

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

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

Rulemaking 21-10-002
(Filed October 7, 2021)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE
PROPOSED DECISION ADOPTING LOCAL CAPACITY OBLIGATIONS FOR 2023-
2025, FLEXIBLE CAPACITY OBLIGATIONS FOR 2023, AND REFORM TRACK
FRAMEWORK**

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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 *Proposed Decision Adopting Local Capacity Obligations for 2023-2025, Flexible Capacity for 2023, and Reform Track Framework* (“PD”), issued on May 20, 2022, by Administrative Law Judges (“ALJ”) Debbie Chiv and Shannon O’Rourke.

I. INTRODUCTION.

CESA appreciates the Commission’s diligent consideration of the myriad of topics included in the PD and acknowledges the efforts of the California Independent System Operator (“CAISO”) and the Commission’s Energy Division (“ED”) staff in preparing the Local and Flexible Capacity Requirement (“LCR/FCR”) Reports and the Loss-of-Load Expectation Study (“LOLE Study”), respectively. This PD is the result of extensive working group discussions and a vast record built by parties since late 2020. As California reckoned with the extreme heat events of August 2020 and their effects on electric reliability, the Commission and parties to this proceeding’s predecessor, Rulemaking (“R.”) 19-11-009, engaged extensively with the issues that the current Resource Adequacy (“RA”) Program faces and how these will evolve as California continues to work towards achieving its energy and climate goals. This process came to inform Decision (“D.”) 21-07-014, the workshop process directed therein, and, as the PD summarizes, it resulted in the development of two distinct slice-of-day (“SOD”) proposals: Southern California

Edison Company’s (“SCE”) 24-slice proposal and Gridwell’s two-slice proposal. As stated on prior occasions, CESA believes that SCE’s 24-slice proposal is superior for a number of reasons, including that it fully complies with the direction provided by the Commission in D. 21-07-014. In this context, CESA largely agrees with the direction adopted by the Commission in this PD regarding RA reform.

With this in mind, CESA’s comments can be summarized as follows:

- The Commission is correct in not applying effective load carrying capability (“ELCC”) for energy storage and hybrid/co-located storage assets.
- The DR qualifying capacity (“QC”) methodologies proposed in the California Energy Commission’s (“CEC”) working group report should not be precluded from future consideration.
- The Commission correctly identifies that only the 24-hour slice proposal is fully compliant with the Commission’s direction.
- The Commission should explicitly state that storage assets will be able to count at the maximum power output they are capable of providing over the number of hours shown.
- CESA welcomes the modified implementation schedule as it will allow for more time to appropriately incorporate multi-day reliability assurances, and to value long-duration energy storage (“LDES”) and paired resources.
- The Commission is correct in not adopting a hedging proposal at this time.

II. THE COMMISSION IS CORRECT IN NOT APPLYING ELCC FOR ENERGY STORAGE AND HYBRID/CO-LOCATED STORAGE ASSETS.

CESA strongly agrees with the Commission’s determination to not apply ELCC values for standalone energy storage and hybrid/co-located storage assets,¹ instead retaining the current QC methodologies for RA Year 2023.² The Commission’s decision to continue using the currently applicable QC methodology for energy storage and hybrid/co-located storage assets is correct

¹ PD at 24.

² PD at 25.

given the dispatchable nature of energy storage, the potential contractual concerns and disruption an interim change to ELCC could create, and the deficiencies of the Energy Division’s (“ED”) Loss-of-Load Expectation Study (“LOLE Study”). In addition to our methodological concerns about using ELCC for energy storage and hybrid/co-located resources, ELCC values, particularly rolling average and marginal estimates, are highly volatile, which creates a complex landscape for project financing as the state considers other reforms in the RA realm. Currently the bankability of RA revenues is a cornerstone to the financing of the thousands of MWs of energy storage that the Commission expects to come online in the coming years, supporting grid reliability and enabling the transition to a decarbonized electric grid. CESA members have increasingly encountered language regarding valuation or regulatory risk in contracts for incremental storage capacity. In this context, a potential transition to an ELCC methodology only adds more uncertainty and has the potential to drastically increase near-term costs and supply chain concerns as more materials would be required to meet the requirements set in the RA Program. The transition to SOD reforms also makes it highly disruptive and unnecessary to move to ELCC at this time for an interim/short period. The PD recognizes these concerns, and as such, CESA agrees with the Commission’s intent to preserve the current QC methodologies for standalone energy storage and hybrid/co-located storage resources for RA Year 2023 and 2024, the latter of which shall also serve as a test year for the new RA framework.

III. THE DEMAND RESPONSE QC METHODOLOGIES PROPOSED IN THE CEC WORKING GROUP REPORT SHOULD NOT BE PRECLUDED FROM FUTURE CONSIDERATION.

CESA appreciates the time and effort that the CEC staff and various stakeholders put into the DR QC Working Group to facilitate discussions on QC principles and methods and to produce the final report recommending interim methodologies for RA Year 2023. In the CEC’s Working Group Report, recommendations were made for QC values for RA year 2023. The CEC recommends that all DR resources maintain the option to use the existing Load Impact Protocols (“LIP”) or choose between: LIP-informed ELCC for IOUs, the “PJM/NYISO” incentive-based methodology for third-party Demand Response Providers (“DRP”), and the LOLP-weighted LIP as a backup option for everyone. For RA year 2023 and 2024, the PD proposes to maintain the existing LIP process and may implement the LOLP-weighted LIP if the Commission decides the CEC LOLP data is appropriate to use.

Overall, CESA does not oppose using the existing LIP methodology for 2023, particularly since DRPs have already begun the process, and supports the willingness to further develop and vet the LOLP-weighted LIP method. However, there is a lost opportunity to use the PJM/NYISO approach to facilitate near-term procurement, particularly given the concerns surrounding emergency reliability that are being exacerbated by continuing supply chain constraints and project delays. While CESA understands the Commission’s concerns surrounding the constrained timeline for Energy Division staff to understand unfamiliar models, we disagree that the “the proposal has not been sufficiently developed to ensure that the penalty structure provides necessary incentives for DRPs to reasonably estimate QC values.”³ In fact, as alluded to by its name, the PJM/NYISO approach is based on proven capacity methodologies in two jurisdictions, PJM and the New York Independent System Operator (“NYISO”), and the penalty structure in the proposal is based off the existing Capacity Bidding Program (“CBP”) penalties here in California. Additionally, the Maximum Cumulative Capacity (“MCC”) buckets that place limits on DR procurement is in place to guard against overreliance on any new approach in the interim. Therefore, CESA still believes that RA years 2023 and 2024 could provide important opportunities to test implementation of this approach, while still allowing DRPs to use the existing LIP process or LOLP-weighted LIP if they choose.

IV. THE COMMISSION CORRECTLY IDENTIFIES THAT ONLY THE 24-HOUR SLICE PROPOSAL IS FULLY COMPLIANT WITH THE COMMISSION’S DIRECTION.

In the PD, the Commission finds that Gridwell’s two-slice proposal fails to satisfy the principles and direction set by the Commission in D.21-07-014.⁴ Instead, the Commission concludes that SCE’s 24-slice proposal best satisfies the principles and objectives identified in D.21-07-014. CESA profoundly agrees with the Commission’s conclusion as Gridwell’s proposal does not satisfy critical guidance provided by the Commission in D.21-07-014 and relies on complex and administratively burdensome methods that continue to yield single-value estimates regarding the reliability contributions of energy- and use-limited assets.

³ PD at 38.

⁴ PD at 73.

In the PD, the Commission underscores that several parties have noted that Gridwell's proposal does not address hourly energy needs as required in D.21-07-014, instead only focusing on two periods (gross peak and net peak) which could, in time, converge to one.⁵ The Commission then concludes that Gridwell's two-slice proposal is not in fact an SOD framework, but rather, a two-period proposal that would move to one period by 2023 when the net peak and gross peak hours are forecasted to converge, making it essentially a one-point framework as the one we have today.⁶ CESA fully supports the Commission's conclusion since Gridwell's proposal only addresses hourly energy sufficiency within the LOLE study that would set the requirements. While the LOLE study would analyze all 8,760 hours of a given year, its outputs would not provide significant insight into hourly needs or the hourly contributions of resources.

In the PD, the Commission also highlights that Gridwell's proposal could prove challenging given its reliance on performing regular ELCC studies for various resource classifications and zones. The Commission notes that these studies require significant effort and pose challenges to the RA framework given the uncertainty in values that may arise as the portfolio of resources evolves from one study to the next.⁷ Moreover, the Commission notes that, even if the challenges linked to regular ELCC studies were manageable, the two-slice framework's reliance on single-value estimates for variable energy resources ("VERs") and energy- and use-limited assets, would continue undervaluing contributions during the current peak and overvalue contributions during the net peak.⁸ CESA agrees with the Commission's reasoning as Gridwell's proposal would have the RA Program continue to rely on a problematic single-value reliability estimates, leading to some of the very challenges that has driven the need for emergency reliability procurement. Thus, CESA supports the Commission's conclusion that SCE's 24-slice proposal best satisfies the principles and objectives identified in D.21-07-014 and looks forward to further develop it through the workstream process identified in the PD.

⁵ *Ibid.*

⁶ PD at 70.

⁷ PD at 74.

⁸ *Ibid.*

V. **THE COMMISSION SHOULD EXPLICITLY STATE THAT STORAGE ASSETS WILL BE ABLE TO COUNT AT THE MAXIMUM POWER OUTPUT THEY ARE CAPABLE OF PROVIDING OVER THE NUMBER OF HOURS SHOWN.**

Following consideration of PG&E's and SCE's proposals for assigning QC value for energy storage assets within the 24-slice framework, the PD states that determines that SCE's storage counting proposal based on Pmax or UCAP-light, restricted to daily resource capabilities, is reasonable and shall apply to energy storage resources under the 24-hour framework.⁹

Overall, CESA agrees with the intent to count storage assets in a manner consistent with their physical capabilities, such as the maximum number of hours the asset can run daily, its maximum continuous energy, and the asset's efficiency.¹⁰ While this intention is reasonable, the wording of the PD merits additional clarification. Throughout the workshop process directed in D.21-07-014, there has been significant agreement amongst the parties supporting SCE's 24-hour proposal that energy storage assets should be counted in a flexible manner, as to allow LSEs to remedy needs across the 24-hour period. In this context, CESA has supported the counting of energy storage to be based on the Pmax over number of hours shown by the LSE, subject to interconnection limits. Such an approach recognizes the flexibility of storage assets, is compatible with the 24-by-7 must-offer obligation ("MOO"), enables cost-effective usage of assets, and provides clear and certain resource counting rules. Under this counting method, which is consistent with PG&E's proposal, a 400 MWh battery could be shown for 50 MW over 8 hours or 100 MW over 4 hours. Notably, this difference would determine the MOO of the asset. CESA considers that the record of this proceeding and the spirit of the proposals made by SCE and PG&E are aligned with the requested clarification; as such, we urge the Commission to revise the PD to clearly state that energy storage assets will be able to count at the maximum power output they are capable of providing over the number of hours shown by the respective LSE.

Specifically, CESA recommends the following modifications to the Findings of Fact ("FOF") and Conclusions of Law ("COL"):

⁹ PD at 83.

¹⁰ PD at 82.

FOF 16. SCE's storage counting proposal for use of Pmax or UCAP-light (if developed) **over the number of hours shown by the respective LSE,** restricted to daily resource capabilities, is reasonable.

COL 16. SCE's storage counting proposal regarding use of Pmax or UCAP-light (if developed) **over the number of hours shown by the respective LSE,** restricted to daily resource capabilities, should be adopted for energy storage resources under the 24-hour framework.

VI. THE MODIFIED IMPLEMENTATION SCHEDULE WILL ALLOW FOR MORE TIME TO APPROPRIATELY INCORPORATE MULTI-DAY RELIABILITY ASSURANCES AND TO VALUE LDES AND PAIRED RESOURCES.

In the PD, the Commission revises the proposed implementation date of the new RA framework, adopting a test or shadow compliance year for RA Year 2024 and expecting to move towards full implementation by RA Year 2025.¹¹ The Commission argues that this modification will allow parties and staff to hash out several pending details, as well as identify other issues that may require resolution prior to full implementation. The modification of the schedule will allow parties to discuss and finalize showing and verification tools, as well as counting conventions, through the identified workstreams.

CESA supports the proposed schedule modifications as they will enable parties to address important subjects such as the future of the MCC buckets and the valuation of LDES assets. Moreover, the modified schedule will enable parties to finally address the blind spots of the counting methodologies currently applied to paired assets. As such, CESA supports the establishment of the identified workstreams, the inclusion of a shadow compliance year for RA Year 2024, and the deferral of full implementation of the new RA framework by RA Year 2025.

VII. THE COMMISSION IS CORRECT IN NOT ADOPTING A HEDGING PROPOSAL AT THIS TIME.

In the PD, the Commission recognizes that a broad consensus of parties opposes a hedging requirement at this time.¹² Nevertheless, the Commission notes that it remains concerned with the

¹¹ PD at 103.

¹² PD at 101.

absence of a means to ensure that RA is linked with energy bidding behavior in order to balance reliability with minimizing costs to customers. In this context, the Commission notes that it has authorized Energy Division to request energy hedging data (both physical and financial) from LSEs and report such data to the Commission. While the Commission will not adopt a hedging component at this time, Energy Division will be required to submit the aforementioned hedging data and its analysis into the RA proceeding for consideration of a potential hedging requirement to be incorporated into the 24-hour framework. CESA supports the Commissions decision to refrain from adopting a hedging component at this time, as this adoption would be contrary to the record. CESA looks forward to reviewing the data and analysis presented by Energy Division later on in this proceeding.

VIII. CONCLUSION.

CESA appreciates the opportunity to submit these comments on the PD 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', is positioned above the typed name and title.

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Date: June 9, 2022