CALCCA
ADVANCING LOCAL ENERGY CHOICE cal-cca.org

June 20, 2019

The Honorable Gavin Newsom
Governor, State of California
State Capitol
Sacramento, CA 95814

Re: Governor's Strike Force Report and Improving Reliability in California's Electricity Market

Dear Governor Newsom,

The California Community Choice Association (CalCCA) represents California's Community Choice Aggregators (CCAs) and appreciates the responsive and insightful Strike Force Report, *Wildfires and Climate Change: California's Energy Future*.[1] While investor-owned utilities (IOUs) continue to serve their traditional role as providers of electric generation and delivery services, as your Strike Force report notes, "IOUs increasingly are becoming 'poles and wires' – companies that are responsible for constructing, maintaining, and operating the facilities over which electric energy is delivered to customers.[2]" CCAs are the predominant driver of this transition – CCAs now provide the energy supply for 10 million Californians, a figure which is expected to grow dramatically by the early 2020s. CCAs represent all segments of the state's geographic and socioeconomic diversity and are operational in all three of the large IOUs' service territories.

As discussed in the Strike Force Report, transformations are occurring at every level of the state's electric sector. Consistent with our environmental goals, California's generation fleet is rapidly decarbonizing, presenting opportunities and challenges. Energy choices are becoming more local and communities are raising the bar on renewable energy targets. CCAs are enabling California's communities to directly engage in decarbonization through innovative programs at rates often lower than those of the investor-owned utilities. Finally, and most critically, the new reality of catastrophic wildfire risk – in addition to its grave implications for local communities – is forcing a fundamental shift in California's relationship with its utility infrastructure.

It is in this context we must reconsider which regulatory approach is best suited to achieving the ambitious goals envisioned by state and local policymakers with respect to the safety, reliability, affordability, and decarbonization of the electric system. CalCCA provides several recommendations to improve reliability of electricity service, reduce risk associated with IOU operations, and improve community resilience related to catastrophic wildfires.

[1] *Wildfires and Climate Change: California's Energy Future (Strike Force Report)*, April 12, 2019. https://www.gov.ca.gov/wp-content/uploads/2019/04/Wildfires-and-Climate-Change-California%E2%80%99s-Energy-Future.pdf.
[2] Strike Force Report, p. 19.

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Ensuring Reliability in a Decarbonized Future

CalCCA recognizes that the multi-decade transition to a fully decarbonized energy system requires prudence, coordination, and accountability.

- **Adopt Near-Term Modifications of the Resource Adequacy Program to Ensure Reliability and Facilitate Compliance:** CalCCA is actively working with regulators to enact much-needed reform of the state's Resource Adequacy (RA) program, including on-going efforts to develop a sales framework to facilitate the timely sale of excess capacity in IOU portfolios and to utilize multi-year procurement to stabilize the market and sustain necessary power plants otherwise at risk of closure. Further, CalCCA encourages policymakers to shift to the California Independent System Operator's needs assessment for local capacity in assigning compliance obligations to send better and more precise economic signals to load-serving entities (LSEs) developing new reliability resources.

- **Evaluate Resource Adequacy Back-Stop Options Through the Legislative Process:**[3] CalCCA supports the development of a central procurement mechanism which would serve as the default buyer for RA while authorizing load-serving entities (LSEs) to self-procure at their discretion. CalCCA's proposal, the *Central Reliability Authority*, would improve reliability and accountability within the RA program. It is important that the scope of central procurement be limited to RA, excluding renewables and other resources, to avoid uncertainty, increased cost and risk that could chill the aggressive renewable procurement currently underway by CCAs.

- **Utilize the Integrated Resource Plan Process to Coordinate and Inform CCA Procurement:** The Integrated Resource Plan (IRP) process should guide, but not mandate LSE procurement. Mandating procurement would eviscerate the local governance and responsibility conferred on CCAs by the California Legislature, jeopardizing the ability of LSEs to achieve California's climate goals at lowest cost . CCAs do not need a mandate as they have exceeded state renewable targets since the first CCA launched. In the current IRP process, CCAs proposed the development of over 10,000 megawatts of new renewable and energy storage projects by 2030 to meet their communities' decarbonization goals – contrasted with all other providers and IOUs combined proposing only 1,000 megawatts. The IRP should let the CCAs deliver on their climate leadership.

- **Establish a Policy to Reduce Reliance on Fossil-Fuels for Electricity:** California's climate leadership has started a rapid transition toward renewable and non-emitting energy resources. However, the collective sum of power plants available to serve customers' local and system peak demand and flexible resource needs continue to be composed largely of natural gas generation. CalCCA supports the development of a policy framework that ensures the continued deployment of clean resources and institutes an orderly transition away from the fossil fuels powering our grid.

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[3] Strike Force Report, p. 24.

Let Utilities Shed Risk Through a Transition to Public Energy Providers

The IOUs should be completely focused on addressing the pressing and persistent challenges regarding utility infrastructure safety, reliability, and affordability.

- **Establish a Pathway for Utilities to Exit from Electric Generation Service:** In order to better focus on infrastructure safety, policymakers should facilitate the process for an IOU to exit its electricity generation and retail service. In 2019, there is a compelling policy rationale for two IOUs to undergo such a transition: Pacific Gas and Electric, a utility in dire need of organizational reform and an improved focus on the management of its transmission and distribution system, and San Diego Gas and Electric, a utility which expects to lose a majority of its load to CCAs in coming years and has asked policymakers to facilitate an exit. CalCCA believes that state policy goals would be better served through the development of an orderly transition process that facilitates IOU exit at the discretion of either the utility or its regulator.

- **Transition Remaining Utility Customers to Public Energy Providers:** In the event that an IOU ceases to provide electricity generation services, policymakers should transition the IOU's remaining bundled customers to public energy providers. For communities served by CCAs, policymakers should establish a pathway for the CCA to become the sole provider for that community, shifting bundled IOU customers into the CCA, and ease the process for the CCA to municipalize local service. For communities not served by a local government energy provider, a public, central entity should be established to provide energy service unless and until a locally governed alternative is instituted.

- **Right-Size Utility Energy Portfolios Based on Departed Load:** CalCCA supports the development of a process for IOUs to divest their utility-owned generation and third-party power contracts while preserving obligations to existing counterparties. For resources which are divested or resold below cost, utilities would recover stranded costs through a transitional charge to be paid over a fixed period of time which applies to all customers on whose behalf that resource was developed. Leaving these excess resources in the hands of one market participant that has guaranteed cost recovery creates risks of an illiquid market and inflated prices borne by ratepayers.

Addressing Catastrophic Wildfire Risk in the Electric Sector

The "new abnormal" of wildfire risk represents a daunting and unprecedented challenge for all Californians. In addition to the grave direct threat of fires and smoke, the indirect impacts of wildfires pose serious risks to our communities.

- **Improve Coordination Between IOUs and Impacted Communities**: CCAs are in discussions with their distribution utilities to expand the reach of customer communications through CCA channels. CCAs and local government first responders are experiencing significant challenges receiving adequate notification related to Public Safety Power Shutoff (PSPS) events in advance and following de-energization. While IOUs are working diligently to improve coordination, a recent event involved less than 24-hours notice before de-energization and no notice that re-energization took place.

- **Meet the New and Significant Reliability Challenge Caused by PSPS Events:** IOUs have indicated that PSPS events may last five days or longer and advise communities and individuals to be prepared. Much more is needed to prepare communities and their most vulnerable members including seniors and the medically fragile community, critical care facilities, retirement homes, and residential care facilities. CCAs are well positioned to facilitate planning and deployment of community-scale and customer-scale distributed energy resources in communities at risk for PSPS events. The state needs to provide resources and opportunities to meet this new reliability challenge before a PSPS event results in a tragic outcome.

- **Liability Reform Should not be Considered without Organizational Reform:** The Strike Force Report highlights potential methods for mitigating utilities' liability impacts from wildfires, including establishing funds to manage utility liquidity in the event of catastrophic wildfire liability, revising standards of fault currently in place for utility-ignited fires, and a catastrophic wildfire fund which could serve to socialize the costs of fires across a broader suite of ratepayers[4]. While CalCCA recognizes that a financially stable transmission and distribution system is an essential piece of a well-functioning electric industry, CalCCA strongly urges policymakers not to consider financial or liability reforms applicable to IOUs *until significant reforms are achieved which improve safety and safety culture within the utility.* CalCCA appreciates and echoes the Governor's comments on April 12 that "All options with PG&E are on the table."[5]

CalCCA believes that it is time to reduce risk and focus utilities on their core mission of infrastructure safety. CalCCA recommends policymakers develop a comprehensive plan that improves safety and reliability, allows IOUs to shed risk, and meets the new challenges posed by wildfires.

[4] Strike Force, p. 36-40.

[5] Governor Newsom's Remarks on Strike Force Report, CalOES, April 12, 2019. 45:30. https://www.youtube.com/watch?v=gncpih-XfrE

Conclusion

Thank you for your leadership throughout this challenging time in California's history. CalCCA appreciates the opportunity to engage with the Governor's Office, the Administration, and our elected leaders in the State Legislature on these important issues. CalCCA wishes to be a partner to state policymakers as they address these questions and is eager to engage further as legislative and regulatory deliberations move forward.

Sincerely,

Beth Vaughan	Dawn Weisz
Executive Director	President
California Community Choice Association	California Community Choice Association

cc:
The Honorable Toni Atkins, Senate President Pro Tem
The Honorable Anthony Rendon, Speaker of the Assembly