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 IMPLEMENTATION TRACK PHASE 3 WORKSHOP AND PROPOSALS

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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 Implementation Track Phase 3 proposals submitted by parties January 20, 2023, as well as the workshop held February 8^{h}, 2023.

I. INTRODUCTION.

CESA appreciates the opportunity to comment on the several thoughtful proposals put forth by parties to this proceeding. As California's grid has evolved in recent years, so have the challenges and risks faced by the Commission and its jurisdictional load-serving entities ("LSEs") in retaining the safe, reliable, and continued operation of the electric service. From new and extreme weather patterns to unprecedented supply chain and interconnection woes, the Resource Adequacy ("RA") framework has been continuously updated to adapt to and overcome these new challenges. With this in mind, CESA's comments can be summarized as follows:

- The Commission should adopt Energy Division's ("ED") proposal to extend the application of the effective Planning Reserve Margin ("PRM") through 2025.
- The Commission should increase the single annual PRM applicable to 2024 under the current RA construct to 18-20%.
- Any determination made regarding the single annual PRM to be applied for 2024 under the current RA framework should not preclude development of monthly PRMs once California moves to the slice-of-day ("SOD") framework.

- The Commission should adopt a clear timeline to prepare and issue a report evaluating the Central Procurement Entity ("CPE") framework.
- The Commission should establish a methodology to better assess what "high pricing" means in the context of CPE procurement.
- The Commission should coordinate with the California Independent System Operator ("CAISO") to ensure that their analyses communicate Local capacity Requirements for future years in terms of both capacity and energy.
- The Commission should adopt Southern California Edison's ("SCE") maximum cumulative capacity ("MCC") buckets proposal for 2024.
- The Commission should refrain from adopting an energy bid cap specific to one market participation pathway.
- The Commission should consider the findings of the California Energy Commission's ("CEC") DR QC Working Group Report before modifying DR adders.

II. THE COMMISSION SHOULD ADOPT ED'S PROPOSAL TO EXTEND THE APPLICATION OF THE EFFECTIVE PRM THROUGH 2025.

In the Summer Reliability proceeding, Rulemaking ("R.") 20-11-003, the Commission determined that additional resources were needed for reliability during extreme events. Given tight supply conditions in the RA market, an effective PRM was adopted.[1] The effective PRM did not modify the *de jure* 15 % PRM that must be met by RA-providing assets; instead, the Summer Reliability decisions directed the investor-owned utilities ("IOUs") to procure additional contingency resources on top of the 15% PRM to provide additional reliability during extreme events. Thus, the effective PRM authorizes the IOUs to attempt to buy additional MWs beyond their RA obligations and charge for those above-RA costs to all customers as contingency resources. Crucially, the effective PRM approach also allows both RA and non-RA eligible resources (*e.g.*, the Emergency Load Reliability Program ["ELRP"]) to count towards the effective

[1] Appendix A, at 4.

PRM.[2] As such, with Decision ("D.") 21-12-015, the Commission set a procurement target of 2,000-3,000 MW for the summers of 2022-2023 which was designed to provide for the procurement of contingency resources to meet an effective PRM of 20-22.5%.[3] Recent changes to the 2023 and 2024 *de jure* 15% PRM did not modify the effective PRM framework.

In proposals submitted January 20, 2023, the ED staff proposed an extension of the effective PRM beyond 2023, through 2025.[4] In addition, ED proposed that all resources that are now eligible to be in the contingency resource bucket can remain contingency resources.[5] ED argued that this is reasonable since the ELRP Program is authorized through 2025, but noted that any decision to extend the effective PRM beyond 2026 is not determinative of whether ELRP continues as a contingency resource.[6]

Overall, CESA agrees with ED's proposal to extend the application of the "effective PRM" framework as it would allow ELRP resources to continue contributing to reliability through 2025, a reasonable outcome given the fact that said program has been authorized through 2025. While CESA supports the continued application of the effective PRM, we urge the Commission to consider more durable and scalable means to allow distributed energy resources ("DERs") to contribute to reliability, beyond the ELRP Program. While ELRP resources have successfully contributed to reliability, an emergency program that hinges on the Commission's determinations is not a viable vehicle for the compensation of DERs providing reliability value and supporting reliability planning. It is not bankable and does not provide long-term revenue certainty to make investment decisions in new DERs, particularly behind-the-meter ("BTM") energy storage, or to facilitate long-term operational and performance commitments from existing DERs to inform load-serving entities' ("LSEs") portfolio optimization decisions. Further, short-term reliance on the ELRP does not advance the conversation surrounding the future of these resources in an increasingly bidirectional and fragmented energy system. As such, CESA supports the extension of the effective PRM framework through 2025 and urges the Commission to further development

[2] *Ibid,* at 7.
[3] *Ibid,* at 4.
[4] *Ibid,* at 7.
[5] *Ibid,* at 8.
[6] *Ibid,* at 7.

of means to allow DERs to contribute to reliability in a dependable manner, such as through the RA valuation of DER export capabilities.

III. THE COMMISSION SHOULD INCREASE THE SINGLE ANNUAL PRM APPLICABLE TO 2024 UNDER THE CURRENT RA CONSTRUCT TO 18-20%.

As noted previously in these comments, the *de jure* PRM applicable to the RA obligations of all LSEs was originally adopted in D.04-01-050 and had remained constant at 15% through 2022. This PRM was first modified through D.22-06-050, where the Commission determined that there was an urgent need to increase the PRM but recognized that additional loss-of-load expectation ("LOLE") analyses were warranted prior to increasing it in a permanent fashion. As a compromise between these two considerations, the Commission adopted a marginally increased PRM of 16% for 2023 and a minimum PRM of 17% for 2024 stating that any additional increase for 2024 would be considered once new LOLE results were available. Importantly, as noted in the prior section of these comments, this did not modify the effective PRM adopted in D.21-12-015.

During the February 8, 2023 workshop, ED staff noted that the most recent LOLE results show that a 2024 portfolio that assumes timely development of all baseline resources expected by 2024 requires no additional capacity to be reliable (*i.e.*, to meet the 0.1 LOLE standard).[7] This result is significantly different if any delays in the development of new capacity were to occur. According to ED staff's analyses, a delay of 4 GW of "in development" capacity for 2024 would result in unacceptably high LOLE for CAISO (*i.e.*, about 0.29).[8] This is largely due to significant retirements of conventional capacity expected by 2024 within CAISO, making the system heavily reliant on large amounts of storage, solar and other hybrid generators currently under development. In this context, ED staff recommended that the Commission modify the 2024 PRM to a value between 18% and 20% for all 12 months of the 2024 RA compliance year.[9]

As other parties have noted, there is significant evidence that some form of adjustment to the yearly PRM currently used in the RA framework is warranted for 2024. The analysis presented by ED staff during the workshop underscored that potential supply chain, transmission, and/or interconnection delays could have significant impacts on reliability; as such, CESA supports

[7] Workshop materials, at 52.

[8] *Ibid.*

[9] *Ibid.*

modifying the PRM applicable to 2024 under the current RA construct from 17% to 18-20%. While CESA is supportive of modifying the single annual PRM applicable under the current RA construct, it is unclear what effect ED's proposal would have on the PRM applicable for the 2024 SOD Test year. To cure this potential for confusion, CESA recommends the Commission clarify if and how the single annual PRM to be applied for 2024 under the current RA framework differs from the SOD PRM that shall be used that same year for test year purposes.

IV. ANY DETERMINATION MADE REGARDING THE SINGLE ANNUAL PRM TO BE APPLIED FOR 2024 UNDER THE CURRENT RA FRAMEWORK SHOULD NOT PRECLUDE DEVELOPMENT OF MONTHLY PRMS ONCE CALIFORNIA MOVES TO THE SOD FRAMEWORK.

During the workshop, ED presented on their PRM proposal for 2024. In addition, ED also showed the translation of some of their LOLE results to the SOD framework. While appreciative of ED's efforts to make the results of their recent LOLE study as useful as possible for the coming years, CESA is confused by the the communication of the translation of said results and requests clarification. First, as noted in the prior section of these comments, it is unclear whether the single annual PRM of between 18% and 20% will also be applicable as the PRM for the SOD Test Year. Second, the methods and results presented during the workshop regarding the translation of PRM results into the SOD framework seemed to indicate that ED was preempting some of the conversations relative to the PRM that would be applicable under a future RA framework that operates exclusively on the SOD basis (*i.e.*, beyond the 2024 Test Year).[10]

CESA therefore urges the Commission to clarify by June 2023 if and how the single annual PRM to be applied for 2024 under the current RA framework differs from the SOD PRM that shall be used that same year for Test Year purposes. In addition to this clarification, CESA requests that the Commission explicitly note that any determination made regarding the single annual PRM to be applied for 2024 under the current RA framework should not preclude development of monthly PRMs once California moves to an RA framework based on the SOD approach. This clarification is necessary as establishing a single annual PRM under SOD would nullify several of the very benefits of the SOD paradigm, resulting in overprocurement, increased ratepayer costs, and induced demand in an already tightening market.

[10] *See* Workshop materials, at 48-51.

V. THE COMMISSION SHOULD ADOPT A CLEAR TIMELINE TO PREPARE AND ISSUE A REPORT EVALUATING THE CPE FRAMEWORK.

The Western Power Trading Forum ("WPTF") submitted a proposal on January 20, 2023 that recommended that the Commission establish a formal timeline to review the effectiveness of the CPE framework. WPTF noted that the Commission should specify the issues to be addressed in a future report prepared by ED on the matter, focusing on the stated aims of the CPE framework such as cost efficiency, market certainty, reliability, administrative efficiency, and customer protection.[11] Finally, WPTF proposed a timeline that would ensure that the report is issued, and that the subsequent review process is completed in time for the Commission to adopt any needed modifications to the CPE framework before the conclusion of the 2024 CPE cycle, delineated below.

ED Report Issued	By January 13, 2024
Workshop on ED Report	By January 20, 2024
Proposals filed	By February 3, 2024
Workshop on Proposals	By February 10, 2024
Comments on Proposals	By February 17, 2024
Reply Comments on Proposals	By February 24, 2024
Proposed Decision on Proposals	By March 23, 2024

CESA agrees with WPTF's proposed schedule for a report evaluating the effectiveness of the CPE framework. Since the Commission adopted the hybrid CPE approach, many parties have highlighted many of the significant complexities and shortcomings of the structure. The difficulties that LSEs and counterparties have experienced under this framework should be properly noted and considered when assessing whether the CPE framework has advanced goals, such as cost efficiency, market certainty, reliability, and administrative efficiency. In particular, the Commission needs to assess whether the current CPE framework is accommodating fair and effective consideration of new resources, including how the CPE assesses bids and self-showings for new resources that require or have been procured under long-term contracts, even though the CPE is only subject to a three-year forward requirement. Such an assessment would also inform

[11] WPTF Proposals, at 4-5.

proposals and recommendations related to what constitutes "unreasonably high" prices in the CPE Request for Offers ("RFO"), which is discussed further in subsequent sections of these comments.

To this end, CESA is especially supportive of WPTF's recommendation that the Commission should instruct ED to support its findings and conclusions with quantifiable metrics and rigorous analysis, and to utilize publicly-available information and/or information that will be made public to the greatest extent possible. As such, CESA supports the recommendation to have the Commission adopt a clear timeline to prepare and issue a report evaluating the CPE framework in alignment with WPTF's proposal.

VI. THE COMMISSION SHOULD ESTABLISH A METHODOLOGY TO BETTER ASSESS WHAT "HIGH PRICING" MEANS IN THE CONTEXT OF CPE PROCUREMENT.

In their January 20, 2023 proposal, Vistra recommended that the Commission adopt measures to provide the CPEs with clear guidance on what constitutes "high pricing" in the context of their competitive solicitations and the decision to defer procurement to the CAISO backstop mechanism. Vistra accurately explained that the Commission's decisions regarding the CPE provides that "the CPE shall have discretion to defer procurement of a local resource to the CAISO's backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high."[12] Vistra noted that this provision, in practice, introduces significant uncertainty into the CPE solicitation process that disrupts the CPE's ability to award the offers needed for local RA needs, even in the binding RA year.[13]

To assuage this matter, Vistra proposed to establish a CPE soft price cap, which would be equal to the sum of the CAISO backstop procurement risk (currently $6.31/kW-month) plus the higher of the System or Local RA penalty (currently $8.88/kW-month). This would result in a CPE soft price cap of $15.19/kW-month for the 2024 RA Year – a threshold that should be adjusted going forward if either CAISO or Commission revises the inputs to the formulaic CPE cap.[14]

CESA shares the concerns voiced by Vistra regarding the uncertainty caused by the "high pricing" provision. As Pacific Gas & Electric's ("PG&E") CPE Compliance Report shows, the aforementioned provision makes it possible for binding needs to remain unresolved and punted to

[12] Vistra Proposals, at 4.

[13] *Ibid,* at 18.

[14] *Ibid,* at 20.

the CAISO despite the fact that market participants have made viable options available to the CPE. As a result, CESA strongly supports Vistra's recommendation to establish a methodology in order to better assess what "high pricing" means in the context of CPE procurement. *Prima facie,* CESA does not have objections to Vistra's proposed methodology, but we welcome input and recommendations from other parties in order to develop a viable methodology by the Commission's June 2023 decision.

VII. THE COMMISSION SHOULD COORDINATE WITH THE CAISO TO ENSURE THAT THEIR ANALYSES COMMUNICATE LOCAL CAPACITY REQUIREMENTS FOR FUTURE YEARS IN TERMS OF BOTH CAPACITY AND ENERGY.

In addition to the proposal relative to "high pricing" in the context of the CPE, Vistra also put forth a proposal urging the Commission and the CAISO to communicate local capacity requirements for future years in terms of both capacity (MW) and energy (MWh). Vistra stated that better coordination between the Commission and the CAISO is needed since the former adopts local capacity requirements ("LCR") detailed in the CAISO studies which, today, identify the minimum local capacity (MW) needs, but not the minimum continuous energy need (MWh). This is largely due to the fact that said studies report capacity assuming a conventional resource. Vistra argues that further clarity is needed since certain areas could have need profiles that could be met by different capacities of conventional and energy-limited resources.[15]

CESA supports Vistra's recommendation to have forward local RA requirements specify both capacity and energy. While the CAISO today offers a graphical representation of the need profile, communicating needs in terms of energy and capacity will ease consideration of energy-limited resources such as energy storage, either in a standalone or paired configuration, to meet LCRs. Moreover, this information will facilitate the transition away from aging conventional assets, particularly in disadvantaged communities located within Local Reliability Areas ("LRA"). As a result, CESA supports Vistra's proposal to have the CAISO's LCR studies communicate local RA requirements in terms of both energy and capacity, and the Commission adopting them as such.

[15] *Ibid,* at 10.

VIII. THE COMMISSION SHOULD ADOPT SCE'S MCC BUCKETS PROPOSAL FOR 2024.

PG&E's proposal recommended that the Commission adopts SCE's proposal from the RA Reform Track to allow LSEs to count energy storage resources as MCC Bucket 4 if they pass the energy sufficiency test included in the 2024 test year showing process.[16] CESA strongly supports SCE's MCC bucket proposal and has done so in the Reform Track, noting that it will minimize potential reliability impacts of transitioning to the SOD framework and how it aligns with the goal of moving towards SOD in a timely fashion. As such, in alignment with PG&E, CESA supports adoption of SCE's MCC bucket proposal. If, despite stakeholder support, the Commission declines to adopt SCE's MCC bucket proposal, CESA recommends the Commission consider PG&E's proposal since it offers reasonable guardrails for buyers and sellers of storage capacity as we transition to the SOD structure.

IX. THE COMMISSION SHOULD REFRAIN FROM ADOPTING AN ENERGY BID CAP SPECIFIC TO ONE MARKET PARTICIPATION PATHWAY.

In their proposal, Energy Division staff expressed a concern around Proxy Demand Response ("PDR") resources bidding "at or near the cap in the day-ahead market (DAM) on high-load days."[17] Currently, the soft bid cap for the CAISO market for all resource types is $1,000/MWh, unless the CAISO accepts a bid above that amount to trigger the hard bid cap of $2,000/MWh. Staff is concerned that PDR resources bid near the soft bid cap of $1,000/MWh, above the RDRR default price of $950/MWh, leading to "times when RDRRs are dispatched, while 'economic' PDRs that bid at the market cap would not have been dispatched by CAISO."[18] Therefore, Staff recommends the Commission create an "energy bid cap *specific to RA-eligible PDRs* that is below the trigger price set for RDRRs. [*emphasis added*]"[19]

Generally, within the RA Program, the Commission aims to treat all resource types consistently, where each resource type can accurately and appropriately reflect its ability to contribute to California's electric system or local reliability. While the Commission takes an active role in setting obligations for resources to participate in the market, the Commission does not

[16] *See* PG&E Proposals, at 2-3.

[17] Appendix A at 10.

[18] *Ibid.*

[19] *Ibid.*

govern wholesale market rules and has allowed CAISO to work under the purview of FERC to establish market rules and regulations that ensure a fair and competitive energy market for the state. The creation of a discriminatory resource-specific bid cap fundamentally limits the ability of PDR resources to operate in the market compared to other RA resources.

If a PDR-specific bid cap is nonetheless adopted by the Commission, the staff-proposed bid cap of $500/MWh should be increased to $949/MWh. A bid cap of $500/MWh effectively eliminates half of the price range in which PDR resources can bid. Staff argued that prices higher than $500/MWh were found in roughly 3% of all intervals of September 2022 for the largest Load Aggregation Points ("LAPs"). However, staff did acknowledge "that SLAP prices may exhibit more variability," but failed to acknowledge that DR is a resource that is often located in load pockets where locational marginal prices ("LMPs") tend to be higher. Therefore, considering only the larger aggregations of prices, where averaging dampens the highest LMPs, does not fully consider the market conditions in which DR provides its service. There are also likely instances where the marginal cost of dispatching DR resources is above $500/MWh given the cost structure of PDR resources. Under current CAISO rules, resources are allowed to bid above the $1,000/MWh soft bid cap if documentation is provided to substantiate that the marginal costs of the resource are above $1,000/MWh. However, staff does not propose any way for a PDR resource to substantiate marginal costs above the PDR-specific bid cap. Additionally, given that CAISO is not modifying its market bid cap, they would not be in a position to consider or verify this information. Instead, the LSE would enforce a PDR-specific bid cap through its RA contract with the PDR resource, and Energy Division would be in charge of enforcement of that cap. This eliminates the ability of resources to explain and substantiate high marginal costs when appropriate.

X. THE COMMISSION SHOULD CONSIDER THE FINDINGS OF THE CEC'S DR QC WORKING GROUP REPORT BEFORE MODIFYING DR ADDERS.

In their proposal, Energy Division recommended removing both the Transmission Loss Factor ("TLF") and the PRM adders for DR resources. For the PRM adder, staff stated that "DR resources do not reduce the need for operating reserves in the real-time market,"[20] given that DR resources are explicitly removed from the load forecast and energy is procured for the full expected

[20] *Ibid* at 19.

load without DR load curtailment. However, staff failed to discuss the nuances of the different components of the PRM adder for DR: operating reserves, load forecast error, and forced outage adders. In D.21-06-029, the Commission removed 6% of the original PRM adder that corresponded with operating reserves and ancillary services, leaving a 9% adder for forced outages and load forecast error. D.21-06-029 also shared the Commission's intent to ultimately remove the portion of the PRM adder associated with load forecast error, but without a methodology to determine which portion of the PRM could be attributed to this error specifically, no action was taken to further reduce the PRM adder at that time.[21] However, the Commission did direct the CEC's DR Qualifying Capacity ("QC") Working Group to provide recommendations on the PRM adder. [22]

The CEC's DR QC Working Group Final Report discussed this very topic of DR adders, including the PRM adder. In the Final Report, the CEC explained how DR QC methodologies, unlike the QC methodologies for other resources, consider historical performance of the DR resources, which includes forced outages. For that reason, as explained by SCE, "The [Load Impact Protocol ("LIP")] methodology already includes and de-rates DR for forced outages. […] To not apply the forced outage adder of PRM, when LIP is used to estimate DR QC, would be de-rating the DR capacity twice and valuing it unfairly."[23] The CEC does discuss how different providers use different LIP methodologies and may submit different data, and that the appropriateness of using a forced outage adder may differ depending on the ultimate QC methodology that is adopted by the Commission. However, the CEC recommended including a 5.8% forced outage adder with its recommended QC methodology.[24] Given this discussion and the extensive stakeholder engagement conducted by the CEC on this issue, CESA believes that the Commission should consider the discussion in the CEC's Final Report and the DR QC methodology in a holistic manner. If the Commission ultimately adopts a QC methodology for RA Year 2025 and beyond that should incorporate a PRM adder, then the Commissions should maintain the PRM adder for RA Year 2024 for consistency.

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[21] D.21-06-029 at 41.

[22] *Ibid* at 41-42.

[23] *Qualifying Capacity of Supply-Side Demand Response Working Group Final Report* published by the CEC in CEC Docket No. 21-DR-01 at 45-46.

[24] *Ibid* at 46.

Staff also recommend removing the TLF adder. However, unlike the PRM adder, where staff discussed the merit of the PRM adder itself and whether DR resources truly contributed to reducing planning reserves, staff proposed to remove the TLF adder due to "the administrative complexity of applying the DR adders,"[25] and to create "consistent treatment of all resource types."[26] However, staff never argued that DR resources do not avoid transmission losses and there is no discussion of the policy merits of removing the TLF beyond ensuring resource parity. CESA believes it is inappropriate to remove the TLF adder for the main reason to reduce administrative burden on ED staff. The CEC Working Group also discussed this adder, and there was almost universal stakeholder support for maintaining the TLF.[27] In order to maintain equity among different resource types, "CEC staff suggests that it may be appropriate to include a TLF adder to other distributed resources rather than remove it from DR."[28] CESA agrees with this recommendation, and urges the Commission to consider this input, given that the TLF still has technical merit given the value that these local resources provide.

XI. CONCLUSION.

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

Respectfully submitted,

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[25] Appendix A at 19.

[26] *Ibid* at 20.

[27] *Qualifying Capacity of Supply-Side Demand Response Working Group Final Report* published by the CEC in CEC Docket No. 21-DR-01 at 46.

[28] *Ibid*.