

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

Order Instituting Rulemaking to Develop an
Electricity Integrated Resource Planning
Framework and to Coordinate and Refine
Long-Term Procurement Planning
Requirements.

Rulemaking 16-02-007
(Filed February 11, 2016)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE
ON THE REVISED PROPOSED DECISION REQUIRING ELECTRIC SYSTEM
RELIABILITY PROCUREMENT FOR 2021-2023**

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In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”) hereby submits these comments on the *Revised Proposed Decision Requiring Electric System Reliability Procurement for 2021-2023* (“Revised PD”), issued by Administrative Law Judge (“ALJ”) Julie A. Fitch on October 21, 2019.

I. INTRODUCTION.

CESA generally supports the Commission’s Revised PD that, among other things, increases the procurement requirement for all load-serving entities (“LSEs”) to address System Resource Adequacy (“RA”) capacity shortfalls projected in 2021-2023 due to once-through-cooling (“OTC”) facility retirements. Given that the Commission revised its OTC extension policy to limit the contract extension terms for specific OTC units, the Commission’s least-regrets procurement directive appears reasonable and represents an improvement from the original PD by accounting for the conditions around these planned retirements. To the extent possible, it will be important to ensure that OTC extensions are a last-resort measure and is truly positioned as strictly

an insurance policy.¹ Additionally, CESA is also appreciative of the Commission for its responsiveness to stakeholder feedback to clarify the baseline portfolio of resources to determine incremental procurement, expanding the procurement requirement to all LSEs given the system need, and the recognition of hybridization eligibility of existing fossil resources.² Furthermore, we appreciate the recognition of the joint motion related to capacity counting methodologies for hybrid resources and looks forward to working with the Commission in the RA proceeding to address these issues in a timely manner to support this procurement directive.

However, CESA has a few areas of comments and recommendations to provide clarification to stakeholders in response to this procurement directive that ensure the state meets its reliability and decarbonization goals. First, as mentioned in our comments to the original PD, the Commission should provide greater clarification and definition to the criteria to ensure preferred resources are procured in line with the Public Utilities Code Section 380 (as modified by Senate Bill [“SB”] 1136). Pursuant to this, the Commission should refine the definition of “fossil-fueled resources” that are proposed to be ineligible in the Revised PD. Second, clarification of distributed energy resource (“DER”) incrementality could support streamlined new resource procurement. Finally, the Commission should be aware that some recent competitive solicitations issued in response to the PD have included “exclusivity” terms and conditions that have presented challenges for System RA sellers and new resource developers and may lead to sub-optimal results.

¹ Revised PD at 19-20, 33, and 55.

² Revised PD at 32 and 38.

II. THE COMMISSION SHOULD PROVIDE GREATER CLARIFICATION AND DEFINITION TO PROCUREMENT CRITERIA TO ENSURE PREFERRED RESOURCES ARE PROCURED IN LINE WITH SENATE BILL 1136.

CESA continues to advocate for detailed criteria or procurement parameters that support the state’s advancement of its decarbonization goals alongside its need to ensure reliability. In our opening and reply comments, CESA proposed that this could be achieved by including greenhouse gas (“GHG”) emissions as part of the procurement criteria or by limiting the contract lengths of existing but uncontracted gas resources. In particular, CESA observes that, other than the modifications to OTC extension and energy efficiency terms, the Revised PD maintained the contract length requirements pursuant to this procurement directive.³ We recommend here again that the Commission reconsider our contracting proposal to limit the contract length for existing non-preferred resources (that are not materially modified to provide incremental benefit) to three years and have preferred resources procured and contracted to replace existing non-preferred resources upon new contract expiration.⁴ In doing so, CESA believes that any 2021-2023 procurement would not only advance the state’s decarbonization efforts but also better ensure that reliability “cliffs” will not reoccur in 2023 and beyond.

However, CESA believes that the Commission’s proposed adoption of a prohibition on new fossil-fueled resources as part of this procurement obligation requires further clarification and refinement. While generally supportive of promoting preferred resource development, a strict application of this proposed prohibition on new fossil-fueled resources potentially limits the development of resources that may utilize some natural gas in its operations but still provide significant GHG emission and local pollutant benefits. For example, some compressed air energy

³ Revised PD at 58-59.

⁴ See *Comments of the California Energy Storage Alliance on the Proposed Decision Requiring Electric System Reliability Procurement for 2021-2023* filed in R.16-02-007 on October 2, 2019 at 6-7.

storage (“CAES”) resources have significant potential to provide valuable deep cycling and long-duration storage to the electric grid that support greater renewables integration and grid reliability/flexibility but utilize some natural gas fuel in combination with compressed air in the generation phase of its operations.⁵ Despite these benefits, CESA is concerned of the immediate and precedential impact of the Revised PD’s prohibition on any new, greenfield development of fossil-fueled resources without further refinement to this definition.

Instead, CESA recommends that this “fossil-fueled resource” definition be refined to specify that this prohibition on fossil-fueled resources do not apply to energy storage or hybrid resources that utilize some natural gas in the energy storage process but would, in net, support the state’s GHG emission reduction goals. The PD already appears to recognize this nuance for hybridization of existing, brownfield fossil-fueled resources with energy storage that can contribute incrementally to reliability needs while supporting decarbonization goals through the reduced and more efficient utilization of the paired natural gas generator.⁶ A similar recognition and exclusion from the prohibition should apply to new, greenfield energy storage and/or hybrid resources that utilize some fossil fuels in operations but can be demonstrated to advance the state’s decarbonization goals. For these reasons, a clear linkage to GHG emissions for this procurement directive and/or refinement of best-fit criteria could better support this nuanced consideration of resources.

⁵ At the same time, the Commission should be aware that not all CAES resources require natural gas (*e.g.*, advanced adiabatic CAES technologies).

⁶ Revised PD at 43.

III. CLARIFICATION OF DER INCREMENTALITY COULD SUPPORT STREAMLINED NEW RESOURCE PROCUREMENT.

The Revised PD does not make any modifications related to the incrementality of DERs in competitive solicitations, which references the incrementality principles adopted in D.16-12-036 as a starting point for all demand-side resources. CESA has previously expressed the limitations of the D.16-12-036 principles in comments in this proceeding as well as in the Multiple-Use Applications (“MUA”) Report in the Energy Storage proceeding (R.15-03-011) and believes that refinements are needed. While CESA understands that the Commission may wish to address DER incrementality issues more broadly in the appropriate proceeding, as opposed to a potentially one-off procurement directive here, we are concerned with the PD’s adoption of this incrementality methodology that has not been demonstrated broadly. The incrementality methodology referenced in the PD was only introduced by one utility for use in a pilot solicitation for a different class of services (*i.e.*, distribution services) that did little in the way of actual procurement of resources. In other words, this methodology is largely untested.

However, in support of the all-hands-on-deck and all-source approach to this procurement directive, an interim but more workable DER incrementality assessment approach would better support DERs in new resource procurement, such as the one proposed by CESA in our opening comments to the PD.⁷ One of the challenges of the current incrementality approach as established in D.16-12-036 and as defined in Resolution E-4889 is the lack of timing, locational, and operational granularity in the incrementality assessment and the burden on the applicant or bidder in demonstrating incrementality in competitive solicitations. As such, for this procurement

⁷ See *Comments of the California Energy Storage Alliance on the Proposed Decision Requiring Electric System Reliability Procurement for 2021-2023* filed in R.16-02-007 on October 2, 2019 at 12-13.

<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M316/K460/316460546.PDF>

directive, CESA recommends that the Commission reconsider our interim incrementality proposal, and open the issue of appropriate incrementality methodology for behind-the-meter DERs in a subsequent phase of the IRP or RA proceedings.

IV. EXCLUSIVITY TERMS AND CONDITIONS IN COMPETITIVE SOLICITATIONS IN RESPONSE TO THIS PROCUREMENT DIRECTIVE MAY LEAD TO SUB-OPTIMAL RESULTS.

Due to the near-term timing of the procurement need, many LSEs have launched competitive solicitations in advance of the final approval of the PD to begin soliciting offers and bids and get resources on the path toward timely construction, installation, and operations. In participating in these competitive solicitations, CESA members have experienced challenges in participating in multiple solicitations due to the exclusivity terms and conditions in some solicitations where shortlisted bidders are unable to negotiate with other buyers as a condition of being shortlisted in a particular solicitation. CESA believes that such procurement and contract negotiation approaches could lead to sub-optimal outcomes in response to this procurement directive and creates challenges for new resource developers in having to choose one solicitation to compete in. As a result, such approaches risk potentially “stranding” new resource procurement opportunities if developers have chosen to compete in the “wrong” solicitation (*e.g.*, a buyer could get more competitive offers than it needs per the megawatt allocation pursuant to the procurement directive) and forcing developers to place one bet in a single solicitation as opposed to showing its resource in multiple competitive solicitation. CESA understands that the Commission may have limited authority to address this issue around procurement and solicitation approaches but some guidelines in the PD to prevent such approaches may be beneficial. At the very least, the Commission should be aware of this potential issue.

V. **CONCLUSION.**

CESA appreciates the opportunity to submit these comments to the Revised PD and looks forward to working with the Commission and stakeholders in this proceeding.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Alex J. Morris".

Alex J. Morris
Vice President, Policy & Operations
CALIFORNIA ENERGY STORAGE ALLIANCE

Date: October 31, 2019