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Cogentrix Comments on 2017 Draft Integrated Energy Policy Report

Additional submitted attachment is included below.

To: California Energy Commission
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From: Cogentrix Energy Power Management, LLC

Date: November 17, 2017

Subject: Comments on 2017 Draft Integrated Energy Policy Report

Docket Number: 17-IEPR-01

Cogentrix Energy Power Management, LLC ("Cogentrix") is pleased to submit these comments on the 2017 Draft Integrated Energy Policy Report (IEPR). These comments will cover the IEPR Executive Summary, Chapter 3 - Increasing the Resiliency of the Electricity Sector, and the Workshop on Risk of Economic Retirement of California Power Plants held in Docket 17-IEPR-14 Existing Power Plant Reliability Issues. In this filing, Cogentrix is providing general comments and specific comments along with recommendations.

General Comments

Cogentrix is concerned that there appears to be a significant amount of focus on the long term 2030 market goals without sufficient attention being given to the transition period on which achievement of longer term goals must be built. During this transition period, additional renewables will continue to be integrated into the grid while flexible generators are under economic duress and may be forced to close. It is clear that the CEC has an understanding of the role flexible generation will play in the future as stated in the Executive Summary in the IEPR:

> "Natural gas-fired power plants historically have been the workhorses of the grid and are capable of being turned up or down as needed in response to variations in energy supply or demand. With the increase in renewables, natural gas power plants are operating less and less, and many have ceased operation or have gone bankrupt. In one sense this is a success story in reducing greenhouse gas emissions, but some natural gas-fired power plants are

important for the reliable operation of the grid, either by virtue of location or because of their ability to rapidly ramp up and down. The Energy Commission, CPUC, and California ISO need to work together to address how to encourage inefficient, inflexible natural gas resources to retire and retain those that are needed to maintain the reliability and resiliency of the grid."[1]

What is not clear is if the CEC has a sense of urgency in dealing with how to maintain the flexible generation needed during the transitional years. The CEC is not alone in this lack of urgency. In regards to Resource Adequacy (RA), both the CAISO and the CPUC indicate that any real changes to the program, or tighter requirements for Flex Capacity, will take a minimum of two years and could easily slip to three years before implementation of any reforms. Likewise, for as much conversation as has taken place with regard to risk of unplanned retirement of needed flexible resources, there is a shocking deficiency of formal unplanned retirement sensitivity analysis included in RA program processes and related discourse at the three agencies.

Over the last three IEPRs (2015 IEPR, 2016 IEPR Update, 2017 Draft IEPR) the CEC's comments on the topic of the need for flexible generation became less pointed, while the need for flexible capacity grew larger as additional renewables were added to the grid (as demonstrated by the increase in record three-hour ramps, low net loads, and hourly and intra-hour ramps). The CEC went from a) very specific recommendations of 3 to 5 year forward procurement for flexible generation in the 2015 IEPR[2] to b) a more general recommendation of assuring resources needed for local reliability remain available in the 2016 IEPR Update[3] to c) the recommendation that the CEC should work with the CPUC and CAISO to develop a thoughtful and comprehensive plan to retain generation that is needed for reliability in this 2017 Draft IEPR[4]. Cogentrix recommends that CEC revert to the 2015 recommendation in this 2017 IEPR.

The lack of a meaningful recommendation in this IEPR, the absence of the study recommended in the 2016 IEPR Update on the contract status of flexible generation, and the treatment of the Workshop on Economic Retirements of California Power Plants in this report indicates that the CEC has put the issue of retaining necessary flexible generation on the back burner. Regarding the workshop, Cogentrix is perplexed by how a full day Joint Agency workshop on risk of retirement with panelists that included generators, IOUs, Munis, CEC Commissioners, CPUC Commissioners and CAISO senior management on the dais gets reduced

[1] Docket 17-IEPR-01, 2017 Draft Integrated Energy Policy Report, Executive Summary, Pg 8
[2] Docket 15-IEPR-01 2015 Integrated Energy Policy Report, Appendix A, Renewable Energy Action Plan Progress, Pg A-12
[3] Docket 16-IEPR-01 2016 Integrated Energy Policy Report Update, Pg 114
[4] Docket 17-IEPR-01, 2017 Draft Integrated Energy Policy Report, Pg 121

to four sentences in the 482 page IEPR document. Moreover, the message from the workshop was sobering. Cogentrix's comments filed on the workshop stated:

> "There is a general agreement, based on materials presented and comments made on the panel at the workshop, that there is a risk of capacity insufficiency (or availability of only the wrong type of capacity) in the next 2 to 5 years. It is surprising to Cogentrix that there is not a corresponding sense of urgency around major initiatives and market structure changes to address this concern considering that such initiatives and changes generally take greater than 2 years. Remarkably, there were no pointed or specific next steps to conclude the workshop discussion on reliability and retirement. Rather, the existing CAISO FRACMOO2 Stakeholder Process and CPUC IRP proceeding are being relied upon, by default, as the primary initiatives to respond to the concerns presented at the workshop. At the current pace of response, it will be too late to prepare for avoidable supply events that could occur in the 2 years."[5]

> "Several data points provided at the workshop by generators indicate that supply could permanently shut down at a faster rate than expected by the market's regulators. Unfortunately, the regulators and grid operator, including the CPUC, CEC and the CAISO all assume that capacity that is uncontracted (including via short term RA sales) remains available indefinitely despite the lack of fixed cost recovery. By definition that capacity is very much at risk of early economic retirement, even if it is in a local capacity area or provides ancillary services (criteria that incorrectly eliminates resources from CAISO's flawed review of assets at risk of retirement). Some retirements have already been announced and many others are at risk of retirement or intend to reduce capacity in the state."[6]

Specific Comments

In the IEPR at page 95, Chapter 3 - Increasing the Resiliency of the Electricity Sector under the section titled, "Solutions to Increase Flexibility in the Electricity System," Cogentrix suggests that another solution be added to the list as follows:

- Identify the existing flexible generation that will be needed over the next 5 years and facilitate contracts that will enable such generation to remain available until robust RA reforms are in place.

The recommendation in the IEPR at page 121, Chapter 3 should be **amended** as follows:

- Establish mechanisms to retain flexible power plants that **maintain the reliability** of the electricity system. The Energy Commission, the California Public Utilities Commission (CPUC), and the California ISO should work together to develop a thoughtful and

[5] Docket 17-IEPR-14 Cogentrix Comments Workshop on Risk of Economic Retirement for CA Power Plants, Pg 1
[6] Docket 17-IEPR-14 Cogentrix Comments Workshop on Risk of Economic Retirement for CA Power Plants, Pg 3

comprehensive plan to retain generation that is needed for reliability **in time to be included in 2019 RA season**.

Conclusion

Cogentrix believes there is a lack of focus on the near term transitional period which will put the long term goals of California in jeopardy and lead to reliability problems caused by the disorderly retirement of needed flexible capacity. Cogentrix has consistently stated that there is a real sense of urgency for California to take actions needed to maintain the flexible generation. We look forward to coming to resolution on these issues soon so the transition to the low carbon future continues smoothly.

Respectfully,

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