

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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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)

**TRACK 3 RESOURCE ADEQUACY PROPOSAL OF THE
INDEPENDENT ENERGY PRODUCERS ASSOCIATION**

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As authorized by the Amended Scoping Memo and Ruling of Assigned Commissioner (Scoping Memo), issued January 29, 2019, the Independent Energy Producers Association (IEP) submits its Track 3 Resource Adequacy (RA) proposal. By email dated February 22, 2019, the Administrative Law Judge (ALJ) notified parties that the new date for filing Track 3 proposals would be March 4, 2019. IEP's proposal is timely.

The Scoping Memo notified parties that the scope of issues to be addressed in Track 3 may be supplemented depending on the final Track 2 decision.¹ Moreover, the Scoping Memo clarified that issues related to the multi-year RA framework, the role of a central buyer, and refinements to the Effective Load Carrying Capacity (ELCC) will be addressed separately. Accordingly, Track 3 will consider issues previously scoped but not addressed in Track 1 and 2 and issues raised in parties' proposals in Track 1 and 2 that were not addressed or rejected (other than issues related to the multi-year and central buyer RA program).²

¹ Decision 19-02-022 was issued today.

² Scoping Memo, p. 2.

Track 3 will address the adoption of local capacity requirements, flexible capacity requirements, and system RA requirements for 2020. In addition, the Scoping Memo seeks parties' proposals related to further refinements to the RA program, including revisions to the load forecasting methodology, RA counting rules for storage and combined resources (*i.e.*, generation paired with storage), and refinement to the third-party demand response qualifying capacity methodology. The Scoping Memo seeks parties' proposals regarding modifications and refinements to the RA program.

In response to the Scoping Memo's invitation, IEP proposes the following matters for the Commission's consideration in Track 3.

1. Integrate System and Flexible RA into the Multi-year RA Framework.

The Commission's adopted multi-year RA Framework sets forward obligations for local RA requirements.³ Establishing local RA capacity obligations is of critical importance to ensure grid reliability and help address local market power concerns, but the concerns over reliability and the mitigation of market power extend beyond the local context. The integration of flexible RA and system RA capacity into the multi-year RA framework is critical now, in light of the dynamically changing electric grid, the planned shut-down or retirement of coal, nuclear, natural gas, and hydroelectric facilities in California and throughout the West, the rapid expansion of load-serving entities responsible for ensuring grid reliability for relatively small portions of the overall load, and the uncertainties associated with the rapid integration of preferred and intermittent resources and various emerging technologies (*e.g.*, storage) at a scale not previously experienced by grid operators. Moreover, enhancing the multi-year framework by including

³ Decision 19-02-022 established multi-year obligations for local RA requirements but deferred a decision on establishing multi-year obligations for flexible RA or system RA.

comparable flexible RA and system RA requirements will provide better market signals to RA resources needed to help maintain grid reliability.

In Track 3, the Commission should consider expanding the multi-year RA framework to include flexible and system RA capacity obligations. Many parties, including the grid operator, share IEP's concerns over the need for a more comprehensive approach to a multi-year RA framework and support integrating flexible and system RA requirements.⁴

2. Adopt a Planning Reserve Margin for Flexible RA.

Currently, the Commission employs a planning reserve margin (PRM) to set forward requirements for system RA capacity. The California electric grid will undergo fundamental change over the next 10 years that will heighten uncertainties about maintaining safe and reliable grid operations. For example, baseload resources are being displaced by intermittent resources that increase the need for flexible resources but at a yet-unknown level; flexible thermal and hydroelectric resources are being replaced by storage resources, typically with limited duration and availability; and distributed resources are increasingly being integrated into the electric grid, changing the power flows that historically were the focus of efforts to maintain grid reliability.

The California Independent System Operator (CAISO) indicates that its proposed interim flexible capacity methodology should provide the CAISO with sufficient flexible capacity.⁵ Yet the evidence suggests relatively high variability in the differences between recent forecasts of 3-

⁴ "The Commission should proactively address multi-year system and flexible forward procurement to avoid any future need for CAISO backstop procurement." *California Independent System Operator Corporation Comments on Proposed Decision*, R.17-09-020, December 11, 2018, p. 2.

⁵ See "Flexible Capacity Requirements for 2020 through 2022," CAISO Presentation, Web Conference on 2020 Flexible Capacity Needs Assessment, January 29, 2019, Slide 16.

hour upward ramps and actual upward ramps.⁶ The increasing variability experienced over the past few years should be expected to continue to increase in the near future as the penetration of behind-the-meter solar and grid-connected intermittent renewables increases to meet statewide Renewables Portfolio Standard mandates and 2030 greenhouse gas emission-reduction goals.

The Commission should consider adopting a planning reserve margin for flexible RA capacity similar in concept to the PRM employed for system RA capacity to help ensure that enough flexible capacity is planned and procured to ensure grid reliability to meet the inherent future uncertainties as the grid increasingly transforms to meet state policy objectives.

3. Conduct Needed Studies.

The Commission should direct the Energy Division to conduct a series of important studies to inform Track 3 decision-making and the next RA proceeding. Critical studies that the Energy Division should initiate in Track 3 including:

a. Flexible RA Enhancements.

A Track 3 Proposed Decision is scheduled for May 2019.⁷ The Commission should soon begin the discussion in Track 3 on whether enhancements to the flexible RA product are needed. The discussion of enhancements to the flexible RA product appears to be suspended in the wake of the termination of the FRACMOO stakeholder process at the CAISO. IEP urges the Energy Division to re-invigorate the discussion by conducting a study of potential flexible RA product enhancements to be considered to meet the changing needs of the electric grid over the next decade.

⁶ See “*Flexible Capacity Requirements for 2020 through 2022*,” CAISO Presentation, Web Conference on 2020 Flexible Capacity Needs Assessment January 29, 2019, Slides 17-18.

⁷ Scoping Memo, p. 4.

b. System RA Planning Reserve Margin Review.

Currently, the Commission employs a minimum 15% PRM for system RA capacity. While the Commission's adopted PRM has proven effective to date, the dramatic changes in grid operations suggest that the Commission should consider whether its adopted PRM is sufficiently resilient and robust to meet the changing needs of the system over the next decade, particularly in light of the planned retirements of generating resources in California and throughout the West. IEP urges the Energy Division to study the adequacy of the Commission's adopted PRM and to recommend changes as appropriate to address the needs of the grid in 2025-2035.

c. Conduct Workshops on Energy Division ELCC Proposal

By separate ruling, the ALJ Allen sought parties' comments on ELCC, including the Energy Division's updated and corrected proposal for an ELCC Diversity Adjustment.⁸ The ruling indicated that parties' comments on the Energy Division Proposal are to be incorporated into parties' Track 3 comments to be filed and served on March 22, 2019. IEP plans to comment as directed. Here, IEP simply proposes that the Commission should schedule workshops early in Track 3 to consider the Energy Division's Proposal.

⁸ Administrative Law Judge's Ruling on Effective Load Carrying Capacity, Feb. 13, 2019.

Respectfully submitted March 4, 2019, at San Francisco, California.

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