

**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  
Procurement Obligations.

Rulemaking 11-10-023  
(Filed October 20, 2011)

**COMMENTS OF THE CALIFORNIA WIND ENERGY  
ASSOCIATION ON PHASE 1 SCOPING MEMO AND RULING OF ASSIGNED  
COMMISSIONER AND ADMINISTRATIVE LAW JUDGE**

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*On behalf of California Wind Energy Association*

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**I. INTRODUCTION**

The California Wind Energy Association (“CalWEA”) respectfully submits these comments on areas of overlap between the Resource Adequacy (“RA”) rules and procurement rules within the Renewables Portfolio Standard (“RPS”) proceeding pursuant to the *Phase 1 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (“Phase 1 Scoping Memo”) issued in this proceeding on December 27, 2011.<sup>1</sup>

The Phase 1 Scoping Memo notes that “the resolution of some matters may require decisions in other proceedings” and requests that parties “explain what determinations fit in this proceeding and in other proceedings.”<sup>2</sup> In its reply comments on the Order Instituting Rulemaking (“OIR”) issued in this proceeding (“OIR Reply Comments”), CalWEA explained how the investor-owned utilities’ (“IOU”) approach to evaluating RA capacity provided by renewable energy projects leads to inefficient transmission investment and RA procurement.<sup>3</sup> Subsequent to filing its OIR Reply Comments, CalWEA submitted a motion in the Commission’s RPS proceeding, Rulemaking 11-05-005, in which CalWEA requested, among

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<sup>1</sup> Phase 1 Scoping Memo at 5 and 8.

<sup>2</sup> *Id.* at 5.

<sup>3</sup> OIR Reply Comments at 3-5.

other items, that the Commission require the IOUs to address their approach to evaluating RA capacity provided by renewable energy projects in their 2012 RPS Procurement Plans.<sup>4</sup> CalWEA's motion in the RPS proceeding was opposed by several parties.<sup>5</sup>

Admittedly, some of the issues addressed in CalWEA's OIR Reply Comments and these comments could be addressed in the Commission's RPS proceeding instead of in this RA proceeding. However, as noted above, some parties have opposed CalWEA's request to have these issues addressed in the RPS proceeding. Thus, CalWEA requests that the Commission consider the issues described below in this RA proceeding. To be clear, CalWEA's goal is to present the Commission with proposed changes to the IOUs' current approach to evaluating RA capacity from renewable energy projects, whether the Commission decides to evaluate these proposed changes in this RA proceeding or in the RPS proceeding. These changes should be evaluated as early as possible this year to ensure that any revisions to the IOUs' RA evaluation methodology are implemented in time for the IOUs' 2012 RPS solicitations.

As described in CalWEA's OIR Reply Comments, the IOUs' current approach to valuing renewable energy resources assumes that the generator will either have "energy-only" status, and not provide any RA value, or "full capacity" status, and provide RA value in accordance with the Commission's decisions relating to calculation of qualifying capacity. This unduly narrow approach has resulted in a preference among utility buyers for projects that have "full capacity" status and provide some level of RA capacity. In turn, the preference for renewable energy

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<sup>4</sup> See *Motion of the California Wind Energy Association Regarding 2012 Renewables Portfolio Standard Procurement Plans* (December 8, 2011), R. 11-05-005.

<sup>5</sup> See e.g., *Southern California Edison Company's Response to the Motion of the California Wind Energy Association Regarding 2012 Renewables Portfolio Standard Procurement Plans* (December 23, 2011), R. 11-05-005 ("SCE Response to CalWEA Motion"); *Response of San Diego Gas & Electric Company to the Motion of the California Wind Energy Association Regarding 2012 Renewables Portfolio Standard Procurement Plans* (December 22, 2011), R. 11-05-005 ("SDG&E Response to CalWEA Motion").

projects with “full capacity” status results in inefficient transmission planning and RA procurement.

To obtain “full capacity” status, a project must elect such status in the California Independent System Operator Corporation (“CAISO”) interconnection process (or the IOUs' equivalent distribution-level processes)<sup>6</sup> and then execute an interconnection agreement that requires additional Delivery Network Upgrades (as defined in the CAISO tariff) to be built. The CAISO currently designs Delivery Network Upgrades to meet extremely rare system conditions – essentially, operating conditions that might arise, literally, once every several thousand years – and assuming that renewable generators are operating at their full capacity, even though the RA capacity that projects is eligible to provide will be less (in some cases, much less) than full capacity. Thus, the typical result of the market's current de facto requirement to obtain “full capacity” status is over-designed, extremely expensive upgrades that present enormous market-entry barriers to generators (the costs are typically initially funded by the interconnecting generator, subject to refund after achieving commercial operation) and increased costs for utility customers (who ultimately fund such upgrades through the transmission component of rates). Further compounding this effect, the CAISO is currently considering changes to this policy, which may result in generators paying for network upgrades that they trigger without reimbursement.<sup>7</sup>

Requiring all resources to obtain “full capacity” status does not provide the most efficient approach to meeting RA procurement obligations either. In some cases, the cost for these upgrades is significantly higher than the cost to obtain an equivalent quantity of RA capacity in the broader RA market.

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<sup>6</sup> See CAISO Tariff Appendix Y Appendix 1 § 3.

<sup>7</sup> See “Integration of Transmission Planning and Generation Interconnection Procedures,” CAISO Straw Proposal, July 21, 2011.

To remedy this situation, CalWEA respectfully requests that the Commission:

A. Require each IOU to explain its methodology for calculating the capacity value provided by a proposed renewable energy project with a level of specificity that will allow developers to determine the capacity value that will be accorded to their offers;

B. Require each IOU to explain its methodology for converting expected transmission costs into transmission cost adders with a level of specificity that will allow developers to determine the transmission cost adders that will be applied to their offers;

C. Require each IOU to evaluate offers of renewable energy from “energy-only” projects packaged with RA capacity supplied by third parties; and

D. Encourage the CAISO to revise its current interconnection study process.

Each of these recommendations is addressed in further detail below.

## **II. DISCUSSION**

### **A. The Commission Should Require Each IOU To Explain Its Methodology For Calculating The Capacity Value Provided By A Proposed Renewable Energy Project**

Each of the IOUs is required to evaluate renewable energy project offers using a Commission-approved least-cost, best-fit (“LCBF”) process. However, for this process to be meaningful, it must be transparent. To increase the transparency of RA evaluation within the LCBF process, and ultimately the efficiency of transmission investment and RA procurement, the Commission should require each IOU to explain its methodology for calculating the capacity value provided by a proposed renewable energy project with a level of specificity that will allow developers to determine the capacity value that will be accorded to their offers.

Under current rules, a renewable energy project developer can offer IOUs either an “energy-only” project or a “full capacity” project. However, for a renewable energy project to be eligible to provide RA capacity, it must elect “full capacity” interconnection status, which

requires an incremental category of network upgrades to be constructed. As such, a “full capacity” project with the ability to provide RA incurs an associated cost. The developer needs two pieces of information to determine which option provides the highest net value to the IOU and its ratepayers – (1) the value of the RA capacity, and (2) the cost of the ability to provide RA capacity, i.e., the cost of the Delivery Network Upgrades associated with obtaining “full capacity” status.

To enable developers to determine whether the ability to provide RA capacity will create enough value to compensate for the increased cost of a “full capacity” project, the Commission should require each IOU to provide its methodology for calculating the capacity value provided by a proposed renewable energy project with a level of specificity that will allow developers to determine the capacity value that will be accorded to their offers. To accomplish this, the IOUs will need to explain how they determine the RA capacity that a given resource would be capable of providing and the per-unit price or value that the IOUs assign to RA capacity within the LCBF process. For example, a photovoltaic developer should be able to determine that the IOUs’ will assume the developer’s project of  $x$  megawatts will provide  $y$  megawatts of RA capacity, which the IOUs’ will value at  $z$  dollars per megawatt-year. By making this information available to the market prior to the submission of offers, the Commission will enable developers to present offers with higher net value to ratepayers.

Because an “energy-only” project may result in the construction of less transmission infrastructure than an otherwise equivalent “full capacity” project, the Commission should also require the IOUs to develop a methodology to evaluate the cost of any expected incremental curtailment to existing generators in the area resulting from interconnection of the “energy-only”

project.<sup>8</sup> This methodology should also be sufficiently detailed to allow developers to understand any effect on their offers prior to any deadline for submission of those offers.

CalWEA submits that this issue could be addressed in either this proceeding or in the RPS proceeding.

**B. The Commission Should Require Each IOU To Explain Its Methodology For Converting Expected Transmission Costs Into Transmission Cost Adders**

As described in Section II.A above, the developer needs two pieces of information to determine which option provides the highest net value to the IOU and its ratepayers – (1) the value of the RA capacity, and (2) the cost of obtaining the ability to provide RA capacity. The developer can obtain estimates of its direct cost to obtain the ability to provide RA capacity through its interconnection studies. However, to present offers with the highest net value to the IOUs, the developer needs to know how the IOU perceives the cost of the ability to provide RA capacity. Therefore, the Commission should require each IOU to explain its methodology for converting expected transmission costs into transmission cost adders with a level of specificity that will allow developers to determine the transmission cost adders that will be applied to their offers. For example, a developer with a Phase I interconnection study from the CAISO that specifies  $x$  million dollars in Delivery Network Upgrade costs should have access to sufficient detail about the IOU's LCBF process to be able to determine that the transmission cost adder the IOU will assign to the developer's offer will be  $y$  dollars per megawatt-hour.

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<sup>8</sup> While San Diego Gas & Electric Company has argued that such an analysis would amount to an integration cost adder that it is not permitted to consider in its LCBF analysis (*see* SDG&E Response to CalWEA Motion at 6), this position is inconsistent with the Commission's explanation that "[i]ntegration costs are costs associated with ancillary services needed for real time balancing of the CAISO transmission system from instability caused by unexpected fluctuations in generation or load." (*see* D.11-04-030 at 22). Indeed, Southern California Edison Company applied such an adder in its 2011 RPS solicitation, although CalWEA does not agree with the methodology used. *See* Southern California Edison Company 2011 Request for Proposals from Eligible Renewable Energy Resource Suppliers for Renewable Products – Procurement Protocol version 4, § 5.01(b).

By providing developers with a clear understanding of the IOUs' perceived cost and value for RA capacity prior to offer submission, the Commission will enable developers to develop projects and submit offers that present the highest net value. Furthermore, this information will provide developers with an early indication whether the value of the RA capacity that would be made available by constructing the specified Delivery Network Upgrades justifies the cost of those Delivery Network Upgrades. In turn, these early indications will reduce the probability that the developer signs an interconnection agreement requiring construction of network upgrades that cost more than the RA capacity value they create, the result of which is inefficient transmission investment.

CalWEA submits that this issue could be addressed in either this proceeding or in the RPS proceeding.

**C. The Commission Should Require Each IOU To Evaluate Offers Of Renewable Energy From “Energy-Only” Projects Packaged With RA Capacity Supplied By Third Parties**

The discussion of RA capacity value and associated transmission costs above is focused on the trade-off between the RA capacity value and associated transmission costs for a single project because current rules limit bids from renewable energy projects to either “energy-only” projects without RA capacity or “full capacity” projects with RA capacity. However, the sources of RA capacity are not limited to renewable energy projects.<sup>9</sup> To increase the efficiency of transmission investment and RA capacity procurement, the Commission should require each IOU to evaluate offers of renewable energy from “energy-only” projects packaged with RA capacity supplied by third parties.

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<sup>9</sup> Indeed, in a recent decision, the Commission found that RA capacity should be turned “into a fungible product that is easily commercially traded.” D. 10-06-036 at Finding of Fact 7.

As described in Section II.B above, it is inefficient for a developer to cause network upgrades to be built where the cost of those network upgrades exceeds the value of the RA capacity they enable. However, even where the value of RA capacity from a given project is greater than the cost of network upgrades required to provide that RA capacity, the decision to proceed may result in inefficient RA procurement relative to all sources of RA capacity. For example, consider a renewable energy project that is able to supply RA capacity valued at 100 for a network upgrade cost of 80. If a third party supplier of RA capacity, such as a natural gas-fired generator, is able to provide the same quantity of RA capacity at a cost of 60 and without any new network upgrades, then it would be more efficient (from both a transmission investment and a RA procurement perspective) for the renewable energy project to proceed as an “energy-only” project and contract with the third party (or have the IOU contract with the third party) for the equivalent quantity of RA capacity at the lower cost. This has the added benefit of increasing the utilization of the existing transmission system. As such, the Commission should require each IOU to evaluate offers of renewable energy from “energy-only” projects packaged with RA capacity supplied by third parties.

CalWEA submits that this issue could be addressed in either this proceeding or in the RPS proceeding.

**D. The Commission Should Encourage The CAISO To Revise Its Current Interconnection Study Process**

To facilitate a long-term solution to the high cost of “full capacity” status and to address significant transmission constraints, the Commission and the IOUs should encourage the CAISO to (1) revise the methodology and assumptions used in its interconnection study processes to reflect more reasonable system conditions, and (2) address major transmission constraints in its transmission planning process, where the Federal Energy Regulatory Commission has authorized

the CAISO to plan for “policy-driven upgrades” to promote the achievement of state policy goals. Done correctly, we would expect to see such planning produce the type of foundational upgrades that were included in the 2010 Conceptual Transmission Plan developed under the state's Renewable Energy Transmission Initiative (“RETI”). Taking these two important steps would relieve renewable generators of the financial and transmission-timeline burdens they now face, which in turn would promote greater generator competition and resolve CAISO interconnection queue bottlenecks, while assuring transmission system reliability.

Given the close coordination between the CAISO and the Commission in this RA proceeding, CalWEA submits that this proceeding is the best forum for the Commission to provide this encouragement to the CAISO.

### **III. CONCLUSION**

For the foregoing reasons, the Commission should implement the recommendations described above.

Respectfully submitted,

/s/ Nancy Rader

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