

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

Order Instituting Rulemaking to Oversee
the Resource Adequacy Program, Consider
Program Refinements, and Establish
Forward Resource Adequacy Procurement
Obligations.

Rulemaking 19-11-009
(Filed November 7, 2019)

**RESOURCE ADEQUACY TRACK 3B.2 PROPOSALS OF THE CALIFORNIA
ENERGY STORAGE ALLIANCE**

Jin Noh
Policy Director

Sergio Dueñas
Senior Regulatory Consultant

CALIFORNIA ENERGY STORAGE ALLIANCE
2150 Allston Way, Suite 400
Berkeley, California 94704
Telephone: (510) 665-7811
Email: cesa_regulatory@storagealliance.org

December 18, 2020

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

Order Instituting Rulemaking to Oversee
the Resource Adequacy Program,
Consider Program Refinements, and
Establish Forward Resource Adequacy
Procurement Obligations.

Rulemaking 19-11-009
(Filed November 7, 2019)

**RESOURCE ADEQUACY TRACK 3B.2 PROPOSALS OF THE CALIFORNIA
ENERGY STORAGE ALLIANCE**

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”) hereby submits our *Resource Adequacy Track 3B.2 Proposals* pursuant to the *Assigned Commissioner’s Amended Track 3B and Track 4 Scoping Memo and Ruling (“Scoping Memo”)*, issued on December 11, 2020.

I. INTRODUCTION.

CESA appreciates the opportunity to collaborate with the Commission and all the parties of Rulemaking (“R.”) 19-11-009 in the revision and restructuring of the Resource Adequacy (“RA”) Program. CESA previously submitted Track 3B proposals to address energy attributes and hourly capacity requirements on August 7, 2020 as a near-term, achievable reform until more comprehensive or substantial reforms are developed. With the Amended Scoping Memo bifurcating Track 3B into two further sub-tracks, some of our various proposals more appropriately fit within the Track 3B.1 scope, where revised proposals are due on January 28, 2021. CESA’s recommendation to revise and reframe the Maximum Cumulative Capacity (“MCC”) buckets adopted in D.20-06-031 will be submitted as a revised proposal at that time. Similarly, CESA will

submit revised proposals related to two issues at that time as well: (1) unbundling all RA attributes to allow for efficient procurement and targeted availability; and (2) evaluating the capacity counting rules applicable to all potential hybrid resource configurations.

Given the revised scope of the proceeding, CESA submits the following Track 3B.2 proposals:

- **The Commission should evaluate methodologies to consider variable energy resources (“VERs”) as RA-reducing assets:** The RA Program should use the net load duration curve instead of the gross load duration curve. This would entail that solar and wind will be attributed RA-reducing value as opposed to supply-side RA value. As other parties have raised similar proposals, the Commission should evaluate a host of methodologies that could be applied in an orderly and reasonable fashion.
- **The Commission should consider transactability and transitions within all Track 3B.2 proposals:** As CESA and other stakeholders have filed proposals that could incrementally or substantially modify the way RA products are defined and counted, CESA urges the Commission to address the issue of transactability and transitions as changes and reforms are made to the RA Program.
- **Track 3B.2 proposals should focus on RA Program performance requirements and consider the role of California Independent System Operator (“CAISO”) markets to guide and incentivize energy delivery in line with market principles and efficiency:** Some of the Track 3B.2 proposals implied that the issues related to energy delivery is tied to the disaggregated load-serving entity (“LSE”) market and decline of tolling agreements; however, CESA finds such diagnoses of the issue to be misplaced, where a more appropriate Track 3B.2 focus should be on planning and compliance frameworks.

Overall, with the Commission bifurcating Track 3B into two sub-tracks, with one focused on near-term reforms and the second focused on more substantial reforms, CESA recommends that the Commission create a roadmap or pathway to transition from the adopted Track 3B.1 proposal to the adopted Track 3B.2 proposal. In other words, the near-term and longer-term reforms must be coordinated and include certain common elements that minimize the disruptive impacts of adopting a near-term proposal that does not reasonably transition to or is substantially different from the longer-term restructuring of the RA Program. To this end, CESA believes that

the Scoping Memo smartly schedules the decisions on both Track 3B.1 and Track 3B.2 proposals at the same time, whereby the Commission and stakeholders have an opportunity to consider proposals for near- and longer-term reform in tandem. As Track 3B proceeds, CESA strongly recommends that the Commission keep in mind that Track 3B.1 and Track 3B.2 should not be viewed in isolation.

II. THE COMMISSION SHOULD EVALUATE METHODOLOGIES TO CONSIDER VARIABLE ENERGY RESOURCES AS RA-REDUCING RESOURCES.

In a world with significant VER penetration, the grid is evolving to one that needs significant amounts of flexible and dispatchable resources. As the marginal capacity contributions of solar and/or wind decrease with increasing levels of penetration, CESA and many other stakeholders agree that the RA treatment of VERs may need to be revisited along with a placing a greater focus of capacity planning on the net load peak period. Furthermore, the simplistic accounting of VER capacity value by using an effective load carrying capability (“ELCC”) methodology ultimately fails to capture the hour-by-hour capacity by establishing a blanket 24x7 capacity level, discounted based on loss-of-load expectation (“LOLE”) studies. For these reasons, CESA supports further exploration to consider VERs as RA-reducing resources in both Track 3B.1 and Track 3B.2 proposals to ensure fast, flexible, and dispatchable resources are procured as RA resources.

With this in mind, CESA’s revised MCC proposal eliminates the Category 4 requirement that requires that dispatchable resources be available for 24 hours. This constraint was incorporated to ensure RA requirements are not met solely by intermittent resources such as solar or wind generation;¹ currently, VERs thus count in MCC Category 4, but with limits. Instead, according to

¹ This would not apply to dispatchable resources that are paired with a VER, such as hybrid resources.

our revised MCC structure proposal, solar and wind should be attributed RA-reducing value, as opposed to supply-side RA value, by subtracting their generation output from the overall RA requirements. In order to perform this reduction of RA requirements, the Commission could utilize the forecasted generation of solar PV and wind resources by LSE in alignment with the Integrated Resource Planning (“IRP”) models, which provides a means to account for intra-day variability and other uncertainties. In order to avoid overestimating the contributions of VERs, which could result in the establishment of underestimated capacity requirements, CESA recommends using conservative generation profiles (*i.e.*, one-in-five- or one-in-ten-years profiles).

CESA considers this approach is reasonable due to the declining capacity contributions of VERs. Moreover, CESA considers the RA program is equipped to make such a change. First, it is worth noting that some VERs are already incorporated into the RA program in this fashion. Such is the case of behind-the-meter solar PV assets, whose generation is considered a load modifier for RA purposes. Moreover, D.20-06-002 established that cost allocation mechanism (“CAM”) resources and investor-owned utility (“IOU”) local demand response (“DR”) resources should reduce the local RA amount that the Central Procurement Entity (“CPE”) must procure, even though they could be reasonably categorized as supply-side resource. This, in turn, establishes precedent for certain resources to become RA-reducing, a possibility that should be adopted by the Commission with regards to VERs.

It is worth noting that this new categorization of VERs is not unique to CESA’s proposal. Other Track 3B proposals filed on August 7, 2020, such as the joint Net Qualifying Energy (“NQE”) proposal from Southern California Edison Company (“SCE”) and the California Community Choice Association (“CalCCA”), consider a restructuring of the RA program that would decouple the energy and capacity attributes of certain resources while evaluating VERs as

RA-reducing assets. Proposals of this nature should be considered by the Commission, as they offer a viable pathway to modify the RA program in order to properly attribute reliability value to flexible and dispatchable resources such as energy storage. That being said, these sorts of proposals would profoundly reshape the current RA landscape and thus require further refinement (*e.g.*, the consideration of hybrid and co-located resources of solar/wind generation with storage under this regime).

As such, CESA acknowledges this proposal represents a substantial modification of the role that VERs have so far played within the RA program. In order to mitigate the potential uncertainty this proposal could create, its implementation should be accompanied with strong grandfathering mechanisms and a new framework to compensate the reliability benefits associated with VER generation. Hence, CESA recommends that the Commission establish a working group or hold workshops to discuss how both Track 3B.1 and Track 3B.2 proposals could determine a transition strategy for VERs within the RA proceeding.

III. THE COMMISSION SHOULD CONSIDER TRANSACTABILITY AND TRANSITIONS WITHIN ALL TRACK 3B.2 PROPOSALS.

As noted in our August 7, 2020 filing, CESA’s revised MCC proposal would establish the possibility for area- and sub-area-specific RA requirements and availability assessment hours (“AAHs”). Despite some of its limitations, one of the benefits of the current RA Program is the ease of bilateral trading and transactability of RA products due to relatively clear and upfront capacity counting rules (*e.g.*, four-hour energy storage) that allow an ‘apples-to-apples’ comparison of different resources based on the concept of net qualifying capacity (“NQC”). This arrangement has successfully supported and preserved the bilateral capacity marketplace in the state, easing financeability and certainty for buyers and sellers of RA capacity. Another key element of transactability is to establish transitions that would reasonably protect existing RA

contracts, which the Commission has considered in the RA Program as well as in other planning and compliance constructs.

However, many of the Track 3B proposals would introduce additional complexity that is necessary to address the evolving grid's needs but also require balancing with ease of compliance and transactability. While valuable, the focus on transactability would pose limits when integrating more complex, interdependent portfolios, which include resources with different physical limitations and benefits. Moreover, this paradigm is unable to capture constraints on the grid, contingency needs, or the broader use of energy-limited resources.

The issue of transactability is not unique to CESA's Track 3B proposals, as it could also occur under other methods proposed by several stakeholders. Some Track 3B proposals consider a restructuring of the RA Program that would decouple the energy and capacity attributes of certain resources. A framework based on decoupled, transactable energy and capacity attributes would provide increased opportunities for all types of energy storage while reducing the need for continuously revising counting methodologies. However, if applied to both System and Local RA, transactability issues related to the energy component could arise. Thus, CESA urges the Commission to keep in mind this issue as the various Track 3B proposals are assessed in future working groups and/or workshops.

IV. TRACK 3B.2 PROPOSALS SHOULD FOCUS ON RA PROGRAM PERFORMANCE REQUIREMENTS AND CONSIDER THE ROLE OF CAISO MARKETS TO GUIDE AND INCENTIVIZE ENERGY DELIVERY IN LINE WITH MARKET PRINCIPLES AND EFFICIENCY.

During the Track 3B.2 workshop, Commission Energy Division staff proposed a number of solution options that could be pursued to address the issue of the lack of forward contracting for energy, which may be contributing to potential withholding or lack of energy delivery in the CAISO market. As a result, among the measures that could be used, as proposed by staff, include:

(1) revising the MCC to make them binding; (2) including a least-cost dispatch requirement; (3) having a resource-specific bid cap; (4) using a fixed-price forward energy requirement; and (5) using a forward energy-based system hourly load shape framework.

However, CESA urges that the Commission assess all Track 3B proposals to identify and consider the role of the CAISO markets to deliver energy and operationalize the capacity in efficient ways. Whether through new energy-shifting CAISO market products or improvements to CAISO market pricing, the presumed problems of the lack of energy delivery in the CAISO market does not necessarily have to be resolved by the RA Program. There is some coordinated role that the RA Program can play versus what the CAISO market can do.

Specifically, for example, the lack of forward energy contracting in the form of long-term tolling agreements does not mean that such energy will not be delivered since some LSEs do execute energy-only contracts that are decoupled from RA capacity. Furthermore, energy withholding concerns due to the lack of forward contracting for energy may not be applicable to resources that are subject to local market power mitigation measures, which are effective in ensuring marginal-cost bidding in the market. As the Commission considers the range of energy-related and hourly capacity issues, the Commission should be mindful of these market mechanisms in place at the CAISO as well as the benefit-cost tradeoffs of tolling versus RA-only contracts, where there may be other means to achieve the RA Program's goals without prescriptive contracting preferences or non-market-oriented bidding requirements.

V. **CONCLUSION.**

CESA appreciates the opportunity to submit these revised Track 3B.2 proposals and looks forward to working with the Commission and stakeholders in this proceeding.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'J. Noh', written in a cursive style.

Jin Noh
Policy Director
CALIFORNIA ENERGY STORAGE ALLIANCE

Date: December 18, 2020