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**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)

**REPLY COMMENTS OF MIDDLE RIVER POWER, LLC,
ON TRACK 3 RESOURCE ADEQUACY PROPOSALS
AND THE ENERGY DIVISION'S ELCC PROPOSAL**

Joe Greco
Senior Vice President, Asset Management West
Middle River Power, LLC
9460 Double R Blvd., Suite 104
Reno, NV 89521
Phone: (775) 376-9702
jgreco@mrpgenco.com

March 29, 2019

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Middle River Power, LLC (“MRP”), submits these reply comments to the comments filed on March 22, 2019, regarding Track 3 proposals, the workshop held on March 12 and 13, and the Energy Division’s ELCC proposal. These reply comments are being filed pursuant to the Amended Scoping Memo and Ruling of Assigned Commissioner, issued January 29, 2019¹ and the ALJ’s Ruling on Effective Load Carrying Capacity, issued February 13, 2019.²

I. INTRODUCTION

MRP directs its reply comments to the following three topics addressed in the parties’ March 22 comments:

¹ *Amended Scoping Memo and Ruling of Assigned Commissioner*, January 29, 2019, p. 2-4. However, the January 29 Amended Scoping Memo set a date of February 25, 2019, for the submission of Track 3 proposals. That date was later changed to March 4, 2019. *E-mail Ruling Extending Track 3 Proposal Deadline*, February 22, 2019, p. 3.

² *Administrative Law Judge’s Ruling on Effective Load Carrying Capacity*, February 13, 2019, p. 2 (“Comments on the Energy Division Proposal re Effective Load Carrying Capacity are to be incorporated into the Track 3 comments to be filed and served by March 22, 2019. Reply comments are to be incorporated into the Track 3 comments to be filed and served by March 29, 2019.” The February 13 Ruling giving these directions followed an updated Scoping Memo, issued on January 29, 2019, where the Commission provided notice of the March 12-13 workshop and set a comment deadline for that workshop of March 22, 2019.).

- 1) **Multi-year procurement for system and flexible RA:** The parties commenting on multi-year procurement did not raise concerns that override the value of a multi-year procurement framework for all RA products. An RA program that aligns the procurement timeline for all RA products will provide stability and an effective contracting regime that will support needed resources and the orderly retirement of generation that does not provide sufficient value at competitive costs to consumers.
- 2) **ELCC:** MRP appreciates the significant developments to the ELCC framework and the Energy Division's thoughtful work. MRP supports the comments of parties that urge treatment of behind-the-meter solar as a supply-side resource and the proposals by Calpine and Wellhead that the diversity benefit from storage be allocated to all resources until further study of the diversity benefit takes place.
- 3) **Local RA waiver trigger price:** While MRP supports the Energy Division's proposal to update the waiver trigger price to reflect changed market conditions, we believe that a better trigger price would be the soft-offer cap from the California ISO's backstop pricing mechanism as a means to avoid triggering backstop procurement.
- 4) **Waiver for Path 26 zonal requirements:** MRP also remains concerned about instituting an expanded waiver process associated with the Path 26 constraint and suggests that further work to address the underlying concerns, rather than establishing a waiver/penalty process, would be preferable to support grid reliability.

II. REPLY COMMENTS

A. Multi-year System and Flex RA

The parties that oppose instituting a multi-year framework for all RA products do not put forth persuasive arguments. No party takes issue with the rationale articulated for multi-year

RA, nor with the premise that a holistic RA procurement framework for all RA products will provide greater stability and certainty for the generation fleet and more efficient contracting for load serving entities. MRP continues to believe that building on the framework established by the Commission for local RA by expanding it now to include system and flexible RA will provide significant benefits that outweigh the concerns.

CLECA asserts that multi-year system and flexible RA products should not be adopted due to uncertainty over load migration and claims that “investment in long-life generation assets to replace retirements is unlikely to occur as a result of an obligation to sign a 1- or 3-year contract to meet RA accounting obligations.”³ Supporting a 3-year forward contracting requirement for multi-year system and flexible RA products is not related to replacements for retirements. It is important for retention of the current operating fleet of efficient natural gas-fired resources that the grid depends on to maintain reliability. Three years is sufficient time to support these resources and help them plan and finance major maintenance needed to keep the plants operational and upgrades to make them more efficient. Remaining with the one-year ahead contracting for system and flexible RA will continue to put strain on the fleet and add to the risk of tightening supply. The issue of load migration is one that exists regardless of whether there is a healthy and functioning RA market that delivers on its primary goal of resource availability when the system needs it most.

The reasoning of the Public Advocates Office in arguing against a holistic framework for RA procurement is similarly unpersuasive.⁴ The Public Advocates Office argues against multi-year procurement for system and flexible RA because it would increase RA procurement, system

³ *Comments of the California Large Energy Consumers Association on Resource Adequacy Track 3 Proposals*, March 22, 2019, p. 10.

⁴ *Comments of the Public Advocates Office on Resource Adequacy Track 3 Proposals and Energy Division’s Effective Load Carrying Capability Proposal*, March 22, 2019, p. 6.

RA requirements change each year and CAISO is working to modify flexible capacity requirements. It is true that the conversation about flexible capacity attributes continues as the California ISO demonstrates greater operational challenges intra-hour and works with stakeholders on more granular and robust requirements to meet real-time needs. However, this should be a reason to support the continued economic viability of the fleet capable of providing the products. Again, the three-year ahead procurement requirement allows for the requirements to evolve as they are adopted. The efficiency of a uniform procurement process for all RA products and the resulting benefits to maintaining the financial health of the limited fleet that can provide these products in the quantity needed today are both important now. The concern about things changing is real but will always be there and is managed by the three-year timeframe.

Finally, the Green Power Institute acknowledges that “a subset of the state’s gas-fired generators that are at risk of retirement over the next couple of years may in fact be needed to be kept online in order to ensure grid reliability in the near-to-middle timeframe” while asserting that there are no “cracks in the armor” for system and flexible power. As MRP indicated in prior comments, the California Department of Market Monitoring has indeed demonstrated cracks in the armor by illustrating that at times in the shoulder months insufficient RA had been procured to meet actual demand.⁵ The California ISO’s real-time operations team has also demonstrated cracks in the armor associated with meeting intra-hour flexibility requirements as more variable resources come on line.⁶

⁵ California Independent System Operator, Department of Market Monitoring, *2017 Annual Report on Market Issues and Performance*, June 2018, p. 227, available at: <http://www.caiso.com/Documents/2017AnnualReportonMarketIssuesandPerformance.pdf>.

⁶ See, e.g., California Independent System Operator, *Preliminary Assessment of Multi-Hour and Intra-Hour Ramping Needs*, September 26, 2017, p. 10 – 29, available at: http://www.caiso.com/Documents/Presentation-FlexibleResourceAdequacyCriteria_MustOfferObligationSep26_2017.pdf.

We firmly believe that it is highly preferable to establish a framework now that allows an orderly contracting process to support the fleet needed for the near-to-middle timeframe and to do so at competitive prices rather than risk having to take more precipitous steps later, direct administrative procurement or risk triggering more CAISO backstop procurement. MRP also believes that this contracting framework will send the signals to the resources that are no longer needed because they don't provide the attributes to support evolving grid needs, resulting in orderly retirements of inflexible generators. Designing a framework that works to maintain reliability while allowing for inclusion of new flexible resources like storage and demand response as they are developed makes much more sense than requiring a demonstration of "urgency" before taking action.⁷

B. ELCC

MRP agrees with the parties that support treatment of behind-the-meter solar as a supply-side resource, including PG&E,⁸ Calpine,⁹ and NRG.¹⁰ As Calpine notes in supporting the PG&E argument, "treating BTM PV as load modifying potentially undermines reliability" by disproportionately reducing "the volume of supply side resources that must be purchased to meet reliability requirements."¹¹ The Public Advocates Office also raises questions about treatment of behind-the-meter solar as a demand modifier, commenting that it is "unclear why Energy Division recommends treating BTM solar as a demand modifier for RA purposes instead of as a supply-side resource, as BTM solar is currently treated in the IRP process."¹²

⁷ *Comments of the Alliance for Retail Energy Markets on Track 3 Proposals*, March 22, 2019, p. 14.

⁸ *Track 3 Proposals of Pacific Gas and Electric Company (U 39 E)*, March 4, 2019, p. 2-3.

⁹ *Calpine Corporation Comments on the Effective Load Carrying Capacity and Track 3 Proposals*, March 22, 2019, p. 9.

¹⁰ *NRG Energy, Inc. Opening Comments on Track 3 Proposals*, March 22, 2019, p. 8-9.

¹¹ *Calpine comments* at p. 9.

¹² *Comments of the Public Advocates Office on Resource Adequacy Track 3 Proposals and Energy Division's Effective Load Carrying Capability Proposal*, March 22, 2019, p. 12.

MRP also shares the concerns raised by Calpine about the Energy Division’s diversity allocation proposal for storage, and supports Calpine’s proposal that storage diversity be allocated to all resources “[a]bsent a more rigorous demonstration that it is actually solar that facilitates storage charging – for example, an analysis that also models the ELCC of gas and other resources.”¹³ We urge the Commission to move forward with reviewing the diversity benefit allocation as suggested by Calpine so that the results can be implemented for the 2020 RA procurement cycle. Finally, we believe that the ELCC calculation should be updated annually to keep up with the shifting resource mix and drive an accurate annual calculation of RA procurement needs.

C. Local RA waiver trigger price

MRP appreciates the Energy Division’s proposal that the local waiver prices be updated based on the 2017 RA report, and the careful analysis that went into the proposal. Moving to \$51/kW year helps to better align the local waiver trigger price with actual costs. However, MRP’s preference for setting the trigger price is to use the soft-offer cap proposed by Calpine. We agree with Calpine’s observation that “it would be more logical to link the trigger price to CAISO backstop pricing . . . [to] provide LSEs and supplier greater incentives to avoid backstop procurement.”¹⁴

MRP believes there may be value to considering an appropriately shaped local waiver price to more accurately reflect the RA value in certain months. However, we do not believe that the “equivalent” pricing model that SDG&E proposes in its March 3 comments for partial-year delivery terms is reasonable. SDG&E’s proposal would not result in RA pricing that allows

¹³ *Calpine Comments* at p. 2. See also *Wellhead Electric Company, Inc. Comments on Track 3 Workshop and Party Proposals*, March 22, 2019, p. 3-4.

¹⁴ *Calpine Comments* at p. 2

generators to earn sufficient revenue on an annualized basis. The SDG&E proposal would likely result in more waivers and CAISO backstop procurement. If the waiver structure creates an outlet for LSEs to not procure RA, then there must be an effective annual make-whole mechanism for generators. One option is a seasonally adjusted waiver trigger price that adequately fulfills annual revenue requirements if procurement is limited to less than a full year. MRP suggests that further review of alternatives be set for review for the next RA program year and in the meantime that the Commission adopt the soft-offer cap proposal suggested by Calpine.

D. Waiver for Path 26 zonal requirements

Finally, MRP is very concerned about the Energy Division's proposal to institute an expanded waiver process. MRP believes it is premature to implement expanded waivers while the Path 26 constraint removal is being considered. As the CAISO notes, it will continue to show the minimum resource requirement north and south of Path 26 and enforce the constraint to maintain grid reliability.¹⁵ We support continued assessment of the Path 26 constraint removal and taking steps to address concerns. The Commission should consider expanding the waiver process only after a market study has identified systemic problems that an expanded waiver process would resolve.

III. CONCLUSION

MRP appreciates the opportunity to respond to the parties in this proceeding and submit these reply comments for the Commission's consideration.

Respectfully Submitted,

/s/ Joseph Greco
March 29, 2019

¹⁵ *California Independent System Operator Corporation Track 3 Proposal Comments*, March 22, 2019, at p. 12.