SCE wishes to remind parties that the current proposal is designed to be interim in nature until a more robust and permanent structure can be developed. Ultimately, cost causation must include not only an allocation of costs to load, but also an allocation to the resources that contribute to the need for flexibility.

Counting and Most Offer rules should line-up reasonably with both market needs and reliability needs. At present, there is neither sufficient historical data nor an agreement on how preferred resources can and will satisfy these needs to develop rules that are anything other than interim.