

CAISO

Resource Adequacy Deliverability for  
Distributed Generation

**Clean Coalition comments on Jan. 11, 2013 issue paper**

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## I. Introduction

The Clean Coalition is a California-based nonprofit organization whose mission is to accelerate the transition to local energy systems through innovative policies and programs that deliver cost-effective renewable energy, strengthen local economies, foster environmental sustainability, and enhance energy security. To achieve this mission, the Clean Coalition promotes proven best practices, including the vigorous expansion of Wholesale Distributed Generation (WDG) connected to the distribution grid and serving local load. The Clean Coalition drives policy innovation to remove major barriers to the procurement, interconnection, and financing of WDG projects and supports complementary Intelligent Grid (IG) market solutions such as demand response, energy storage, forecasting, and communications. The Clean Coalition is active in numerous proceedings before the California Public Utilities Commission and other state and federal agencies throughout the United States in addition to work in the design and implementation of WDG and IG programs for local utilities and governments.

A summary of our comments follows:

- We support a “First Expected Online, First Served” approach that will result in deliverability status that becomes a permanent and transferable attribute of a generator
- This approach stays closest to the original intent of this proceeding and will also allow a reasonable expectation of obtaining DS, and the revenue stream from RA that is made possible by DS, which in turn will promote rapid, cost-effective development of renewable generation.
- “First Expected Online, First Served” should be based on a scoring system conceptually similar to the GIDAP, with a material weighting on when a project is expected to come online. Projects that diverge materially from the targeted online date should be eliminated from the “DS queue.”

- Security posting deadlines from the applicable interconnection tariff should be the key criteria for maintaining the developer’s position in the DS queue. If a posting is not made on time the developer loses her DS queue position. This is simple and effective for incentivizing projects to come online quickly and to set reasonable targets for online status.
- We do not support CAISO’s Option 3 as it represents a major departure from the goals of the proceeding, as well as the large amounts of work and commentary derived from the proceeding to date. Additionally, there does not appear to be a logical reason, other than ease of tariff modification, for diverging from the market standard whereby deliverability status becomes a permanent attribute of a generator. Also, we think Option 3 does not support the development of DG or California’s RPS goals as non-permanent attributes cannot be financed. Finally, we have heard from the CPUC that Option 3 would likely require a complex regulatory process at the PUC as well, further handicapping this approach.
- Existing projects shouldn’t receive any free deliverability unless they are contracted to provide RA to the utility without compensation

## **I. Discussion**

### **a. The Clean Coalition supports Option 1 but under a “First Expected Online, First Served” approach**

As the ISO noted in a previous Straw Proposal for this proceeding, DG is a key element of California’s strategy for increasing the share of renewable resource production in the state’s annual consumption of electricity. The Governor has set a goal of 12,000 MW of DG by 2020 and Wholesale DG (WDG) will be a large part of meeting this goal.

A large portion of WDG resources will be developed by independent power

producers (IPPs) whose investments will depend on the cash flows they receive from a project, including Resource Adequacy (RA) payments. For this reason, the more stability and certainty there can be around RA, the more stability and certainty there will be for the development of renewable resources in California. At the same time, assigning deliverability status (DS) to qualifying DG benefits the ratepayer because LSEs won't have to procure redundant generation and RA from non-DG projects.

This is a highly important proceeding from the perspective of DG developers and advocates and we encourage the CAISO to spend as much time as needed to "get it right," rather than focusing on simpler and potentially flawed solutions in order to finish quickly.

We recommend a variant of Option 1 that we call "First Expected Online, First Served" (FEOFS). Under our FEOFS approach, deliverability status rests on quick online dates, with milestones to be achieved along the way, but DS also becomes a permanent and transferable attribute of a generator. That is, DS is not awarded only on an annual basis and subject to change in following years (making this revenue stream unbankable and thus mooted much of the benefits of awarded DS from the developer's perspective), but is, instead, awarded for the contractual lifetime of the project. DS should also be transferable, however, from the project owner/DS owner to other projects that also meet the required criteria for DS.

We recommend that the following criteria form the basis for assigning a "DS queue" position. These factors will ensure that projects in the DS queue are either moving ahead in the queue as required or are eliminated from the queue. If projects drop out of the queue the developer forfeits any right to assigned DS, but not any right to obtaining DS through normal procedures. We recommend the following criteria for determining FEOFS:

- **Expected online date:** a date must be chosen by the project developer that is realistic because if it's not realistic the developer will be at risk of being kicked out of the DS queue, based on the additional criteria that follow.
- **Achievement of specified milestones** that are described in the applicable interconnection tariff (either Rule 21 or WDAT GIP) as follows:
  - Initial security posting (15-20% of interconnection construction costs)
  - Second security posting (30%)
  - Third security posting (100%)
- **Operability by the date selected** for the "expected online date." This is the backstop criterion because if for some reason the security posting dates slip there can be no slippage on the expected online date if the developer wishes to stay in the DS queue

CAISO suggests that the GIDAP might be suitable for modification to the DGD context. However, we feel that our approach above is simpler and as, or more, effective. The key performance items for a developer are payments (postings) and if these postings are not made within the required time the developer will lose both her interconnection queue position and her DS queue position. These are powerful incentives to stay on track. There is no need for a PPA milestone because for the project to come online, and to justify the security postings, there will have to be a PPA in place. In other words, obtaining a PPA is implicit in the criteria above and is not necessary as a stand-alone criterion.

Assigning a DS queue position based on the above criteria will ensure that DS is assigned to those projects that can be brought online quickly. Also, as CAISO noted in its presentation at the CPUC on January 23, 2013, an expected online date approach should help avoid issues associated with a simple queue position approach, including queue squatting, dropouts and project delays.

Moreover, providing a simple and predictable route to assigning DS, and the RA and Time of Delivery (TOD) revenue streams that accompany DS, will provide a strong boost to the WDG market. Generators receive a significantly higher TOD payment if they are deliverable. For example, a solar project that is not deliverable will obtain only about 10% extra PPA revenue per year from TOD (due to delivering power during peak demand) but as much as 30% extra revenue from being deliverable. This is the case because the utilities have in the last two years made all new RPS contract payments for TOD dependent on deliverability.

RA and the higher TOD payments combined amount to as much as a 30-40% boost in revenue for a WDG project. This is extremely significant, so if WDG projects can discern a clear and predictable path for obtaining assigned DS it will be a real boon for the still-nascent WDG market.

Southern California Edison's proposal to award DS based on actual online date would moot these benefits because there would be very limited predictability or certainty in this process.

### **b. The Clean Coalition does not support Option 3**

We do not support CAISO's Option 3 as it represents a major departure from the goals of the proceeding, as well as substantial work completed in this proceeding to date. Additionally, there does not appear to be a good reason, other than ease of tariff modification, for diverging from the market standard whereby deliverability status becomes a permanent attribute of a generator. Also, we think Option 3 does not support the development of DG or California's RPS goals since non-permanent attributes cannot be financed. Finally, we have heard from the CPUC that Option 3 would likely require a complex regulatory process

at the CPUC, in addition to the current CAISO proceeding, further weighing against this approach.

**c. The Clean Coalition feels that existing generation should not be awarded DS before new generators, except when the generator is obligated to provide RA without compensation**

Southern California Edison (SCE) has pushed for awarding DS to existing generators before new generators, arguing that existing generators have paid for the existing grid and, because the current proposal relies on awarding DS from the existing grid attributes, existing generators should be allowed to obtain this benefit before new generators. However, this argument fails to take into account that existing generators on the distribution grid (which are the only types of generators at issue in this context) have only paid for reliability and not deliverability – by definition (if they had paid for deliverability they would already be deliverable). Accordingly, there is no equity argument that existing generators should obtain DS before new generators because both categories of generators are in the same position in terms of expenditures on today’s grid with respect to deliverability.

Moreover, awarding DS to existing generators misses an opportunity to both encourage new DG and to benefit ratepayers. If the additional revenue from DS is available to new generators, this can allow DS revenues to be incorporated into the PPA rates necessary to support a project, and potentially lower the PPA payments for energy, rather than compensating generators under existing contracts and then allowing these same generators to receive the additional revenue as “icing on the cake.” This situation would provide revenue beyond what is strictly required to incentivize a project to be built and exposes ratepayers to the risk of overpayment.

There is, however, an exception to our opposition: if a generator is obligated to provide Resource Adequacy (RA) to the utility, but without compensation under its current contract, we agree that such generators should have first rights to awarded DS. This circumstance is materially different because the generator obligated to provide uncompensated RA has no way of being compensated for providing RA and should, accordingly, be provided DS without expenditure by the generator's owner.

Tam Hunt

A handwritten signature in black ink, appearing to read 'TH', with a long horizontal flourish extending to the right.

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