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**Comments of the Office of Ratepayer Advocates on the Joint Agency IEPR
Workshop on Risk of Economic Retirement for CA Power Plants, April 24, 2017**

Additional submitted attachment is included below.



ORA

Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Tel: 415-703-1584
<http://ora.ca.gov>

California Energy Commission Dockets Office
Docket #: 17-IEPR-14; Project Title: Existing Power Plant Reliability Issues
1516 Ninth Street
Sacramento, CA 95814

Re: Docket #: 17-IEPR-14; Project Title: Existing Power Plant Reliability Issues

Comments of the Office of Ratepayer Advocates on the Joint Agency IEPR Workshop on Risk of Economic Retirement for California Power Plants, April 24, 2017

The Office of Ratepayer Advocates (ORA) is the independent consumer advocate within the California Public Utilities Commission (CPUC), with a statutory mandate to obtain the lowest possible rates for utility services consistent with reliable and safe service levels, and the state's environmental goals.

The Economist article included in the presentation materials¹ provides insight into the grid reliability issues resulting from the expansion of solar and wind resources. Economic retirement concerns date back many years in California. On December 6, 2011, the California Independent System Operator Corporation (CAISO) issued a report calling for a risk of retirement designation for the Sutter Energy Center utilizing the Capacity Procurement Mechanism (CPM) as a means for the CAISO to directly contract for capacity necessary to ensure grid reliability.² The CAISO analysis indicated that the Sutter facility was necessary for reliability due to a projected capacity gap of 3,750 MW by the end of 2017.³ The CAISO analysis focused on ramping needs to address the intermittency of solar resources.⁴ Based on its analysis of operational needs for flexible capacity, the CAISO filed a tariff amendment with the Federal Energy Regulatory Commission (FERC) in 2012 to expand its ability to use a CPM

¹ *A World Turned Upside Down*. The Economist, February 25, 2017.

² *California ISO Report on Basis and Need for CPM Designation for Sutter Energy Center*, December 6, 2011.

³ *Ibid.*, p. 2.

⁴ The Sutter plant later retired ahead of 2017 and the available supply of flexible resources to meet ramping operational needs remained far in excess of demand for 2017.

process for up to 5 years forward to mitigate risk of retirement concerns.⁵ FERC rejected the CAISO tariff request referring to it as “an ineffective out-of-market solution” that may not result in just and reasonable rates.⁶

The workshop presentation by Michelle Kito from the CPUC summarized the history of ongoing efforts in cooperation with the CAISO to examine risk of retirement concerns.⁷ The Joint Reliability Proceeding (Rulemaking (R.) 14-02-001) examined risk of retirement issues, but was subsequently closed pending adoption of a durable flexible capacity program in the CPUC’s Resource Adequacy proceeding.⁸ The CPUC’s adoption of a durable flexible capacity program must be informed by the outcome of the CAISO’s Phase 2 of its Flexible Resource Adequacy Criteria and Must Offer Obligation (FRACMOO2) Initiative. The FRACMOO2 Initiative, projected to conclude at the end of 2017, will examine more specific characteristics needed from flexible capacity and recommend changes to eligibility requirements to meet future operational needs.⁹ In addition, the CAISO recently announced a new initiative for CPM risk of retirement process enhancements.¹⁰

The CPUC’s RA proceeding (R.14.10-010) has also considered expanding the program from a year-ahead requirement to a multiyear one. However, the CPUC should not establish a multiyear RA requirement without first clearly defining the existence and extent of any future capacity shortages and determining the appropriate method for mitigating shortages. The multiyear RA option may raise ratepayer costs without necessarily meeting the operational needs of the grid, especially since the CAISO has not yet defined and quantified the operational needs.

⁵ CAISO December 12, 2012 Filing in Docket No. ER13-550-000 (FLRR Proposal).

⁶ 142 FERC ¶ 61,248 UNITED STATES OF AMERICA FEDERAL ENERGY REGULATORY COMMISSION, March 29, 2013, p. 23.

⁷ Michelle Kito, CPUC Energy Division, April 24, 2017.

⁸ *Ibid.*, p. 18.

⁹ See <http://www.aiso.com/informed/Pages/StakeholderProcesses/FlexibleResourceAdequacyCriteria-MustOfferObligations.aspx>

¹⁰ See <http://www.aiso.com/informed/Pages/StakeholderProcesses/CapacityProcurementMechanismRisk-of-RetirementProcessEnhancements.aspx>

Furthermore, the CPUC's Energy Division produced a working paper on future capacity under procurement indicating high levels of procurement in future years.¹¹

The pattern of future procurement could be altered by the rapid growth of Community Choice Aggregators (CCAs) that rely on shorter term contracts. A possible expansion of direct access in California may also accelerate this trend, since direct access providers often depend on shorter term procurement contracting. If reliability concerns arise from the expansion of CCAs or direct access, then the evaluation of future procurement should consider cost allocation based on each LSE's contribution to the need for changing procurement requirements. The CPUC has historically supported cost causation principles that assign capacity costs to each Load Serving Entity (LSE) based on the LSE's contributions to need.¹² Distributed Energy Resources also may impact reliability and those programs should be examined for reliability cost impacts.

Several stakeholder proceedings currently address reliability concerns over economic retirement. Proceedings addressing reliability and potentially impacting the economics of existing power plants include the CAISO's initiatives on FRACMOO2, CPM, and temporary suspension of resources, and the CAISO's use of reliability must-run contracting. The CPUC's resource adequacy proceeding will also rule on new capacity valuation for intermittent resources, multiyear requirements, forward contract reporting, as well as an ORA-suggested track to examine reliability risks and mitigation measures. ORA supports ongoing stakeholder engagement in each of these proceedings to examine all aspects of potential economic retirements, including reliability issues as well as ratepayer impacts addressed with cost causation principles in mind.

¹¹ California Public Utilities Commission, An Assessment of Capacity Under Contract-An Energy Division Draft Staff Working Paper, December 22, 2016, p. 20.

¹² See PU Code 380 (a) The commission, in consultation with the Independent System Operator, shall establish resource adequacy requirements for all load-serving entities.

(b) In establishing resource adequacy requirements, the commission shall achieve all of the following objectives:

(3) Equitably allocate the cost of generating capacity and demand response in a manner that prevents the shifting of costs between customer classes;

See also CPUC Decision 05-10-042:

D.04-01-050 adopted an LSE-based RAR program wherein each LSE is responsible for acquiring the resources needed for its own forecasted load and a reserve margin. This is consistent with the established regulatory principle of establishing prices on the basis of cost causation. Ultimately load will be served through the CAISO, and an LSE that does not provide resources in proportion to the load of its retail customers could effectively be subsidized by others. Through LSE-based RAR, we seek to eliminate "free ridership"

Potential solutions should be designed based on sound research and analysis with sufficient transparency to allow for robust stakeholder engagement. Potential solutions should not be limited to current ideas such as multiyear RA and CPM enhancements, but should consider a wide range of both administrative and market-based ideas to ensure reliability at just and reasonable rates. For example, an expanded view of grid reliability impacts taking into account the evolving electricity landscape reveals unanticipated challenges such as voltage support challenges.¹³ The focus of the process should be developing solutions that minimize regulatory uncertainty, provide for an acceptable level of reliability, and minimize costs for ratepayers.

ORA appreciates the opportunity to submit the following comments on reliability risks associated with potential economic retirements of existing power plants. ORA supports ongoing analysis to clarify the issues and to develop policies that most effectively address reliability concerns.

For more information on ORA's comments, please contact:

Peter Spencer
415-703-2109
peter.spencer@cpuc.ca.gov

¹³ See CAISO, 2016-2017 Transmission Planning Process Unified Planning Assumptions and Study Plan, March 17, 2017, Appendix B.