

**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)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE
ON THE CENTRAL PROCUREMENT MODEL INFORMAL WORKSHOP REPORTS**

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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 Resource Adequacy (“RA”) Central Procurement Model Informal Workshop Reports (“Reports”) submitted by the investor-owned utilities (“IOUs”), California Community Choice Association (“CalCCA”), and Shell Energy North America (US), L.P. (“Shell”) on July 17, 2019. Pursuant to the *Email Ruling Setting Comment Deadline* (“Ruling”) issued by Administrative Law Judges (“ALJ”) Debbie Chiv on July 22, 2019, CESA is timely filing our comments on the Reports.

I. INTRODUCTION.

The Commission prudently deferred the adoption of a central buyer structure for Local RA requirements in Decision (“D.”) 19-02-022 to allow for additional time for discussion and record development. Over the course of three different sets of workshops, CESA has benefited from the further exploration of the merits, limitations, and implementation details of the different central buyer models, including around the appropriate entity to take on the central procurement entity

(“CPE”) role. While this further exploration has been helpful, the public workshop summary notes and reports seem to indicate that stakeholders may not be close to reaching consensus, even as near-term reliability issues have been highlighted in the Integrated Resources Planning (“IRP”) proceeding (R.16-02-007) and a timely resolution or interim solutions may be needed for backstop procurement.

In light of the state’s clean energy goals and local capacity needs, however, CESA recommends that the adopted central procurement model factor in these dual goals, along with other goals such as supporting disadvantaged communities (“DACs”). In accordance with Senate Bill (“SB”) 1136, the Commission should not establish a central procurement model that “ensure[s] the reliability of electrical service in California” with the least-cost resources, but also procure for resources that “[advance], to the extent possible, the state’s goals for clean energy, [reduce] air pollution, and [reduce] emissions of greenhouse gases.”¹ The workshop discussions have been helpful in identifying several key areas of improvement for the residual procurement model but also helped to reaffirm our view on how the residual procurement model better preserves load-serving entity (“LSE”) self-procurement, provides greater revenue certainty to generation and storage providers, and better addresses how local market power can be mitigated with the procurement of new, clean capacity.

II. THE RESIDUAL PROCUREMENT MODEL BETTER INCENTIVIZES NEW OR HYBRID RESOURCE DEVELOPMENT WITH PREFERRED ATTRIBUTES AND REDUCES CONTRACT UNCERTAINTY.

CESA favors and recommends the residual procurement model because it encourages Local RA resource retention and development as LSEs are able to show resources that address

¹ See Senate Bill No. 1136 Section 380(b) of the Public Utilities Code.
https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB1136

their Local RA obligations and have the CPE address and allocate the costs for any Local RA deficiencies. Without this self-procurement authority, such as under the full procurement model, there are risks that LSEs will be left with the added costs of over-procurement or with stranded capacity for existing or new Local RA resources that are not selected by the CPE in the Centralized Local RA Request for Offers (“RFO”), even for non-reliability-based reasons. For example, if the RFO is strictly conducted on a least-cost basis for reliability, there may be reliability resources contracted for Local RA with other attributes (*e.g.*, lower greenhouse gas [“GHG”] emissions, greater distributed energy resource [“DER”] deployment) that would not be selected in the RFO, even as they would effectively meet the Local RA need. Equitable allocation for an alternative portfolio is also unclear and risks being socialized for LSEs that contract for preferred attributes. This issue appears to be simplified under a residual procurement model where an LSE’s customers pay for the incremental costs of its preferred Local RA resource portfolio.

While the IOUs discussed how an alternative portfolio with greater consideration of preferred resources could be assessed by the CPE under the full procurement model, there are risks that such an alternative portfolio will not be selected, *unless* the Commission incorporates SB 1136 requirements in the least-cost best-fit (“LCBF”) evaluation criteria to advance the development of clean and preferred capacity resources, to the extent possible. For the full procurement model to adhere to SB 1136 requirements, the Centralized Local RA RFO evaluation criteria would need to develop the details of the “best-fit” portion of the LCBF criteria to avoid having strictly least-cost resources selected that may not also advance the state’s clean energy policy goals. In addition, under the full procurement model, there would need to be consideration of how existing Local RA resources would be ‘grandfathered’ or counted toward the reduction of the Local RA need of an LSE to avoid stranded capacity risks.

Given these other attributes and preferences of Local RA resources that would not be adequately considered under a Centralized Local RA RFO for full procurement (unless modified to implement SB 1136 requirements), the residual procurement model should be pursued to ensure that LSE's Local RA resources are "selected" by the CPE by showing rather than bidding their resource. Otherwise, CESA has concerns that LSEs will be discouraged from procuring Local RA resources, especially for those that have certain preferred attributes, and/or have to pay additional costs for over-procurement.

Additionally, some stakeholders raised concerns about ineffective procurement by some LSEs in meeting Local RA needs under a residual procurement model. This is understandably a concern, but CESA does not see this factor as tilting the determination on the optimal central procurement model in one way or the other. The procurement entity – whether it is the CPE or LSE – will likely need to receive and have an understanding of locational effectiveness factors, which assess how generation or transmission constraints impact the effectiveness of generating or storage resources to meet Local RA needs. With improved guidance and understanding of effectively siting or contracting for Local RA resources, LSEs should be able to more effectively self-procure for Local RA capacity under the residual procurement model to meet their obligations.

Furthermore, the central buyer framework should encourage new or hybrid resource development that aligns with both short-term and long-term procurement needs as well as the state's policy goals. Most parties generally agree that the central buyer model should align with the state's policy goals, but the singular focus on least-cost reliability resources under a full procurement model (unless modified) is likely to disincentivize new or hybrid resource development that is directed by IRP modeling and is likely needed to achieve the state's decarbonization goals and to mitigate local market power issues. Capacity shortfalls and market

power can be mitigated and reduced by increasing capacity supply through new or hybrid capacity resource development, which will be discouraged due to the risk of these new or hybrid resources not being selected by the CPE in the centralized procurement process and counted toward an LSE's RA requirements. Since new or hybrid resource development requires long-term contracts to be financeable and built, the full procurement model combined with the new three-year forward requirement for Local RA resources reduces revenue certainty for Local RA resources that may not be selected in any future RA year. Bilateral long-term contracting by LSEs for Local RA resources shown to the CPE under the residual procurement model better encourages new or hybrid resource development by providing greater revenue certainty to sellers and reducing future stranded capacity risk for LSE's that the LSE's resource portfolio will count toward their Local RA requirements.

Finally, D.19-06-026 was issued on July 5, 2019 that, among other things, made changes to the load forecasting process that will improve the RA obligation and cost allocation process, which addresses some of the equitability concerns of the residual procurement model. CESA also understands that R.17-06-026 will address the RA contract sales process between LSEs to adjust for changes in load share and thus RA obligations. The full procurement model was highlighted for its advantages of being administratively simpler in tracking all customer migrations, but the aforementioned improvements in this proceeding and in R.17-06-026 seem to mitigate some of the shortfalls or limitations of the residual procurement model.

III. THE CENTRAL PROCUREMENT ENTITY SHOULD BE AN EXPERIENCED ENERGY BUYER.

Regardless of which central procurement model is adopted, CESA understands that the Commission may choose to adopt an entity as the CPE to serve as the 'backstop function' for Local RA deficiencies, which would help to reduce the reliance on out-of-market backstop procurement

by the CAISO – a goal set out by the Commission since Track 1 of this proceeding. Several different ideas were considered and discussed in the workshops, including the CAISO, the distribution utility or a utility affiliate, a not-for-profit entity, Joint Powers Authority, or a state agency like the Commission. In determining the appropriate entity to play the CPE role, CESA believes that market experience with purchasing capacity and assessing bids as well as the advanced ability to understand grid needs are important qualifications for the designated CPE entity. As such, a state agency that has operated as a regulator rather than a market participant may be ill-suited for this role. CESA, however, is not opposed to having the IOUs act as the CPE for residual procurement. Due to the near-term reliability issues highlighted in the IRP proceeding, the IOUs may be positioned well to serve this CPE function in the interim if and/or when a central procurement model is adopted, and a CPE is designated.

IV. CONCLUSION.

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

Respectfully submitted,



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