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 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 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 PD seeks to conclude a two-years-long discussion and record development on the central buyer ("CB") framework, which launched with the issuance of Decision ("D.") 18-06-030 to direct stakeholder processes. This was followed by the issuance of D.19-02-022, which provided additional guidance on CB discussions and sought to afford more time and record development to achieve greater consensus on how a CB structure could address previously identified Local Resource Adequacy ("RA") issues. Over the course of this proceeding, CESA has focused on ensuring that the adopted CB model and framework addressed the following:

- Ensure there is certainty for existing and new contracts that would count toward Local RA

- Ensure competition and incentives for new resource procurement in multi-year Local RA requirements
- Ensure preferred resources are prioritized in CB competitive solicitation regardless of model and LSEs have incentives for preferred attributes

While many factors played into the determination of the most appropriate and reasonable CB structure, the prevalence of costly out-of-market RA procurement due to local procurement deficiencies was one of the key driving factors in the Commission favoring some form of a CB model. One important means by which to mitigate local market power concerns is to drive new resource procurement that increases the supply of Local RA resources in constrained local capacity areas and that is aligned with preferred resource criteria that ensures that the state achieves its decarbonization goals as identified in the Integrated Resource Planning ("IRP") proceeding.

However, in reviewing the PD, CESA finds that the Commission falls short of one of the key objectives of the D.19-02-022 guidance to provide "opportunity for and investment in procurement of local preferred resources."[1] Under the proposed "hybrid" procurement model, load-serving entities ("LSEs") may choose to either: (a) show the resource to reduce the overall local procurement obligation of the Central Procurement Entity ("CPE"); (b) bid the resource into the CPE's solicitation; or (c) elect not to show or bid the resource to the CPE and only use the resource to meet its own System and Flexible RA needs.[2] While the PD positions such a model as a "hybrid" between the full and residual procurement models, CESA believes that this proposed structure aligns more so with the full procurement model with just some differences from the PD that was issued in 2018 that endorsed the full procurement model.[3] A voluntary showing option is

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[1] D.19-02-022 at 17.

[2] PD at 24.

[3] *Proposed Decision Refining the Resource Adequacy Program* issued on November 21, 2018 in R.17-09-020 at 17 and 19-22. http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M243/K570/243570563.PDF

offered under the proposed hybrid procurement model in the PD issued on March 26, 2020 that would allow an LSE to reduce their share of the overall Local RA costs for less than one-for-one credit given that the benefits of such self-procurement would be "spread" to all LSEs subject to the overall Local RA requirements.

Just as with the previously-proposed full procurement model, many of the same problems are present in the currently-proposed hybrid procurement model. The PD would disincentivize LSE procurement of local resources due to uncertainty related to whether the procured resources will be selected by the CPE (under the bidding option) and how much the procured resources will count toward their own share of the Local RA requirement (under the voluntary showing option). In turn, LSEs and developers face uncertainty to the value of local resources, leading to inefficient and/or excess procurement by the LSEs and creating "leaning" issues among LSEs. CESA thus opposes the PD unless substantially modified.

Specifically, in these comments, CESA makes the following observations and recommendations:

- The proposed hybrid model reduces LSEs' incentives to procure for Local RA from preferred resources.
- The collective Local RA requirements should be established after accounting for new long-term resource procurement from the Commission's IRP.
- The solicitation criteria should be further refined to ensure that Local RA procurement by the CPE aligns with IRP decarbonization goals.
- Dispatch rights should be removed as a preferred criterion for the CPE solicitation.

II. THE PROPOSED HYBRID MODEL REDUCES LOAD-SERVING ENTITIES' INCENTIVES TO PROCURE FOR LOCAL RESOURCE ADEQUACY FROM PREFERRED RESOURCES.

In the PD, the Commission argues that it has decided to adopt a hybrid CB structure as striking a reasonable balance[4] and because it: (1) provides autonomy and flexibility to LSEs by allowing them to voluntarily procure local resources; and (2) allows a CPE to secure a portfolio of the most effective local resources while mitigating the need for costly backstop procurement in certain local areas and ensuring a least-cost solution for customers with equitable cost allocation.[5] However, the PD overlooks the implications that the proposed hybrid structure would have on contract and procurement certainty, and on the procurement of preferred resources, as defined by D.19-02-022.

First, the PD does not provide the necessary certainty for LSEs to incent the desired voluntary showing behavior. Namely, the lack of a generalized one-for-one crediting system when LSEs opt to procure and voluntarily show could eliminate an LSE's incentive to initiate and conduct procurement activities. This issue is exacerbated by the PD's determination that a one-for-one credit would only occur if an asset procured by an LSE is selected within the CPE RFO, but not by voluntarily showing to reduce the overall Local RA requirements. CESA is concerned that LSEs may not be incentivized to procure if there is no showing certainty and if anything shown is "peanut-buttered" as "credits" to all benefiting LSEs. It is illogical for other non-procuring LSEs to benefit from the Local RA procurement of one LSE. Alternatively, with LSEs less inclined to procure resources to meet both preferred and Local RA criteria due to the uncertainty and reduced value of monetizing Local RA procurement, CESA believes that developers who seek to provide

[4] PD at 24.

[5] *Ibid*.

Local RA may be inclined to bid directly into the CPE RFO instead to have greater certainty around procurement of their project, leading to an inefficient world of bifurcated procurement of preferred resources by LSEs and Local RA resources by the CPE. Especially as LSEs are seeking to develop resiliency solutions, including for behind-the-meter ("BTM") energy storage systems and microgrids, in at-risk local areas, the PD would also drive a wedge in being able to stack the value and services provided from such resiliency solutions to also provide Local RA in blue-sky conditions when not needed for resiliency.

CESA is aware that issues regarding one-for-one crediting for self-procured resources have been brought up to the Commission previously by other parties, as noted in the PD, which they argued could result in an inefficient portfolio and unfair cost allocation if the effectiveness of resources is not considered.[6] While sharing concerns that resource effectiveness should be taken into account, CESA does not see either CB model as necessarily addressing this issue if resource effectiveness factors from the California Independent System Operator ("CAISO") are not effectively transmitted to LSEs and incorporated into LSE procurement criteria activities, nor if they are insufficiently incorporated in the CPE's procurement activities. Instead, enhanced *ex ante* means of ensuring resource effectiveness points to the need to refine RA qualifying capacity ("QC") counting rules for different resource types, locations, and configurations. Furthermore, the CAISO is also developing *ex post* performance measures such as the consideration of unforced outages via a "UCAP" calculation to incentivize the "right" resource mix selected and procured by LSEs. Considering these factors, CESA believes that the CB structure is not at the heart of the discussion on resource effectiveness; instead, in order to ensure the procurement of effective resources, the Commission must recognize the importance of RA product design, needs

[6] *Ibid* at 13.

assessments, and performance measures that are the subjects of ongoing Track 2 and upcoming Track 3 discussions in R.19-11-009. The proposed hybrid structure only serves to increase contract uncertainty from LSE-driven procurement without more surgically addressing the issue of resource effectiveness.

Second, CESA is concerned with the contracting risks associated with the Commission's proposal to have resources procured bilaterally by LSEs to be bid into the CPE RFO. This is the same problem faced by the previous 2018 PD where the uncertainty of selection in the RFO, especially if structured to overly or narrowly favor least-cost resources, would increase risks to both LSEs as buyers and developers as sellers of RA assets, introducing a new element of uncertainty for the financeability of these resources. In effect, self-procured resources must "participate" in two different RFO processes – first to be selected by the LSE and then to be selected by the CPE. Given the uncertainty of CPE selection, LSEs and developers would face challenges in determining whether to consider RA revenues in the bids and how to assess bids if there is the potential for less than one-for-one or even zero Local RA value. This outcome would only serve to further hinder any incentive for bilateral procurement, increasing reliance on the CPE and decreasing the likelihood LSEs will seek to develop incremental RA resources. As currently drafted and considering the issues previously mentioned around voluntary showing, the PD's proposal would condition a resource's Local RA value to selection by the CPE. This added uncertainty could affect contracting practices that are underway by introducing new uncertainty to the expected revenue streams of thousands of MWs.

In sum, CESA has major concerns with this PD and recommends that the PD be modified to recognize the potential for greater Local RA procurement from self-procured preferred resources that also meet the local reliability needs as identified by the Commission and CAISO.

To better ensure local reliability and address local market power issues, the Commission should be encouraging greater procurement of new resources that provide Local RA while providing better and more upfront information and applying counting rules and performance-based measures to ensure resource effectiveness. However, the PD only creates uncertainty related to LSE self-procurement. As such, in the next section, CESA recommends a modification to support the development of new resource procurement with greater certainty and reliability.

III. THE COLLECTIVE LOCAL RESOURCE ADEQUACY REQUIREMENTS SHOULD BE ESTABLISHED AFTER ACCOUNTING FOR NEW LONG-TERM RESOURCE PROCUREMENT FROM THE COMMISSION'S INTEGRATED RESOURCE PLAN.

The PD argues that the CPE in a hybrid approach has appeal because it allows a CPE to use its purchasing power in constrained local areas and mitigate the need for costly backstop procurement in certain local areas,[7] standing behind much of the rationale explained in D.19-02-022 to address market power mitigation through the adoption of a CB structure, among other reasons. However, a major way to mitigate these local market power concerns is to incentivize LSEs to procure new resources to increase the pool and competition for Local RA resources. Such new resource procurement by LSEs is disincentivized under the proposed hybrid model, as is.

To encourage new resource development and procurement to dilute local market power of some existing resources, CESA recommends that the Commission construct the collective Local RA requirements *after* accounting for new long-term resource procurement that is directed by or in line with the IRP modeling and planning process (R.16-02-007). The PD only considers cost allocation mechanism ("CAM") resources and utilities' local demand response ("DR") resources

[7] *Ibid* at 24.

as reducing the Local RA amount that the CPE must procure,[8] but such reducing impacts should also apply on a one-for-one basis for new resource procurement, which are likely to account for preferred resource criteria given the IRP's objective to decarbonize the electric grid by 2030 and 2045. An LSE's self-procurement of new Local RA resources toward the overall requirement can then be accounted for in the after-the-fact load share of the LSE, where they will be credited for their LSE-specific contribution rather than in just crediting all LSEs. Without this LSE-specific crediting, the Commission would otherwise be supporting "leaning" onto other LSEs, contrary to the assertions in the PD.[9]

CESA believes this change would better align IRP procurement with Local RA procurement and mitigate local market power concerns with additional resources providing competition for Local RA while advancing the state's long-term decarbonization goals. Importantly, this proposed change will provide greater certainty to new resource procurement and contracting through this "showing" that would reduce the Local RA requirement to be procured by the CPE and, at the same time, appropriately crediting the responsible LSE for its self-procurement. The PD makes arguments that would justify such treatment of new long-term resources procured in line with IRP directives and reference plans, arguing that the CB framework is not intended for new resource procurement and "is primarily focused on the contracting for existing local resources (although it does not preclude new generation procurement)."[10] Moreover, considering the higher costs of new capacity investments relative to the costs of retaining existing capacity resources that have already had many of their fixed capital costs paid for, this is a reasonable and necessary change to the proposed CB structure. In sum, without certainty for the

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[8] *Ibid* at 38.

[9] *Ibid* at 25.

[10] *Ibid* at 26.

value of the contracts for long-term resource procurement, new resources will not be procured and built to advance the state's decarbonization goals and transition away from the current fossil-heavy fleet.

IV. <u>THE SOLICITATION CRITERIA SHOULD BE FURTHER REFINED TO ENSURE THAT LOCAL RA PROCUREMENT BY THE CPE ALIGNS WITH IRP DECARBONIZATION GOALS</u>.

The PD proposes a preliminary list of criteria to be considered for selection within the CPE's RFO process using a least-cost, best-fit ("LCBF") methodology to guide the selection of resources within the CPE's RFO process. The PD notes that the following elements shall be considered: (a) future needs in local and sub-local areas; (b) local effectiveness factors; (c) resource costs; (d) operational characteristics of the resources; (e) location of the facility; (f) costs of potential alternatives; and, (g) greenhouse gas adders.[11] CESA considers that these factors are a good starting point but require further refinement in order to better align the RA program with the IRP proceeding, as mentioned in the preceding section, and mitigate market power concerns.

First, the PD mentions the use of greenhouse gas ("GHG") adders within the solicitation criteria but does not specify how such adders will be determined. CESA recommends that the Commission consider how the IRP's GHG planning price could be used to guide procurement to better offer guidance for LSEs and align IRP and RA procurement, though the IRP's GHG planning price is currently a system-level price that may not fully capture the GHG-reducing benefit of preferred resources in local areas and sub-areas. The current GHG planning prices, as a starting point, would better signal to LSEs which resources are valuable to invest in for future procurement. Second, CESA urges the Commission to consider incorporating another emission-related criterion to the list included in the PD: a criterion pollutant adder. The PD notes that the

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[11] *Ibid* at 41-42.

location of the facility, factor (e) of the enlisted criteria, will consider environmental justice concerns. CESA believes that a qualitative assessment of local pollution is not enough to address environmental justice issues associated with particulate and other localized emissions. This measure is increasingly important as modeling done in the IRP proceeding shows that criterion pollutant emissions grow as the number of starts from fast-ramping fossil-fueled generators surge.[12] Thus, CESA believes the inclusion of criterion pollutant factors is warranted as it would better guide procurement and ensure the proper resource mix is deployed to attend the State's capacity needs without hindering the health of California's most vulnerable populations.

V. <u>DISPATCH RIGHTS SHOULD BE REMOVED AS A PREFERRED CRITERION FOR THE CPE SOLICITATION</u>.

While stepping back from previous positions that would have set dispatch rights as a requirement for resources bidding into the CPE RFO, the PD proposes that the CPE include dispatch rights as an optional term that bidders are encouraged to include.[13] CESA opposes the consideration of dispatch rights as a "preferred" criterion. On the one hand, the Commission may be seeking to maximize effectiveness of capacity resource dispatch with this proposal, but CESA believes that such a criterion, even as a preferred or encouraged term rather than a required one, will have the unintended consequence of expanding the market power of certain RA sellers – namely, investor-owned utilities ("IOUs") who are already subject to least-cost dispatch requirements for their utility-owned resources and would in effect be conferring dispatch rights to itself as both the bidder and CPE. Such a preferred criterion would thus tilt the CPE RFO in favor

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[12] *2019-2020 Electric Resource Portfolios to Inform Integrated Resource Plans and Transmission Planning*, D.20-03-028, issued on April 6, 2020 in R.16-02-007 at 39.
http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M331/K772/331772681.PDF

[13] PD at 62.

of utility-owned resources, where their dispatch rights will serve as a competitive advantage against other resources. Furthermore, under a scenario where many Local RA resources are given dispatch rights, the Commission would be consolidating market power to the CPE acting as the scheduling coordinator for a large number of resources, reducing competition from a number of resource operators in the CAISO market. Finally, it is unclear from the PD on how the Local RA value will be quantified or determined using dispatch rights as a preferred criterion.

Taking all these considerations together, CESA recommends that the PD remove dispatch rights as a criterion for the CPE altogether. In doing so, the Commission would better promote a level playing field for third-party-owned and utility-owned resources and ensure a broadly competitive market for Local RA resources.

VI. 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,

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