

**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 and Flexible Procurement
Obligations for the 2019 and 2020
Compliance Years.

Rulemaking 17-09-020
(Filed September 28, 2017)

**REPLY COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON
THE PROPOSED DECISION ON CENTRAL PROCUREMENT OF THE RESOURCE
ADEQUACY PROGRAM**

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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 submit these reply comments on the *Proposed Decision on Central Procurement of the Resource Adequacy Program* (“PD”), issued by Administrative Law Judges (“ALJ”) Debbie Chiv on March 26, 2020.

I. INTRODUCTION.

The Commission is tasked with addressing a number of issues regarding Local Resource Adequacy (“RA”) procurement through a central procurement model, where reaching consensus has been challenging to reach over the course of close to two years of workshops and meetings in this proceeding. However, despite the Commission’s attempt to find a “middle-ground” solution that addresses the requirements of the central buyer model as outlined in Decision (“D.”) 19-02-022, the PD was met with significant and broad opposition to the implementation of the PD as currently drafted, other than from Pacific Gas and Electric Company (“PG&E”), Southern California Edison Company (“SCE”), and a few other parties. More specifically, CESA observed that several parties, both potential sellers and buyers of RA, oppose the PD’s removal of a one-for-one crediting system for load-serving entities (“LSEs”) that decide to show resources they have bilaterally procured. A number of parties also questioned the PD’s ability to ensure that future

procurement emphasizes the development of preferred resources, one of the stated guiding principles of the central procurement structure.

Furthermore, in addition to the wide opposition, many parties highlighted the flaws of the “hybrid” procurement model as proposed in the PD for its lack of clarity on a number of issues, such as those around ensuring competitive neutrality with the investor-owned utilities (“IOUs”) acting as the central procurement entity (“CPE”), the fallout of including dispatch rights as an optional bid parameter, and the specifics of the least-cost, best-fit (“LCBF”) evaluation criteria. These ambiguities and issues point to a need to make major refinements and modifications to the PD’s proposed hybrid procurement model prior to adoption and implementation by the 2023 RA compliance year. Given the multitude of issues that need to be worked through, CESA suggests that there may be sufficient grounds to delay implementation of the central procurement structure by one year and/or to consider whether a more appropriate middle-ground solution can be reached between the PD’s hybrid procurement model and the Joint Settlement Agreement’s residual procurement model, which create broader consensus of parties. With such widespread opposition to the PD, the Commission must reconsider whether the PD, as proposed, represents a reasonable outcome that addresses the issues identified in D.19-02-022 and adheres to statute and to the Commission’s decarbonization goals and reliability obligations.

Considering the wide array of perspectives on this issue, CESA’s reply comments focus on the key areas of modification to the PD’s structure (*i.e.*, one-for-one crediting, removal of dispatch rights) as well as highlighting areas that require further and significant refinement, where it may be appropriate to delay implementation of the central procurement model.

II. A ONE-FOR-ONE CREDITING SYSTEM SHOULD BE MAINTAINED FOR LSES THAT OPT TO SHOW BILATERALLY PROCURED RESOURCES.

CESA agrees with the many parties who question the ability of the PD’s hybrid procurement model to incent LSEs to procure RA resources bilaterally,¹ as it fails to offer any benefit for LSEs that engage on the development and procurement of resources capable of

¹ See comments by San Diego Gas & Electric (“SDG&E”); the California Community Choice Association (“CalCCA”); the Union of Concerned Scientists, Sierra Club, and the California Environmental Justice Alliance (together, the “Joint Environmental Parties”); Shell Energy North America (“Shell”); CPower, Enel X North America, Leapfrog Power, and the California Efficiency + Demand Management Council (together, the “Joint DR Parties”); and, The Utility Reform Network (“TURN”), among others.

providing Local RA and does not represent a compromise between the other available options.² Without crediting rules that provide the necessary certainty for RA counting, LSEs are likely to forego the opportunity to engage in timely bilateral procurement, leaning further on the CPE and increasing the risks of costly backstop procurement. Furthermore, though PG&E and SCE argue the appeal of PD's model as ensuring equitable cost allocation that accounts for load migration uncertainties, LSEs would face excessive and thus not equitable cost allocation if they engaged in their own bilateral procurement.³ Thus, CESA urges the Commission to revise the PD and include one-for-one crediting for all LSEs that opt to show Local RA capacity. Parties differed on whether one-for-one crediting should be maintained for only preferred resources or for all Local RA resources, but, after assessing opening comments further, CESA believes it is reasonable and necessary to maintain for all Local RA resources procured by LSEs in order to both protect the value of existing contracts and incentivize new resource procurement.

III. MANY AREAS AND DETAILS NEED TO BE RESOLVED WHERE IT MIGHT BE WORTHWHILE TO DELAY IMPLEMENTATION.

Opposing parties identified a number of significant issues that must be resolved prior to adoption and implementation of the central procurement model. CESA agrees with many of these issue areas, which include:

- **Preferred resource criteria:** Many parties expressed concern with the lack of clarity or guidance to ensure loading order priority and preference for greenhouse gas ("GHG") free or reducing attributes, or how it would be measured in accordance with intended operations.⁴
- **Competitive neutrality:** Several parties highlighted the need to ensure sufficient firewalls and controls to ensure CPE independence and competitive neutrality.⁵ The general nod to the use of Rule 24 protocols and existing practices of IOU procurement must be further refined.

² CalCCA comments at 2-3.

³ See SDG&E's comments at 3 and 6, including their example at 4 showing the inconsistency with cost causation principles and the potential for unlawful cost shifts. See also LS Power comments at 5 and Joint DR Parties comments at 4-5.

⁴ OhmConnect comments at 5; Independent Energy Producers Association ("IEP") comments at 13-14; Joint DR Parties comments at 7; and Joint Environmental Parties comments at 3.

⁵ LS Power comments at 5; Middle River Power ("MRP") comments at 9-10; Joint Demand Response ("DR") Parties at 13; and Shell comments at 12.

- **Resource effectiveness:** Greater clarity or removal may be appropriate for the resource effectiveness criterion since procurement that satisfies one set of published effectiveness factors may not satisfy the reliability needs of another set.⁶
- **Bid cap:** The CPE has too much latitude to defer to backstop procurement by the California Independent System Operator (“CAISO”) if bid prices are “unreasonably high,” which is insufficient to only allow for such deferral when market power is exercised. Furthermore, many parties raise valid concerns about the use of the soft-offer cap that does not account for the cost of new entry of preferred resources such as energy storage.⁷

Considering all of the substantial and complex issues above, notwithstanding the potential to reconsider and work toward a reasonable compromise between the residual and hybrid procurement models, CESA believes it may be worthwhile to consider delaying implementation of the final central procurement model until the 2024 RA compliance year, where procurement for three-year forward Local RA needs to begin in 2022. Parties have highlighted major and significant concerns, which should not be ignored, whereby the Commission may find it prudent to continue to work toward a reasonable and viable central procurement model rather than adopting the PD’s proposed structure. Under such an approach, the Commission should continue with the status quo bilateral structure while either refining the PD’s model or working toward a compromise solution.

IV. DISPATCH RIGHTS SHOULD BE REMOVED AS A BID PARAMETER.

CESA agrees with parties that the inclusion of dispatch rights as an optional bid parameter would add complexity to bid evaluation (*e.g.*, for tolling agreements) and place the CPE in a scheduling coordinator (“SC”) role that would involve the recover other costs (*e.g.*, fuel).⁸ No party expressed support while there was broad and strong opposition to this aspect of the PD. Even PG&E and SCE recognized how it would be a “fundamental change” to the RA program to procure for dispatch rights.⁹ Given the lack of support or identified need for this bid parameter, CESA recommends removal of this from the PD and the adopted central procurement model.

⁶ MRP comments at 11 and SDG&E comments at 8.

⁷ IEP comments at 3 and 6; Joint DR Parties comments at 11 and 14; MRP comments 11; Shell comments at 10; and Alliance for Retail Energy Markets (“AReM”) comments at 7.

⁸ MRP comments at 8 and 13; LS Power comments at 5; IEP comments at 9; Shell comments at 13; and AReM comments at 4.

⁹ PG&E and SCE comments at 14.

V. **THE COMMISSION SHOULD DEFER EXTENSION OF THE MULTI-YEAR REQUIREMENTS TO OTHER RA PRODUCTS AT THIS TIME.**

The CAISO asked the Commission to modify the PD in order to include multi-year requirements for System and Flexible RA, pointing to the example of how the state has had to conduct “catch-up” procurement to address System RA shortfalls in the Integrated Resource Planning (“IRP”) proceeding.¹⁰ While generally agreeing with the need to avoid catch-up procurement in favor of more planned, forward-looking reliability procurement, CESA disagrees with the CAISO’s position and agrees with the PD on the lack of record on this matter.

In adopting a 50% Year 3 requirement for multi-year Local RA requirements, the Commission recognized the appropriate balance in incentivizing more competition and new resource procurement to meet Local RA needs. Though some level of forward-looking procurement requirements for System and Flexible RA is reasonable to avoid substantial near-term procurement that can be untenable and challenging, CESA does not believe that the Commission and stakeholders have had an opportunity to discuss the requirements that would strike this balance. Furthermore, the Commission is considering more fundamental changes in Track 3 of R.19-11-009. Taken together, the Commission appropriately does not extend the multi-year requirements to other RA products at this time, until the record is developed on this matter.

VI. **CONCLUSION.**

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

Respectfully submitted,



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¹⁰ CAISO comments at 5.