

**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.

R.17-09-020
(Filed September 28, 2017)

**CALIFORNIA COMMUNITY CHOICE ASSOCIATION
INFORMAL REPORT OF TRACK 2 WORKSHOPS #3 AND #4**

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The California Community Choice Association (CalCCA) facilitated Workshops #3 and #4 of Track 2 in the above proceeding and files this informal report pursuant to Ordering Paragraph 7 of Decision 19-02-022. In Workshops #3 and #4, stakeholders examined the question of what type of entity would best serve the role as the Central Procurement Entity; specific topics are detailed in the appendices to this Informal Report. As discussed in the attached documents, no consensus arose from the workshop or the subsequent comments. Different parties favor different alternatives, including designating a new state agency, the investor-owned utilities (IOUs) or a for-profit corporation as the Central Procurement Entity.

The following documents are attached hereto and incorporated into this informal report:

1. Summary of workshops #3 and #4;
2. Appendix A, Workshops #3 and #4 Designated Topics;
3. Appendix B, aggregated responses to Workshops #3 and #4 Questions; and
4. Appendix C, Workshops #3 and #4 Presentation Deck.

Dated: July 17, 2019

Respectfully submitted,

/s/ Evelyn Kahl

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R.17-09-020 Track 2
Central Procurement Entity
Summary of Workshops #3 and #4
June 17, 2019

SUMMARY OF WORKSHOPS #3 AND #4

Background

Decision 19-02-022 (Track 2 Decision) requires participants to “undertake a minimum of three workshops over the next six months to identify workable central buyer and central procurement structure proposals.”¹ The Track 2 Decision also directs that participants develop “workable implementation solutions” to address the following issues:

*[I]dentity of a viable central buyer, the scope of procurement (e.g., full, residual), implementable cost allocation mechanism (e.g., how costs will be tracked and recovered), oversight mechanisms, other procurement details (e.g., resources to be included, selection criteria), market power mitigation tools, and necessary modifications to the RA timeline.*²

It also requires participants to address certain challenges to the local resource adequacy (RA) program, including:

*(1) costly out-of-market RA procurement due to local procurement deficiencies, (2) load migration and equitable allocation of costs to all customers, (3) cost effective and efficient coordinated procurement, (4) treatment of existing local RA contracts, (5) opportunity for and investment in procurement of local preferred resources, and (6) retention of California’s jurisdiction over procurement of preferred resources.*³

Finally, the Track 2 Decision specified how the workshops should be facilitated and reporting requirements.⁴

The investor-owned utilities (IOUs), in response to the decision, organized a series of workshops to examine issues related to the development of a central procurement entity (CPE) for local resource adequacy (RA). The workshops were designated as follows, each facilitated by different participants to the proceeding:

¹ D.19-02-022, Ordering Paragraph 3, at 45.

² *Id.*, Order Paragraph 4, at 45.

³ *Id.*, Order Paragraph 5, at 45.

⁴ *Id.*, Order Paragraph 6 and 7, at 45-46.

| | Topic | Facilitating Parties |
|---------------------|--|---|
| Workshops #1 and #2 | Full Central Procurement Model v. Residual Procurement Model | IOUs |
| Workshops #3 and #4 | Central Procurement Entity | California Community Choice Association |
| Workshops #5 and #6 | Implementation and Other Issues | Shell Energy |
| Workshops #6 and #7 | Wrap-Up and Proposal Based on Consensus | IOUs |

The IOU workshop outline designated the issues for Workshops #3 and #4, which are provided as Appendix A to this summary.

Workshops #3 and #4 were noticed by the California Community Choice Association (CalCCA), as facilitator, on April 30, 2019 by email to the service list. The workshops took place on May 15, 2019, in the Commission’s auditorium. As the suggestion of workshop #3 and #4 participants, CalCCA provided follow up questions to the service list on May 17, 2019, and invited comments by May 28, 2019. The comments received by CalCCA are summarized in Appendix B to this summary.

Workshop Presentation

California Community Choice Association (CalCCA) facilitated these workshops on May 15, 2019. The presentation used to guide the discussions is attached as Appendix C to this summary. CalCCA began with the following five objectives for the workshop:

- Define organizational options for a Central Procurement Entity;
- Determine whether any alternative is a non-starter;
- Discuss advantages and disadvantages of each alternative;
- Identify areas of consensus and unresolved issues; and
- Develop workshop recommendations

The workshop materials focused on a not-for-profit corporation (public benefit corporation), a state agency and a distribution utility. CalCCA acknowledged the possibility that the California Independent System Operator (CAISO), a Joint Powers Authority (JPA) or a Utility Affiliate could also fulfill the role but did not frame the presentation around those alternatives.

CalCCA identified the following evaluation criteria that could be used to select a CPE:

- Accountability & Transparency
- Change in Law
- Competitive neutrality
- Costs
 - Administrative Costs
 - Compensation for Procurement
 - Cost of Funds
 - Debt Equivalence Premium
- Cost Recovery Authority
- Expertise and Knowledge
- Financial Stability
 - Credit Worthiness
 - Debt Equivalence Implications
- Implementation Timing and Cost
- Jurisdictional Implications
- Market Power Mitigation
- Precedent
- Procurement Oversight
- Reliability
- State Policy Facilitation

Each of these evaluation criteria was raised for discussion with workshop participants, with initial straw comments offered by CalCCA to stimulate the discussion.

Workshop Discussion

Participants raised a variety of questions regarding CalCCA’s presentation during the workshop discussion, with few proposals advanced. Given the scope of the CPE is yet to be determined, there is no consensus on the CPE entity; there appears to be support for the CAISO, the distribution utilities, a state agency and a for-profit entity as CPE among participants. As a result, there is no consensus on related issues, such as oversight and cost recovery.

The following summary provides highlights, questions or comments offered by workshop participants, and is not intended to be exhaustive. For simplification, this summary organizes the comments by topic, rather than in order of discussion. Note, however, that the participant responses to the post-workshop questions, attached as Appendix B, better illuminate their views.

Scope of Entities Presented. Participants raised questions and expressed concern regarding the scope of entities CalCCA chose to address in its presentation materials.

- Constellation emphasized several times that the question of “who” the CPE will be is less important than what the CPE is doing and reducing the current market uncertainty.
- In response to a question from TURN, CalCCA clarified its intent that in referencing a “TAC Area” CPE, the presentation deck was intending to refer to a framework in which there would be a CPE for each of the utilities’ service territories.
- Pacific Gas and Electric Company (PG&E) questioned why “not for profit” entities were included, suggesting they have not previously been discussed in the proceeding.
- Shell Energy suggested that for-profit entities could serve the CPE role.
- Independent Energy Producers Association (IEP) and other participants questioned why a Joint Power Authority (JPA) was not considered and suggested that perhaps further consideration should be given.

- Commissioner Randolph's office raised the question of governance of a not-for profit entity. CalCCA suggested that an oversight board could be used or, alternatively, the entity could function as a regulated utility.
- CalCCA chose in its presentation not to consider the CAISO as CPE because the CAISO is unwilling to assume the role. CalCCA expressed its initial Track 2 preference for the CAISO to serve in this role, and NRG, CAC and Shell likewise stated their preference for this approach. The CAISO confirmed that it is not willing at this time to take on the CPE role and that it would take a lot of consensus building and legal discussion to be considered.

CPE/CAISO Interface. Participants discussed the relationship of the CPE function and the CAISO.

- CalCCA expressed its view that the CAISO will continue in its backstop role and that it is the only entity in a position to address wholesale market power, since it is Federal Energy Regulatory Commission (FERC) regulated. NRG, Shell, Constellation, CAC and CAISO expressed similar views.
- SCE and other participants raised the question of the boundary between the CAISO and CPE functions. Shell observed that the CAISO backstop offers one-year contracts, while three-year contracts could be available through the CPE. The CAISO and IEP emphasized the importance of the CPE working closely with the CAISO, with IEP expressing concern about the effectiveness of collaboration.

Oversight.

- IEP raised the question of when FERC would have oversight. CalCCA suggested, based on its early analysis, that a state agency or instrumentality of the state would have an advantage in that it was not subject to FERC regulation under Sections 205 and 206 of the Federal Power Act. IEP also questioned whether the CPE would be engaging in wholesale transactions.
- California Public Advocates Office (CalPA) stated its view that a state agency as CPE could be organized to be under the Commission's authority.
- Several participants discussed the need for legislation, including IEP and Southern California Edison (SCE). CalCCA questioned SCE regarding whether under current rules one IOU is permitted to buy for another IOU's customers.

Competitive Neutrality, Accountability and Conflicts of Interest.

- CalCCA noted that relying on a market participant as CPE complicates the question of competitive neutrality.

- PG&E questioned whether we were discussing competitive neutrality from the perspective of wholesale generators or retail LSEs; CalCCA expressed its view that what is critical in this question is neutrality in the retail space.
- Constellation observed that the IOUs own generation and have market power; CalCCA responded that the Commission should be preventing the exercise of market power by the IOUs.
- PG&E suggested that a JPA made up of CCAs would raise competitive issues; East Bay Community Energy (EBCE) noted that there would be no conflict of interest if the JPA were not itself a LSE.
- TURN and SDG&E suggested it might be possible to resolve a utility's conflict of interest through the use of a utility affiliate.
- SCE emphasized that there are currently mechanisms in place to keep distribution utility employees separate for certain functions and does not understand what additional walls would need to be built; TURN acknowledged that there are mechanisms in place, but it is not necessarily advocating having the distribution utility in this role. Shell observed that having the utility in a position of both selling and buying RA resources would raise questions, and we would need a very clear process of how this would be handled.
- CalPA pointed out that a third-party contractor could be used to reduce any conflicts of interest if the distribution utility were CPE.
- CalCCA raised a concern that a utility is accountable to its shareholders, noting that a conflict of interests exists both in the context of utility owned generation and transmission.
- SCE pointed out that existing IOU expertise is not a negative thing; TURN suggested the problem is not the IOU's knowledge and expertise, but the existing employer.

Costs and Cost Recovery.

- NRG emphasized that at some point we need to begin to understand the costs. IEP questioned which costs we should be looking at, whether incremental, fixed or variable. We need to be more specific.
- CalCCA suggested that the costs of relying on an existing state agency could vary from creating a new state agency.
- Shell observed that the CAISO would be the most cost-effective choice since no new structures would need to be created.
- San Diego Gas & Electric (SDG&E) observed that the start-up costs for a distribution utility as CPE would be in line with the not-for-profit/state agency.

- CalCCA pointed out that a for-profit entity would require “compensation”, whereas a state entity or not-for-profit would not. SCE stated that all entities would require compensation. CalCCA clarified that it meant “profit”, not cost recovery, in this discussion. SCE pointed out that IOUs are not compensated for procurement. CalCCA responded that an IOU earns a return on its generation and its cost of capital is affected by its procurement role, as SCE suggested in its Cost of Capital application.
- CalPA questioned whether the cost recovery would go through the existing billing systems; EBCE responded that this is a possibility, although the CPE could use a separate billing system.
- TURN and Greenlining Institute pointed out that the choice of entity could depend on the scale of procurement; it may not be necessary in the case of a residual model to create a new not-for-profit entity.
- SCE stated its view that CalCCA’s presentation was not neutral. CalCCA acknowledged that it is not neutral and that its views no doubt were coming through in the discussion, as the utilities’ views did in the workshop they facilitated.
- CalCCA suggested that case law may suggest more flexibility in billing – where the CPE could directly bill LSEs – if the CPE is a state agency.
- SCE noted that debt equivalence would increase for the distribution utility as CPE, and that a dedicated rate component for recovery of these costs by the IOU as CPE would boost creditworthiness. SDG&E disagreed with SCE’s characterization of how credit ratings work.
- IEP pointed out that the question we should be asking is what is necessary to make the CPE financially capable of performing its role, not necessarily which type of entity is inherently more financially capable.
- CLECA stated that the cost recovery slide comments were not accurate, although it offered no alternatives to make them more accurate. CLECA stated that cost recovery may not require legislation and may depend on whether the CPE is billing customers or LSEs.

Transparency and Accountability.

- IEP observed the need for the CPE to have accountability and clear lines of responsibility.
- Constellation raised the current lack of transparency in the market. If the CPE were transparent and revealed all of its information, it could be a positive change.

Implementation.

- Participants discussed the time that would be required to implement a CPE.
- IEP questioned whether the question was examining the time after a Commission decision or the time to implementation from today. IEP further pointed out that if legislation is needed, we need to factor it into the timeline.
- SCE stated its belief that the suggested 12 to 18 month implementation period for a distribution utility as CPE is too long. SCE also stated its view that if the wall between utility procurement and the CPE function is an issue for CalCCA, perhaps the parties should begin working on the question now.
- CLECA stated that Commission review time would present issues not only for the distribution utility as CPE, but for any entity in this role. CLECA further expressed the view that the Commission is the only state entity with knowledge of procurement and would be concerned if the CPE function were separated from the Commission.
- The CAISO raised concern that it would take a whole year just to develop the CPE procurement process, suggesting a longer implementation timeframe is likely.

Other Examples of CPEs.

- TURN raised a number of possibilities to consider; Texas has a central procurement entity for MUNIs, state public utilities commissions (PUCs) in some cases (e.g., Maine) manage request for offers (RFOs) for providing power to bundled customers.

Workshop Report.

- IEP suggested that the workshop report should include the option of “status quo” with no CPE. Constellation pointed out that the status quo is Cost Allocation Mechanism (CAM). Middle River Power supports the status quo. SCE stated its view that the status quo is in conflict with D.19-02-022; if people disagree, they should file a petition for modification of the decision.
- CalPA suggested that the workshop report should include timing and the end point, as well as clarify the jurisdiction over the CPE entity.
- CalCCA observes that its role was to facilitate the workshop, not to independently propose a solution in the workshop report. Participants offered no timelines for implementation, and the timeline will depend on what type of entity is selected, as will jurisdiction.

APPENDIX A
Workshops #3 and #4 Designated Topics

- A. Determine Consensus Definitions on Central Procurement Entity, and determine whether any alternative is a non-starter
 - a. Designated Special Purpose Entity
 - i. State Entity
 - ii. Third-Party Entity
 - b. CAISO
 - c. Distribution Utilities

- B. Discuss benefits and concerns of each entity
 - a. Designated Special Purpose Entity
 - i. Benefits
 - 1. Government-backed entity
 - 2. Independent procurement entity
 - ii. Concerns
 - 1. Implications for implementation of a larger scale Special Procurement Entity
 - 2. Requires legislative action
 - 3. Additional lead time to establish agency
 - 4. Administration effort to track load migration (dependent on full/residual procurement)
 - 5. Cost allocation
 - b. CAISO
 - i. Benefits
 - 1. Expertise and administrative efficiency
 - 2. Precedent in other RTOs
 - ii. Concerns
 - 1. Unable to reflect state policy objectives in procurement decisions
 - 2. Implementation timeline
 - 3. CAISO may not want role
 - c. Investor Owned Utility (IOU) or Utility Distribution Company (UDC)
 - i. Benefits
 - 1. Expertise and administrative efficiency
 - 2. Implementation schedule
 - 3. Cost allocation that tracks load migration (dependent on full/residual procurement)
 - ii. Concerns
 - 1. Debt equivalence
 - 2. Competitive neutrality
 - 3. Administration cost recovery
 - 4. Additional staffing and systems to manage the central buyer portfolio (dependent on confidentiality needs of participants)
 - 5. Cost allocation

6. If the IOUs are to be the central procurement entities on an interim basis, how do the IOUs enter into local RA contracts and then assign them to a future central procurement entity? This can be very destabilizing to both the immediate counterparties to the contract, as well as to future participants contemplating contracting for local RA. At a minimum, participants want to ensure that if a contract is assigned, the new counterparty will have sufficient credit to pay the obligation.

C. Determine and Prioritize Consensus Objectives

- a. Credit Worthiness
- b. Financial Stability and Debt Equivalence
- c. Competitive neutrality
- d. Compensation for Procurement
- e. Cost Collection Mechanism
- f. Procurement Mechanism (e.g. all-source solicitation)
- g. Evaluation Criteria / Selection of Resources
- h. Procurement Oversight
- i. Expertise and Knowledge
- j. Approval of Procured Resources

D. Long Term vs Short Term Objectives

E. Workshop Report Recommendations

APPENDIX B

Aggregated Responses to Workshops #3 and #4 Questions

1. At this time, do you generally favor a full procurement (PG&E), residual (SDG&E) or “hybrid” (SCE) model?

- ❖ **Calpine:** Calpine generally favors a residual approach. Calpine would rather serve its customers directly/bilaterally than through a central procurement entity. In addition, to the extent that a full approach applies to local only, it would significantly complicate continued bilateral procurement of system and flexible capacity because it would force LSEs to give up system and flexible attributes associated with local resources in order to receive local credit for the resources. For the same reason, Calpine does not support the hybrid model. While compared to the full model, the hybrid model ostensibly provides an additional option of allowing an LSE to “show” a local resource, the option is not really useful because it does not provide direct credit to the LSE who shows a local resource. Instead, it spreads the benefit of the showing across all LSEs.
- ❖ **City of San Diego:** The City prefers the residual model for procurement. As was demonstrated at the workshop by SDG&E and others, this model provides Load Serving Entities with the greatest amount of control over their procurement activities without putting the LSEs at risk for loss of value of their self-procurement. Both the full procurement and the hybrid models can result in an LSE failing to receive full value for its self-procurement activities. In addition, the residual model would help meet the needs of the State (e.g., reducing the need for backstop procurement by the CAISO) and still provide LSEs with an opportunity to optimize their procurement activities to meet the needs of their customers. Control and ability to meet State needs outweigh any potential administrative burdens required under the residual model.
- ❖ **CLECA:** This question pertains to the topic of Workshops #1 and 2. As such, it is out of scope here. However, since the choice of a Central Procurement Entity will largely depend on the procurement model, we briefly respond to it.

CLECA continues to support the residual model. Among other advantages, we believe that the residual model will enable Load Serving Entities to compete in procuring electricity for their customers. It will also cause the least disruption in California’s electricity markets. The California Public Utilities Commission has recently initiated its Integrated Resource Planning process and aims to open a procurement track in that proceeding. The Commission has also recently instituted a multi-year framework for local Resource Adequacy. Accordingly, CLECA believes it is inadvisable to adopt a full procurement model at this time. The Commission should retain some flexibility to determine how best to assure procurement related to such concerns as renewable integration, by allowing a mechanism for the retention of aging fossil fuel plants as well as the acquisition of other technologies, such as storage. Full procurement could result in procuring more fossil fuel resources, which the Commission is trying to move away from. It could also procure more storage, which is costly. We believe that not conducting full procurement will provide the Commission some space in which to shape policy in the IRP proceeding by balancing its cost and Green House Gases objectives.

Moreover, we are troubled by the fact that under both the full procurement and the hybrid model, unless an LSE's offer of local capacity is accepted by the CPE, it loses the value of its local capacity attribute, which might cause it to incur greater costs than if it was procuring the resource for system or flexible capacity needs. In addition, under both the hybrid and the full procurement models, the LSE is penalized by having to pay its share of cost allocation due to the CPE's acquisition of additional local capacity after its own local capacity has been rejected. The tables presented at Workshops # 1 and 2 confirm this assessment.

The advantage of the residual model is that an LSE can voluntarily show its capacity to the CPE, which will then reduce its local capacity obligation on a MW for MW basis. The disadvantage is that the model does not account for the effectiveness of that capacity, thereby potentially causing the CPE to need to buy additional effective capacity.

We believe that the residual model is the best option as long as it can be refined to account for the effectiveness of electric capacity. We would encourage efforts to address the effectiveness issue as soon as possible, although we recognize that this cannot be achieved perfectly as effectiveness changes as the resource mix changes.

As mentioned above, CLECA will comment further on this topic in response to the full workshop report.

- ❖ **Enel X:** Enel X favors a residual model that allow the load-serving entities to self-procure their own local resources to the greatest extent possible, and receive full credit for the resources that the LSEs have procured toward meeting their local resource adequacy requirement. In addition, if an LSE elects to have the central procurement entity procure the entirety of its local RAR, it can inform the CPE of that election. However, Enel X prefers for the the primary role of the CPE will be to procure residual local RAR in accordance with the multi-year forward local RAR adopted by the Commission.

Enel X agrees that the California market is in a significant state of change in terms of the development of Community Choice Aggregators, which are adopting the procurement and RAR of those departing customers from utility service. It makes sense that the investor-owned utilities are not entering into long-term RA contracts as a result, which would only increase costs to departing customers. Further, it is understandable that newly formed CCAs are not fully capable of entering into long-term contracts for their customer base, as they are learning about the needs of those customers and becoming financially viable. This is a transitional state of the market. However, it will not likely stay in this high-level of flux and will come to more normalized state eventually. Therefore, the creation of new models of procurement should take into consideration the transitional nature of these changes and create structures that are flexible to allow for a future state that requires less intervention into the ability of LSEs to provide their procurement services for their customers.

- ❖ **Green Power Institute:** The GPI favors the full procurement model. One of our primary concerns with the creation of a residual CPE for local RA is that it would be extremely difficult to create a CPE whose anticipated volume of business is both unpredictable and potentially could fluctuate significantly from year to year. This perpetual uncertainty could lead to elevated total costs. In addition, after a cycle or two of experience has been accumulated market prices are likely to converge for bilateral contracts and contracts through the CPE, negating any advantage an LSE might think it can gain through the bilateral route.
- ❖ **Middle River Power:** The more discussion that takes place at these workshops, the more convinced MRP is that the current bilateral contracting framework, improved by strengthening compliance and enforcement and imposing higher penalties if LSEs fail to procure sufficient RA, remains a better model than those being contemplated. Combined with longer-term procurement for all RA products, these improvements should be effective at addressing current shortcomings. We believe it is important to stabilize RA procurement under longer-term requirements for all RA products before making changes to the program. If changes are ultimately made, MRP urges that they be carried out in a thoughtful and deliberative manner that causes least disruption to the markets, the LSE's procuring RA and the generators supplying RA.

If a central buyer model is imposed, then MRP strongly favors the residual model.

- ❖ **NRG:** At this time, NRG favors a residual procurement model, because that model provides the greatest certainty as to whether existing Resource Adequacy contracts with non-Investor Owned Utility entities would count in full towards meeting the non-IOU entities' RA requirements. NRG could favor a different model, such as a full procurement model, depending on the design of that model and the process for transitioning to that model.
- ❖ **PG&E:** Discussion of the different central procurement models (and which models are favored by particular parties) was not within the scope of Workshops #3 and #4. As a result, this topic was not discussed in detail during Workshops #3 and #4. Therefore, neither the different procurement models nor party preferences regarding the models should be a focus of the workshop report submitted for Workshops #3 and #4.

Notwithstanding the foregoing, Pacific Gas and Electric Company believes that (1) the procurement of the most effective and preferred resources at the lowest cost, (2) administrative efficiency, (3) minimization of backstop procurement by the California Independent System Operator Corporation, (4) effectively addressing load migration, (5) equitably allocating costs to all customers, and (6) addressing leaning by load serving entities (e.g., cost causation) are best addressed through a full procurement model.

Parties have not submitted an end-to-end proposal for a residual procurement model that addresses the items identified above more effectively and efficiently than a full procurement model.

- ❖ **SCE:** The question of which central procurement model should be adopted was a topic of Workshops #1 and #2. The preference for one model over another is largely independent of the decision on who will fill such a role. As such, SCE will address this question within the summary of Workshops #1 and #2 after evaluating all the models presented.
- ❖ **Shell Energy North America:** Shell Energy favors a “residual” CPE model. A CPE should be limited to procuring local RA capacity. A CPE also should be limited to procuring local RA capacity after LSEs have had an opportunity to procure local RA to meet their own procurement obligations. A residual CPE model facilitates “choice” and “flexibility” for individual LSEs and their customers, and encourages development of resources that benefit both individual customers and grid reliability. Under the residual approach, an LSE may choose to procure all, none, or some portion of its local RA procurement obligation for the benefit of its customers. After LSEs have made their own local RA procurement decisions, the CPE will procure only the incremental amount that is needed to satisfy the LSE’s (and all LSEs’) remaining local RA obligation.

A “full” or “hybrid” CPE approach, by contrast, takes away an LSE’s procurement autonomy. The “full” CPE approach takes local RA procurement flexibility out of the hands of individual LSEs and discourages any local RA procurement by LSEs. Furthermore, both the “full” and the “hybrid” CPE approach devalues an LSE’s local RA procurement, which presents the likelihood of stranded LSE procurement costs, and thus provides a disincentive for LSEs to engage in their own local RA procurement. Because the hybrid approach devalues individual LSE procurement of local RA, the hybrid approach effectively becomes a full CPE approach.

- ❖ **TURN:** Of the three models proposed, TURN favors a “residual” model for procurement. The other models, as proposed, would discourage LSEs from making investments in local resources by exposing LSEs to the risk they will lose money on such investments.
- ❖ **WPTF:** WPTF questions the need for a CPE, given the small likelihood the conditions which lead to relatively large amounts of CAISO backstop procurement in 2018 will recur. Indeed, WPTF would be in favor of maintaining the status quo, rather than implementing a CPE framework, pending the resolution of what it believes are more pressing RA program reforms (e.g., the adoption of multi-year System and Flexible RA requirements).

WPTF also believes that, in the long run, a centralized capacity clearing market for all RA products (System, Local and Flexible) is the most viable RA program framework, as it would virtually eliminate the possibility of LSE procurement deficiencies (and thus the need for CAISO backstop procurement) while providing the clear market signals that are needed to guide investments in existing and new generation resources, including resources needed to meet local capacity requirements.

However, if the Commission is determined to designate a CPE for the current multi-year Local RA requirements, then, as a transitional measure only, WPTF favors a variation of SDG&E's residual procurement model, as described below.

2. What shortcomings in the existing Resource Adequacy framework would a CPE address and how would it address them? (e.g., eliminating collective deficiency, minimizing overprocurement, minimizing cost, mitigating utility or generator market power, etc.)

- ❖ **Calpine:** One general concern that led to the consideration of a central buyer structure is that local RA compliance requirements have not been as granular as actual reliability requirements. Consequently, LSEs have been able to meet compliance requirements in a manner that then requires CAISO backstop procurement to meet reliability requirements. This issue already has been partially addressed by the disaggregation of compliance requirements in PG&E Other and could be further addressed by disaggregating compliance requirements down to the sub-area level. To the extent that these more disaggregated requirements might prove difficult for LSEs to satisfy bilaterally, a central buyer might facilitate compliance by allowing LSEs to rely on central procurement to meet some or all of their RA requirements. Relatedly, it might allocate the costs of satisfying the most granular local RA requirements more equitably.
- ❖ **CLECA:** This question is overbroad. It addresses policy that has been adequately addressed in the RA Decisions 18-06-030 and 19-02-022.

D. 18-06-0302 outlined the following objectives of the central buyer approach:

- (a) more efficient procurement of local and sub-local resources,
- (b) reduction in stranded costs of load departing to Community Choice Aggregators,
- (c) procurement of the "right" resources,
- (d) avoidance of CAISO's backstop procurement for sub-area deficiencies,
- (e) addressing market power in locally constrained areas, and
- (f) least cost solutions for all customers.

D. 19-02-0223 identified additional benefits of a central buyer as: (a) procurement of local preferred resources and (b) retention of California's jurisdiction over procurement.

CLECA believes the above address the question

- ❖ **Enel X:** Energy Division, in its analysis, has identified a couple of observable changes in local RA procurement since the proliferation of CCAs. First is that the amount of forward contracting that is occurring in the market has decreased. However, since the Commission has adopted a multi-year forward local RAR, that should address some of the forward contracting concerns. Further, the Energy Division identified an increase in California Independent System Operator backstop procurement and an increase in the number of waiver requests submitted. Even if all LSEs were fully resourced to meet all forms of RA, it is still possible that the CAISO would perform backstop procurement because local RA requirements were related to the local area and not sub areas and because several local areas in Pacific Gas & Electric were combined. Local RA procurement based upon an aggregation of local areas means that some local areas could have had more than sufficient procurement and others may not. In addition, it is possible to have differences between the local RA forecasts and real time needs.

There are many reasons why backstop procurement could occur even if all Load Serving Entities were fully resourced. The California Public Utilities Commission, in D.19-02-022, broke the aggregated local RA area named “PG&E Other” apart into its respective local areas for purposes of procuring resources to meet local RA. However, D.19-02-022 also recognized, based upon PG&E’s statements, that PG&E owns most of the resources located in those individual local RA areas. So, while breaking the “PG&E Other” local RA area into its individual local RA areas may reduce the amount of backstop procurement performed by the CAISO for specific local areas needs, it does not address, reduce or eliminate the possibility of the exercise of local market power. Neither does the existence of a CPE. If an LSE was unable to procure capacity in a local area that is held by one generation owner because the generation owner is unwilling to sell the capacity or is unwilling to sell at a fair market price, then the introduction of a CPE does not solve that problem.

The CPE would have more economies of scale and more purchasing/negotiating power by virtue of representing multiple buyers in the market relative to multiple smaller LSEs. PG&E proposed, but the Commission did not determine, that the RA costs for those PG&E-owned resources could be allocated to third-party LSEs through the Cost Allocation Mechanism. However, the CAM is a non-bypassable charge to CCA or ESP customers, which increases the transmission and/or distribution charges to those customers. There are competitive implications to allocating procurement-related charges in the non-bypassable charges of customers of CCAs and ESPs and there are other distortions, including reducing benefits for energy efficiency, that occur as a result of that structure.

- ❖ **Middle River Power:** While the central buyer framework held out some promise for managing load migration and cost allocation issues, the workshop discussions have demonstrated that the CPE is not a panacea for these issues. Without minimizing the complexity of dealing with these issues, MRP believes they can be addressed administratively and under the oversight of the CPUC without imposing a central buyer

framework that upends the market and causes many other secondary problems that are proving challenging to address. Ultimately the CAISO backstop is used to eliminate any collective RA deficiency under any of the models, so we don't see value to imposing a central buyer, with all of its costs, complexity and uncertainty, as a reasonable solution to that issue or any of the others listed in the question. Retaining the bilateral market with stronger compliance and enforcement requirements with the CAISO backstop to address deficiencies is a better model than any of the CPE models being considered now.

- ❖ **NRG:** A successful CPE model should resolve the possibility of a collective deficiency and minimize over-procurement. With regards to mitigating market power, the generally proffered theory in this proceeding is that only a FERC-jurisdictional entity can mitigate supplier local market power; the way this currently works is that if a Load-Serving Entity cannot procure local capacity for a price under the applicable waiver trigger price, that LSE may seek from the CPUC a waiver of the requirement to procure local capacity. If that waiver is granted, the LSE does not need to procure that capacity, however, if the capacity is required to maintain local reliability, the CAISO will procure that capacity through its backstop procurement mechanisms and allocate the cost to the LSE that did not procure the capacity. With regards to mitigating buyer market power, a CPE may exacerbate the potential for buyer market power if it becomes the only entity that is procuring capacity on behalf of LSEs. Unless a CPE adopts transparent procurement practices, a CPE is unlikely to address one of the most significant shortcomings of the current RA program, namely, the non- transparency of RA procurement.

NRG believes that, for some parties, the sharp increase in the CAISO's backstop procurement for 2018 amounts to the shortcoming in the current RA procurement process that must be resolved. That sharp increase amounted from a number of problems, including (1) the CPUC's own rules that prevented an IOU from contracting with a generating unit that was operating past its once-through-cooling deadline to maintain local reliability; (2) a failure, or an unwillingness, to contract with a resource that was needed for local reliability and that required expensive capital maintenance; (3) the inability or unwillingness for the current RA program to enforce sub-area local capacity requirements, which increases the likelihood of CAISO backstop procurement, and (4) load forecasts that did not account for the recent phenomenon of high, late-season peak demands. While all these things were clear shortcomings in the RA procurement process, they could all be cured without adopting a CPE.

- ❖ **PG&E:** Discussion of the shortcomings in the existing Resource Adequacy framework that would be addressed by a central procurement entity was not within the scope of Workshops #3 and #4. As a result, this topic was not discussed in detail during Workshops #3 and #4 and should not be a focus of the workshop report submitted for Workshops #3 and #4.

Moreover, the shortcomings in the existing framework are well documented in the record of this proceeding and in both Decision (D.) 18-06-030 and D.19-02-022. D.18-06-030 and D.19-02-022 are clear that a central buyer structure, as determined by the California

Public Utilities Commission, is the mechanism "...mostly likely to provide cost efficiency, market certainty, reliability, administrative efficiency, and customer protection."

- ❖ **SCE:** This question is misplaced. The shortcomings of the existing RA framework are well documented within the RA proceeding, including through stakeholder comments, testimony, proposals, and the Commission's rulings. In the most recent Commission decision on this subject, the Commission stated:

As discussed in the Track 1 decision, the Commission seeks a multi-year central buyer framework that will, among other things, reduce costly out-of-market RA procurement due to procurement deficiencies, account for increased load migration, and ensure that necessary resources are procured in an orderly manner. (D.18-06-030 at 24-25.) The Track 1 decision also directs any proposal involving more than one procurement entity – as a residual approach effectively is – to demonstrate it can "address equitable allocation of costs to all customers" and "ensure cost-effective, efficient and coordinated procurement for each local and sub-local area within the TAC." (Id. at 33.)

In that same decision, the Commission also listed several "known challenges to the local RA program" that a CPE should address:

The Commission directs parties to develop workable implementation solutions for central procurement of multi-year local RA through workshops. The implementation details shall include, but are not limited to, the identity of a viable central buyer, the scope of procurement (e.g., full, residual), implementable cost allocation mechanism (e.g., how costs will be tracked and recovered), oversight mechanisms, other procurement details (e.g., resources to be included, selection criteria), market power mitigation tools, and necessary modifications to the RA timeline.

The Commission deems workable implementation solutions as those that specifically address the following known challenges to the local RA program:

- 1. costly out-of-market RA procurement due to local procurement deficiencies,*
- 2. load migration and equitable allocation of costs to all customers,*
- 3. cost effective and efficient coordinated procurement,*
- 4. treatment of existing local RA contracts,*
- 5. opportunity for and investment in procurement of local*

preferred resources, and
6. *retention of California’s jurisdiction over procurement of preferred resources.*

SCE agrees with these well-documented concerns. It is also clear that the purpose of a CPE is to address all these issues by identifying an entity to act as CPE and developing solutions under a CPE framework. SCE agrees with the need to develop a CPE framework.

- ❖ **Shell Energy North America:** A shortcoming of the current local RA procurement requirement is the absence of an LSE requirement to procure in local sub-areas. With rules directing or allowing the CPE to procure local RA on a sub-area basis, adoption of a CPE will reduce or eliminate the need for the CAISO to undertake “backstop” procurement in (and for) local sub-areas.

Implementation of a residual CPE model will eliminate LSEs’ collective local RA deficiencies, when identified by the CAISO, as long as the timeline for residual CPE procurement is adequate to accommodate individual LSE procurement and provide sufficient time for residual procurement by the CPE. Other objectives may not be met though adoption of a CPE model. For example, a CPE will not necessarily minimize over-procurement or minimize cost. Moreover, a CPE will not mitigate IOU market power in local areas. This action is already under the jurisdiction of the CPUC. To mitigate IOU market power, the CPUC must require the IOUs to post all unneeded local RA capacity on an EBB or ICE. The IOUs should not be allowed to withhold local RA capacity and use this withheld capacity to meet an inferior system RA requirement.

- ❖ **TURN:** Consolidated procurement of some or all LSEs’ local capacity should address, at least in part, all of these issues.
- ❖ **WPTF:** Under WPTF’s preferred approach to residual procurement, the CPE would eliminate any collective deficiencies through procurements conducted through independently administered auctions.

The CPE would be authorized to procure only those resources that are needed, and only in the amounts that are needed, to cure actual procurement deficiencies (including collective deficiencies) in local areas, thus minimizing the risk of overprocurement. By minimizing overprocurement, the CPE’s overall costs would also be minimized. Utility market power would be mitigated by having an independent third party administer the auctions with clearly defined procurement criteria. (To the extent generator market power is a problem, it would be addressed through existing FERC enforcement mechanisms.) The CPE’s procurement costs would only be allocated to those LSEs with procurement deficiencies, which is not only fair (in terms of the treatment of LSEs with existing contracts) and equitable (in terms of cost allocation) but also incentivizes LSEs to self-procure to minimize costs (i.e., so as to avoid being allocated CPE procurement costs)

while also allowing for LSEs to self-procure for other reasons (e.g., to meet self-imposed goals for procuring “preferred” and/or locally sited resources).

The annual auctions would also provide LSEs with excess capacity (e.g., due to load migration) a mechanism for efficiently and cost-effectively “offloading” their excess capacity (i.e., by bidding that capacity into the annual auctions).

Having the auction administered by an independent entity would also help all LSEs – including the IOUs – best manage credit as it would be seen as limiting balance sheet obligations by those who monitor credit (i.e., credit agencies, banks, counterparties).

3. Are there evaluation criteria that should be considered in selecting a CPE in addition to the criteria identified on page 8 of the workshop presentation? Should some of these criteria be eliminated? Are there criteria that should be weighted more heavily than others?

- ❖ **Calpine:** The criteria on page 8 are relatively complete. As several parties noted at the May 15th workshop, another related criterion might be alignment with other types of central procurement. For example, to the extent that the state establishes a CPE to procure multiple types of resources, as is currently contemplated by AB 56, the incremental cost of establishing a CPE for RA may be lower. In contrast, if a new entity were established for RA procurement alone, the cost might be higher.
- ❖ **City of San Diego:** Most of the evaluation criteria identified on page 8 of the workshop presentation are reasonable. The City believes that the criteria fall into three broad categories:
 - **High Priority:** Accountability & Transparency; Competitive neutrality; Financial stability; Implementation Timing and Cost; Market Power Mitigation; Procurement Oversight; Reliability
 - **Medium Priority:** Costs, Cost recovery authority; State Policy Facilitation
 - **Low Priority:** Change in Law; Precedent

The City believes that "Expertise and Knowledge" would be very difficult to judge for a CPE that does not yet exist, which makes it a somewhat less useful evaluation criterion. It is most likely that any CPE would be able to acquire the expertise and knowledge necessary to perform the necessary functions either through hiring or through initially using consultants until its in-house capabilities are sufficient.

The City also has concerns about the criteria "Jurisdictional Concerns." Based on discussions within the working group, it appears that there could well be some sort of

jurisdictional concerns over the establishment of a CPE. As a result, this criterion may not be very useful for differentiating between potential CPEs.

❖ **CLECA:** CLECA notes that some of the criteria outlined in the workshop presentation, such as reliability, apply to the RA program as a whole. We identify the following criteria as the most important for the designation of a CPE:

1. **Jurisdictional implications:** California must retain its jurisdiction over electricity procurement. Nominating the California Independent System Operator as the CPE could subject California's resource procurement to federal regulation. Such an outcome might be catastrophic for the State in achieving its objectives with regard to procurement of preferred resources and reduction of greenhouse gases.
2. **Change in Law:** New legislation should be avoided. In addition to the above concern, CLECA believes that it is difficult to address the complexities of the electricity market through legislation. It will also be time-consuming.
3. **Costs:** Minimizing costs of a CPE and achieving an equitable cost allocation are essential from a ratepayer perspective.
4. **Implementation timing:** Drafting new legislation or creating a new governmental or non-governmental entity will take time. In two or three years, the California electric resource mix could have changed substantially, prompting a change in approach to procurement objectives.
5. **Procurement oversight:** It is important that the CPE's activities are coordinated with the CPUC's ongoing work in the IRP, the RPS, and the RA proceedings. Similarly, the CPE will have to coordinate its activities with the CAISO, which operates the grid. Therefore, we believe that procurement oversight will best be achieved by maintaining the CPUC's authority over the CPE.
6. **Knowledge and Expertise:** It is crucial that the CPE have the knowledge and expertise to conduct local capacity procurement on behalf of the LSEs. A new or existing State Agency (other than the CPUC) would likely lack the expertise to conduct this function effectively.

❖ **Enel X:** Enel X supports many of the criteria listed by CalCCA relative to the CPE. Enel X characterizes the criteria in a couple of different categories:

Viability of the CPE:

Some of the criteria that Enel X puts into this category include creditworthiness, expertise and knowledge, and reliability. These criteria go to the ability of the CPE to execute its role. It must be a credit-worthy entity. The CPE must have knowledge and expertise in executing wholesale market transactions. And, the

CPE must be a reliable entity. The CPE must also have a strong and thorough understanding of RA, and the obligations that the LSEs must meet, as well as the obligations the resources must meet, in order to determine if bids are capable of being counted for RA purposes.

Accountability of the CPE:

The CPE must be able to demonstrate that the procurement that was made on behalf of the LSE, was the best price for the capacity sought in the location. Being able to show the regulator and the buyer that the CPE did the best job is really important. In addition, the CPE must be able to demonstrate that its costs of providing the CPE service is reasonable. There should be full transparency and accountability of the CPE's costs. Further, the CPE must be able to implement its services and be able to meet the RA timelines established by the Commission and the CAISO.

Impartiality and Neutrality

It is important that the CPE be able to conduct its business in an impartial and fair manner irrespective of for whom the service is being provided. The manner or method of securing resources should be consistent as between Investor-Owned Utilities, Community Choice Aggregators or Electric Service Providers. Further, the CPE should not favor any resource type over another and should procure resources in an impartial manner consistent with the policies of the state, the directives of the Commission and state law, including least cost/best fit and the loading order.

Regulatory Oversight

The CPUC, or an independently appointed entity, should be able to select the CPE based upon the financial viability, the experience and knowledge and the ability for the CPE to perform the functions required of it in a competitively neutral manner. In addition, the CPUC can set the parameters that the CPE must meet in executing its role, such as state policies, least cost/best fit criteria and the loading order. The CPUC can also require the CPE's procurement to ensure that resources are capable of meeting the RAR for the buyer. The CPUC can also require the CPE to demonstrate the process and results from its solicitation methods for purposes of regulatory oversight. This regulatory oversight can all be established in a contractual relationship between the CPE and the CPUC and the CPE and the load serving entities. Outside of the contractual relationship with the CPE complying with these requirements, the CPE does not have to be jurisdictional to the CPUC for regulatory oversight to occur.

While not wholly analogous, several competitive markets in the Eastern United States have established provider of last resort auction processes whereby a third

party can be authorized to step into the role of the vertically-integrated utility to provide procurement services to those who are not being served by a competitive provider. There are qualification processes for those entities to assume that role. The Commission could develop a process for certifying third party CPE providers that will comply with specific levels of regulatory oversight and compliance, financial and professional requirements to perform the function of the CPE.

- ❖ **Green Power Institute:** Page 8 of the workshop presentation lists 14 major evaluation criteria, and 6 subcategories. These criteria are as varied as financial stability, expertise and knowledge, and jurisdictional implications. The proper use of these criteria is to analyze each candidate CPE with respect to each criterion under consideration, and then use expert judgement to compare and contrast the disparate information. There is no need to determine a preconceived weighting system for the various criteria.
- ❖ **Middle River Power:** Experience in central buying or clearing should be added to the requirement that a central buyer have expertise and knowledge. Independence should also be added as a criterion. Independence, along with the elements of accountability and transparency, competitive neutrality, and financial stability should be foundational requirements for any central buyer. Clear selection guidelines are critical to any CPE to establish a fair and equitable process.
- ❖ **NRG:** The listed evaluation criteria are:
 - Accountability and transparency
 - Change in law
 - Competitive neutrality
 - Costs
 - i. Administrative costs
 - ii. Compensation for procurement
 - iii. Cost of funds
 - iv. Debt equivalence premium
 - Cost recovery authority
 - Expertise and knowledge
 - Financial stability
 - i. Credit worthiness
 - ii. Debt equivalence implications
 - Implementation timing and cost
 - Jurisdictional implications
 - Market power mitigation
 - Precedent
 - Procurement oversight
 - Reliability
 - State policy facilitation

The criteria that NRG views as most important are: Accountability and Transparency; Costs, especially Compensation for Procurement; and Credit Worthiness. Other important criteria NRG views as a given, i.e., Cost Recovery Authority, Reliability and State Policy Facilitation, and did not include in the list above.

- ❖ **PG&E:** As discussed in PG&E’s Opening Testimony in the RA OIR Track 2, PG&E presented six criteria in order of priority that should be considered in selecting a CPE: reliability, affordability, market power mitigation, fair cost allocation, adaptability, and administrative simplicity.¹ Of PG&E’s six ranked priorities, only reliability and market power mitigation are identified as evaluation criteria on page 8 of the workshop presentation distributed by the California Community Choice Association’s counsel. PG&E strongly believes that the six criteria put forth in its opening testimony are the most critical for selecting an appropriate and effective CPE.

With reliability as a primary goal, the CPE may eliminate under-procurement of local RA by disaggregating local areas to the sub-area level. A CPE designed for affordability may ensure the reduction of costly potential backstop procurement. A CPE with market power mitigation benefits the State by assessing existing generation against new generation and transmission alternatives as well as exercising the Federal Energy Regulatory Commission’s market power mitigation authority. Fair cost allocation performed by a CPE ensures costs are allocated to all market participants. Adaptability of the CPE ensures a CPE is able to scale to any degree of LSE fragmentation. Administrative simplicity of a CPE would benefit the State by ensuring secure contract financing for the CPE and eliminating iteration with CAISO on transmission studies and contentious and costly procurement and resource management review.

- ❖ **SCE:** As discussed in the response to question #2 above, the Commission has laid out the list of objectives that a CPE must accomplish. The evaluation criteria identified on page 8 of the workshop presentation, and any other new evaluation criteria proposed by stakeholders, must be closely aligned with these objectives. In the event of any ambiguity, the objectives listed by the Commission should take a higher priority.

Specifically, the evaluation criteria “Reliability,” as listed in the workshop presentation, is not necessary given that one of the overall goals of the RA program is to ensure grid reliability and that the reliability is achieved by different agencies fulfilling many aspects of this program. On the other hand, the list of evaluation criteria should include equitable allocation of costs due to load migration. This was included in the objectives listed by the Commission but is missing from the list on page 8 of the workshop presentation. Alternatively, this can be explicitly listed underneath the criteria of Cost Recovery Authority.

The other criteria listed within the workshop presentation may be worthwhile discussion points to develop preferences of parties, but at a minimum must consider

those priorities listed by the Commission. SCE has not at this time evaluated any of the criteria listed in the presentation for elimination or prioritization.

- ❖ **Shell Energy North America:** CalCCA has generally identified the key criteria for evaluating a CPE. Shell Energy suggests one additional criterion: “independence.” The CPE must not have an internal conflict between its LSE role and its CPE role. There must be complete separation between any LSE and the CPE.

For many of the criteria, including “transparency,” “accountability,” “competitive neutrality,” and “cost recovery authority,” a significant issue will be how these criteria are implemented. It is one thing to state that these criteria are important. It is another thing to develop rules to ensure, for example, that the CPE is “accountable.”

- ❖ **TURN:** Are there evaluation criteria that should be considered in selecting a CPE in addition to the criteria identified on page 8 of the workshop presentation? Should some of these criteria be eliminated? Are there criteria that should be weighted more heavily than others?
- ❖ **WPTF:** From WPTF’s perspective, the most important criteria for selecting a CPE are:
 - Competitive neutrality
 - Accountability & Transparency
 - Creditworthiness
 - Financial stability

Assuming the CPE’s procurement authority is limited to residual Local RA requirements, which under WPTF’s preferred approach would be minimized (i.e., the CPE would undertake only a relatively small amount of procurement each year), the concerns highlighted by the other criteria identified at the workshop should be relatively easy to address or will no longer be pertinent.

4. Considering each identified evaluation criterion, does one type of entity better address the shortcomings in the existing Resource Adequacy framework than others? (e.g., would one type of entity be more accountable and transparent than others?)

- ❖ **Calpine:** As discussed below, Calpine continues to favor the CAISO as a central buyer.
- ❖ **City of San Diego:** Of the three options considered in the workshop, either a State Agency or a Not for Profit Corporation would better meet more of the High Priority criteria identified above than would a Distribution Utility.

- ❖ **CLECA:** CLECA believes that the designation of each Investor Owned Utility as a CPE in its Transmission Access Charge area would be the best option for meeting the criteria we have identified above. The IOUs already possess the expertise and knowledge of electricity procurement. As long as the IOU's other business is separate from its CPE function, no conflict of interest should occur. The IOUs already have restrictions when doing mandated procurement that is allocated under the capacity allocation mechanism. Measures to ensure separation of the IOU's CPE function from its other functions could include the use of separate identification badges for employees serving in different areas, and prohibitions on transmission of information regarding the IOU's CPE business to employees in other parts of its business.

Designating an existing state agency or creating a new one would not only be time consuming, but either the organization would most likely not possess the expertise to procure electricity in a complex marketplace or it would take additional time to hire and train additional staff. The same applies to a not-for-profit or a for-profit corporation. In contrast with a state agency or a not-for-profit corporation, the IOUs could serve their roles as CPEs in a more cost- effective, timely, and efficient manner.

- ❖ **Enel X:** As stated above, it is possible for a third-party to perform the CPE role based upon the experience and expertise of the third party to conduct competitive solicitations on behalf of LSEs, to follow the directives of the CPUC, to share the results of those competitive solicitations with the regulator, and to protect the results and the buyer's procurement position from public dissemination.

Experience in conducting thousands of competitive processes with a proven track record of driving the price to the lowest competitive level should be a primary consideration for selecting a CPE. The beauty of conducting a competitive process is that the LSE has the ability to establish the parameters under which the auction will be conducted, such as product, location, term and quantity. Since the local capacity product obligations can be predetermined and the contract could be standardized, then the LSE and the seller could finalize and execute the transaction within a short time of finalizing the procurement mechanism. The LSE will be able to demonstrate its procurement on its local RA showing. Enel X is able to demonstrate to the regulator the solicitation process and results to show that the LSE made a reasonable procurement decision, if necessary.

- ❖ **Middle River Power:** An independent non-profit entity seems most appropriate. One or more of the IOUs serving as central buyers is the least preferable model, because the IOUs don't meet the foundational requirements discussed in response to question 3. Attempts to manage around the limitations would be needlessly complex and would fall short of the benefits of a truly independent entity performing the function.
- ❖ **NRG:** An independent, transparent entity whose creditworthiness is established through a secure ability to pass along costs to ratepayers and does not tie to the credit

rating of, or could be imperiled by the bankruptcy of, a single entity, should be the CPE.

While the administrative costs of a CPE are a key consideration in the discussions, given that NRG expects that such costs will be recovered from ratepayers, NRG does not list administrative cost as a key consideration for NRG.

- ❖ **PG&E:** PG&E believes the entity best positioned to meet the objectives outlined by the Commission is a CPUC-jurisdictional state agency. While formation of a state agency may require legislation to create or authorize the agency to procure, the state agency may achieve all the goals and outcomes outlined in PG&E's comments in response to Question 3 except: ability to exercise FERC market power mitigation authority and elimination of iteration with CAISO on transmission studies. PG&E believes the most significant advantage to a state agency is that it allows for policy-based procurement in selecting resources to meet local reliability needs without the complications encountered by an investor-owned utility or CAISO. If an IOU were to serve as the CPE, concerns have been raised regarding potential interaction between IOU procurement activity as the CPE and IOU procurement as an LSE. Were CAISO to serve as the CPE, substantial changes would need to be made to the CAISO tariff and then reviewed by FERC with CPUC serving only in an advisory role, thereby decreasing administrative efficiency. Further bolstering the advantages of a state agency is the possibility that it could have credit quality superior to the IOUs, thereby reducing credit costs and driving affordability.
- ❖ **SCE:** As mentioned above, the key objectives defined for a CPE can be met by any of the three types of entities (Not for Profit Corporation, State Agency, and Distribution Utility) if appropriate rules and measures are in place. In many cases, having one type of entity acting as the CPE in itself does not offer clear advantages over any other type of entity. The key is implementing appropriate rules for a particular type of entity to perform as a CPE in order to achieve the desired outcome, be it a Not for Profit Corporation, State Agency, or Distribution Utility.

For example, unless and until the desired level of accountability and transparency is defined, any CPE has the potential to provide more or less than what parties may expect. Without discussing necessary and appropriate rules for a specific type of entity to act as the CPE, to conclude that one type of entity is more accountable and transparent (or any other set of preferred criteria) than others is potentially misleading because it requires speculation on how a CPE framework might work under rules and requirements that may be very different from the final design

- ❖ **Shell Energy North America:** Shell Energy supports appointment of the CAISO as the residual CPE. The CAISO is independent. As a quasi-state entity, the CAISO can serve as the CPE for all three IOU service areas. The CAISO has experience with backstop procurement in local areas (and sub-areas) and can expand that role to include residual local RA procurement. The CAISO is responsible for the entire grid,

and can perform the residual CPE role as an extension of its current role to maintain service reliability.

- ❖ **TURN:** TURN anticipates that a state agency authorized by legislation would be the superior form for a CPE in the long-run. (TURN assumes this question refers to the list of entities listed on slide 6 of the CalCCA’s May 15 presentation.)

- ❖ **WPTF:** As reflected in the presentation slides and was clear from the discussion at the May 15 workshop, any of the three potential CPE entities that have been proposed (i.e., a distribution utility, state agency or not-for-profit corporation) would be capable of addressing the most significant perceived shortcomings on the existing RA framework. However, each type of entity carries its own problems. Under WPTF’s preferred approach, those problems would be mitigated or eliminated altogether by having the CPE procure through auctions that are administered by an independent third party (i.e., the auction administrator, or “AA”) with the requisite information, knowledge and experience to ensure that the CPE procures only those resources that are needed at the lowest available cost.

For example, in the case in which a distribution utility serves as the CPE, having the auction be administered by an independent third party, with clearly defined procurement criteria, would largely eliminate concerns about competitive neutrality and utility market power. It would also eliminate the need for the utility to hire new staff and wall off CPE activities from other utility functions (since the utility would not play a role in deciding which resources the CPE procures).

Also, concerns about accountability and transparency as they apply to any potential CPE entity would be minimized by following the approach laid out in the May 15 workshop presentation, with responsibility for different tasks assigned as follows:

- Continue existing forecasting process(CAISO/CEC/CPUC)
- Report derivation of forecast load ratio share/cost allocation(CPUC)
- Develop criteria for resource selection(CAISO/CPUC/AA)
- Show resource types procured(AA/CPUC/CAISO)
- Show prices through RA report with separate ~~CPE~~-TAC identified averages (AA/CPUC)
- Ensure no financial incentive or conflict of interest (AA)
- Develop formulaic cost allocation with audit rights (CPE/CPUC)
- Require demonstration of compliance with processes and criteria (AA/CPUC)

5. Assuming the CAISO is unwilling to serve as CPE in the long-run, which type of entity best addresses the shortcomings in the existing Resource Adequacy framework?

- ❖ **Calpine:** Any of the proposed entities likely could assure that local reliability requirements are met and the costs allocated appropriately (although the ability of a CPUC-jurisdictional entity to spread costs to non- jurisdictional entities may be limited).

Calpine is concerned about the transparency of IOU procurement decisions. Generally, Calpine believes that the combination of utility procurement with an IE and PRG does not provide suppliers with sufficient information about how resources and their characteristics are valued to make informed decisions about investing in and developing resources, either with respect to the continued operation of existing resources or developing new resources. It is at least possible that central procurement by some other type of entity might be more transparent although Calpine is not convinced that a public benefit corporation or state agency would operate in an obviously more transparent fashion.

In addition, regardless of the entity that undertakes central procurement, Calpine believes that greater consideration should be given to the mechanism that will be used for procurement. Calpine generally prefers procurement based on clear rules, e.g., auction-based markets relative to opaque utility RFOs. Calpine encourages greater consideration of transparent procurement mechanisms regardless of the identity of the CPE. Relatedly, Calpine's concerns about the transparency of IOU central procurement might be ameliorated to the extent that the IOUs use transparent procurement mechanisms

- ❖ **City of San Diego:** Of the three options considered in the workshops, the City believes that either a State Agency or a Not for Profit Corporation that implements a residual procurement model would be superior to a Distribution Utility as a CPE. Either of these entities would ensure that all interested parties would receive fair treatment in the new market.
- ❖ **CLECA:** The CAISO has consistently maintained that it has no interest in serving this function. The question incorrectly implies otherwise. As mentioned above, CLECA believes that the IOUs are in the best position to serve this function. A new state agency will not only create another layer of bureaucracy, it will have to coordinate its work with the CPUC, the CAISO, and perhaps even the California Energy Commission and the California Air Resources Board. A not-for-profit corporation or a for-profit corporation would face similar challenges. Neither an existing state agency, nor a not-for-profit or for-profit corporation, has the knowledge and expertise to serve as the CPE.
- ❖ **Enel X:** Enel X has conducted auction for electricity, natural gas and water agencies for public and IOU. Enel X has vast experience across the United States. Because of the experience in conducting these auctions and the success rate in contracting, Enel X, or entities such as these, should be considered among the entities considered in providing world-class procurement services.

The IOUs would not make ideal candidates for the CPE for several reasons. First, PG&E is in bankruptcy. Second, SDG&E has stated that it seeks to exit the procurement function. Third, even if the IOUs were willing to perform the CPE function on behalf of all LSEs, there are serious competitive protections that would need to be implemented to insulate utility specific competitive procurement information from third-party competitive procurement functions. The possibility of sharing competitive procurement information relative to third-parties within the IOU organization could be seriously damaging to those third-party competitors. There would be unequal access to information in the marketplace that would inure to the benefit of the IOUs. The implications of this could be irreversible.

Creating a new public entity or a not-for-profit entity for the purpose of performing backstop local RA procurement on behalf of the LSE would be difficult to establish and may be a sub-optimal result.

For example, creating a new entity will take a significant amount of start-up effort and it is unclear how experienced the entity would be in performing this specialized function. Creating a not-for-profit entity will also require a lot of start-up effort and will have the same concerns about proficiency in conducting RA competitive solicitations. In addition, if there is a lot of effort in establishing a new specialized entity for the purpose of this transitional market, it may be difficult to dismantle in the future when such services are no longer required to the extent necessary to fund the entity.

Not-for-profit entities still have to earn revenues for their services to cover their costs. Their motivations for driving down costs may not be as powerful as those of for-profit entities who only earn revenue if the transaction is successfully concluded and through which the buyers have the possibility of realizing the lowest possible price.

- ❖ **Green Power Institute:** In the opinion of the GPI this question should be addressed only after the mission and scope of the entity has been well defined. In other words, this question should be addressed near the end of the process.
- ❖ **Middle River Power:** Based on what has been discussed so far as possible options, an independent entity with experience similar to that of the CAISO or managed through some form of CAISO involvement would be the best choice.
- ❖ **NRG:** Properly structured, implemented and managed, a not-for-profit organization or state entity could serve as the CPE.
- ❖ **PG&E:** See response to Q4.
- ❖ **SCE:** It is unclear which of the shortcomings in the existing RA framework are referenced in this question. Depending on the specific shortcoming(s) being referred

to, the type of entity to best addresses the shortcoming(s) may be different. Generally, as reflected in SCE's responses to questions #2 and #4 above, without discussing specific rules, to conclude one type of entity is better than others can be misleading. SCE prefers to determine what the various objectives and requirements of the CPE will be in order to produce the desired outcome and then develop rules to ensure that the CPE meets those expectations.

- ❖ **Shell Energy North America:** Shell Energy supports further discussion with the CAISO to encourage the CAISO to assume the residual CPE role. The CAISO's independence is a characteristic that is not present in the IOUs or other LSEs. Furthermore, the start-up (implementation) process will be simplified and shortened if the CAISO, rather than a new entity (including a State-approved entity), assumes the role of residual CPE.
- ❖ **TURN:** See response to Question 4.
- ❖ **WPTF:** Please see WPTF's responses to Questions 1 and 4.

6. Would a single CPE or a CPE for each TAC area/service territory best serve the objectives driving the need for a CPE? Why?

- ❖ **Calpine:** To the extent that a CPE procures more than just local capacity, a single CPE for all CPE-jurisdictional load might be able to better optimize capacity procurement across all three capacity products, e.g., it might be able to account for the fact that the EFC of certain local resources in one TAC area is particularly valuable in the event that the resources that are required to meet local requirements in a different TAC area have comparatively little EFC.
- ❖ **City of San Diego:** The City is neutral to whether a single CPE or multiple CPEs serve the objectives as long as the evaluation criteria are prioritized and followed in the selection of the CPE and that the role of the CPE balances both local and State needs.
- ❖ **CLECA:** Response: See above.
- ❖ **Enel X:** While contracting with a different CPE for each TAC area is one way of managing the CPE function, it would seem to make more sense to have one CPE for the entire system. It is unclear how much backstop RA procurement will be needed in each TAC, assuming the IOUs are fully resourced.

Perhaps it makes sense to start with one CPE to understand the quantity of transactions that are needed. If that level of transaction is too high from one CPE, then perhaps it can be broken down by TAC. If one CPE could perform the

transactions across the state, it would be less costly and more efficient to establish one CPE than to ask 3 CPEs to be created to perform largely overlapping functions with an uncertainty level of activity.

- ❖ **Green Power Institute:** Same as answer to question no. 5 above.
- ❖ **Middle River Power:** A single central procurement entity would best serve the objectives because it would provide one platform for transactions that would provide consistency, transparency and stability to the RA markets. The needs can be determined as required to meet local and regional needs; a single central procurement entity can procure more effectively to meet the collective needs than TAC area procurement.
- ❖ **NRG:** There is no particular reason for or advantage to having a CPE for each TAC area. Three CPEs instead of a single CPE would clearly inflate the administrative costs, to no clear benefit.
- ❖ **PG&E:** A single CPE and a CPE for each transmission access charge area/service territory would address most issues such as eliminating collective deficiencies, minimizing over procurement, and mitigating market power. However, a single CPE for all TAC areas/service territories would best fulfill the objective of administrative efficiency.
- ❖ **SCE:** The primary need of Transmission Access Charge-level granularity in discussions involving a CPE is driven by allocating the procurement costs among benefitting customers within a TAC area. For instance, if the Distribution Utilities are CPEs, the existing cost allocation mechanism allocates the costs within a TAC area and a CPE per TAC area fulfills this requirement. For a different type of entity acting as a CPE, cost allocation per TAC area is likely going to continue, although the question regarding whether there should be a CPE per TAC area is less relevant.
- ❖ **Shell Energy North America:** A single, residual CPE would best serve the CPE objectives. A single CPE would be responsible for the reliability of the entire grid, not just one IOU's service area. A single CPE can procure more efficiently, with a single set of identification, procurement and approval processes and a coordinated approach that captures residual procurement needs in adjoining local reliability areas that may be effective in different adjacent IOU service territories. Appointing one IOU as the single CPE for the entire CAISO control area would be impractical, would raise service territory issues and questions of expertise outside of their respective service territory, and would impose an unreasonable economic burden on the IOU and its customers.
- ❖ **TURN:** For procurement of Local RA – which is the immediate focus of the Commission's proposed CPE – a single CPE for each IOU TAC/service territory is reasonable. However, if a CPE is needed to procure system or flexible RA capacity,

or other resources to meet other needs, a single statewide or CAISO-wide CPE may be more appropriate.

- ❖ **WPTF:** WPTF believes that having the CPE be responsible for eliminating procurement deficiencies in all TACs would be the most efficient way to proceed. Even if the IOUs were to be designated CPEs (i.e., for their respective TACs), there would only need to be one annual AA-administered auction (for all three TACs).

7. Would the CAISO be your preferred choice of CPE (e.g., status quo or expanded role)? Why or why not?

- ❖ **Calpine:** Yes, CAISO would be Calpine's preferred CPE because CAISO procurement would be governed by clear rules codified in a tariff. In addition, given the fact that the CAISO plays a critical role in validating the reliability of the portfolio of resources that are procured as RA, it would be efficient for the CAISO also to perform procurement. Moreover, all of the central buyer proposals that have been put forward in this proceeding envision continued backstop procurement by the CAISO. Given that any other central procurement essentially would constitute another level of backstop procurement before CAISO backstop procurement, Calpine does not understand the value of multiple levels of backstop procurement. Finally, Calpine believes that the CAISO might be able to analyze and allocate the costs of central procurement more broadly, i.e., including to non-jurisdictional LSEs.
- ❖ **City of San Diego:** In its initial comments on the Proposed Decision related to the establishment of the CPI, the City recommended that the CAISO take on the role of the CPE. The City still holds this opinion. The CAISO would meet all of the same High Priority criteria as a State Agency or a Not for Profit Corporation. However, the CAISO would be superior to either of those options for a number of Medium- and Low Priority criteria as well, such as Costs, Implementation Timing and Cost, Change in Law, and Precedent.
- ❖ **CLECA:** No. We do not believe that the CAISO should serve as the CPE. As noted above, the CAISO has clearly expressed its disinclination to serve as the CPE. Second, the CAISO already has its separate, important, and unique mandate to operate the State's electricity grid. For a successful fulfillment of its responsibilities, the CAISO regularly performs analyses and runs simulation models, publishes studies such as the Local Capacity Requirements and the Flexible Capacity Requirements study, etc. It also is not a procurement entity, except as a last resort for backstop purposes, and thus the CAISO lacks the relevant expertise. The CAISO reliability must-run and capacity procurement mechanism are backstop contracts when the participants fail to sign required contracts. It is worthwhile noting that these involve one-year contracts, not multi-year procurement. Furthermore, the procurement is not part of the CPUC's RA program, as some are proposing.

Acting as the CPE will not only overburden the already over-worked CAISO, but will also be a distraction from its other, important responsibilities. Most importantly, the CAISO's designation as the CPE might result in subjecting California's electricity sector to federal jurisdiction.

CLECA believes that designating the CAISO as the CPE is not a good idea and should be laid to rest.

- ❖ **Enel X:** The CAISO is the independent operator of the transmission system. CA does not have a capacity market in CA and it is unlikely to have one conducted by the CAISO. Other ISO's have capacity auctions that are administered by the ISO. If the CAISO's role is to administer transactions, but not to be a counter-party in the procurement of capacity, that is more palatable than to have the CAISO engage in procurement of capacity and passing the costs onto third party LSEs. The CAISO would have to develop means and mechanisms to ensure it is maintaining its independence in operating the transmission system. Further, it is unlikely that CA regulators or legislators will condone the CAISO's movement toward administering a capacity market.
- ❖ **Middle River Power:** Yes. CAISO has the requisite independence, neutrality, competence, accountability, transparency, expertise, and experience.
- ❖ **NRG:** The CAISO's experience with market systems, backstop procurement, and the development of local and flexible RA requirements, coupled with its core mission of transparency and reliability accountability would make it an ideal entity to serve as the CPE.
- ❖ **PG&E:** See response to Q4.
- ❖ **SCE:** The California Independent System Operator has stated in its written comments, as well as during the workshops, that it is not willing to take the role of a CPE. The Commission has acknowledged this, stating:

The Commission is not convinced that either an SPE or the CAISO could readily take on the central procurement role in the near term, given the noted obstacles. Designating a special governmental entity would require administrative and legislative processes that would cause substantial delay. Likewise, designating the CAISO involves its own administrative challenges, as well as potential federal jurisdictional conflicts. Moreover, the CAISO's statement that it is unwilling to accept the central procurement role voluntarily underscores our finding that the CAISO is not an appropriate entity to take on this role.

In addition, the Commission has directed the parties to work on a central buyer framework instead of maintaining the status quo (see the response to question #2 above).

- ❖ **Shell Energy North America:** Yes. Approval of the CAISO as the CPE will allow for elimination of the CAISO's current backstop procurement (RMR and CPM contracts). With the CAISO serving as the residual CPE, the CAISO's procurement horizon can and should be extended to three years forward, in order to meet the residual local RA procurement requirement for the entire three-year forward procurement period.
- ❖ **TURN:** No. Though the CAISO now works with California's state government agencies to address the state's policy goals, the CAISO's CPE activities would be subject to FERC jurisdiction.
- ❖ **WPTF:** In the longer term, WPTF would prefer that the CAISO implement a CCM for all RA requirements, in which case the CAISO or other independent third party would in effect be the CPE. More immediately, WPTF believes the CAISO may be willing to administer the CPE's annual actions, under WPTF's preferred residual procurement model, assuming it has the support of the parties and the CPUC's approval to do so.

For either role, the CAISO is the most obvious and arguably the best candidate, not only because it is the entity most responsible for day-to-day reliability but also because it has the most expertise with regard to running complex auctions.

8. Who would oversee the activities of the CPE and how?

- ❖ **Calpine:** FERC could oversee central procurement by the CAISO, as it does now. Presumably, the CPUC would oversee central procurement by an IOU. Its board and ultimately its regulator would oversee the procurement of a public benefit corporation. It is unclear to Calpine whether a public benefit corporation would be subject to CPUC regulation, FERC regulation, or some other form of regulation. The oversight of a state agency engaged in central procurement probably would depend on the establishing legislation.
- ❖ **CLECA:** As mentioned above, we believe that the CPUC is in the best position to oversee the activities of the CPE. Commission oversight will ensure that crucial ongoing activities such as the IRP and the RPS proceedings are coordinated with the work of the CPE and that the CPE meets the objectives outlined in various Commission decisions on Resource Adequacy, IRP, and RPS. The Commission oversight of cost allocation of the CPE will also be necessary.
- ❖ **Enel X:** The regulators would establish criteria for the CPE and can establish reporting and oversight criteria for the administration of the procurement function.
- ❖ **Middle River Power:** MRP offers no recommendation at this time.

- ❖ **NRG:** In the current paradigm, in which the Federal Energy Regulatory Commission has deferred RA matters to the states, a CPE overseeing the CPUC’s jurisdictional RA program would have to be overseen by the CPUC. Whether a CPE that oversees California RA procurement and completely avoids FERC jurisdiction could be established without ERCOT-izing California (i.e., eliminating any consequential inter-state transmission connections between California and other western states, a completely nonsensical proposition given California’s dependence on electric energy, and, more recently, flexibility, imported from other states) is not clear.
- ❖ **PG&E:** PG&E believes the CPE should be overseen by the Commission with the coordination of CAISO.
- ❖ **SCE:** SCE interprets this question as asking, with the possibility of different types of entity being a CPE, how would the CPE framework ensure meeting a set of predefined objectives. In SCE’s view, this depend on how specific rules are established for a particular type of entity to act as CPE. Once the objectives are defined, as they are per the Commission’s decision, rules would need to be developed for that type of entity to ensure it meets these objectives and achieves the outcomes desired by the stakeholders. The question of who oversees the activities of the CPE, and how, would depend on the outcomes of these processes. It is possible the agency who oversees the activities of the CPE, and the associated oversight processes, could vary depending on who is the CPE and what objectives and outcomes that CPE needs to achieve.
- ❖ **Shell Energy North America:** The CAISO would serve as the residual CPE in accordance with amended CAISO tariffs. The CAISO Board would oversee residual procurement. The CPUC would not have to be involved, because the CAISO is responsible for grid reliability. Responsibility for grid reliability would be expanded to include residual procurement to ensure that local RA capacity requirements are met. Should a state agency be created for the residual CPE function, that agency would have an oversight board with management accountability to that board.
- ❖ **TURN:** The CPUC is the logical entity to oversee CPE procurement for CPUC-jurisdictional loads. Other state agencies – such as the CEC – may have some role if the role of the CPE expands beyond the IOUs’ loads.
- ❖ **WPTF:** WPTF believes this issue was adequately covered at the May 15 workshop.

9. Explain the timeline for implementation of your preferred type of entity, including whether legislation is required.

- ❖ **Calpine:** Calpine believes that a CAISO central buyer could be implemented with minimal changes to CPUC RA rules and CAISO tariffs. These changes could be completed and taken through the relevant CPUC and FERC approval processes in 2020 so that central procurement could commence in 2021 to meet 2022 and beyond

requirements. (It is conceivable that regulatory approvals and implementation could occur one year earlier.)

- ❖ **City of San Diego:** As discussed above, the City prefers to have the CAISO act as the CPE. The City has not developed a detailed implementation timeline regarding having the CAISO take on that role. However, the City is very concerned that the switch from the status quo to a CPE needs to be undertaken with care in order to avoid significant unexpected consequences. Given that concern, the City cannot see implementation of a CPE in less than one to two years.
- ❖ **CLECA:** As mentioned above, if a CPE is to be implemented using the IOUs, it should take no more than a year. If an entity is not in charge of procurement by the end of 2020, it is possible that the RA program would have changed significantly so that all the players will have to come back to the drawing board and begin work all over again. If legislation is required, as it most likely will be for designating a state agency or a not-for profit corporation as the CPE, this timeline will most likely not be doable.
- ❖ **Enel X:** Because the LSEs will be contacting the CPE for residual procurement, in conformance with the local RA regulations, meaning that the LSE either tried to procure for their customers and were unable to procure its local capacity resources, or the LSE chose the CPE to perform its procurement on its behalf, the fact that this is the LSE's choice, and is not a mandatory procurement obligation upon the LSE, should not require legislation. There may be a need to define the role of the CPE and the selection criteria for the CPE in either regulation or legislation.
- ❖ **Middle River Power:** MRP's preferred approach to not revamp the procurement process would create no delays and retain certainty in the process. If a CPE is formed, MRP suggests implementation be planned to begin procurement in 2021 for the 2022 RA program year given the time it will take to set up the structure.
- ❖ **NRG:** Discussion at the May 15 workshop suggested it would take at least a year to establish NRG's least-preferred CPE – an IOU distribution utility – as a CPE or CPEs. Assuming the CAISO was willing to serve in that role, NRG expects it would take a similar amount of time to establish the CAISO in that role. A CPE, either a state entity or a non-for-profit private company, that had to be authorized by legislation would likely take at least two to three years to establish, given how long it would take to pass the authorizing legislation.
- ❖ **PG&E:** PG&E's preferred entity would be a state agency, and notes there is pending legislation regarding a state agency taking on the central buyer role. While modification may need to be made to that legislation, it is reasonable to expect that it could be implemented quickly once established. As discussed in PG&E's Opening Testimony in Track 2, PG&E proposed a transition period of two years where LSEs would be required to provide local RA requirements with a transition to the CPE

undertaking responsibility for years further forward once established. For example, if the CPE is up and running by mid- 2020, it could procure the 50% needs for both 2022 and 2023. If a longer period is needed, LSE responsibility for procurement could be extended accordingly.

- ❖ **SCE:** From the workshop discussions, it seems clear that establishing a state agency or a non- profit entity as a CPE would require legislative action. After the required legislation, it likely would also require an approval, or at the least strong coordination, from the Commission, given the Commission’s responsibilities regarding RA. Following these processes, the new agency could start recruiting staff and develop systems to perform the central procurement function. It is likely to take a significant amount of time (and involve significant uncertainties) to fully establish a State Agency to act as a CPE.

It is less clear whether it would require legislation if Distribution Utilities are CPEs. The Proposed Decision did not contemplate any legislative actions even though it proposed the Distribution Utilities would act as the CPEs. The PD also leveraged existing mechanisms to address issues around accountability, transparency, and neutrality to implement Distribution Utilities as CPEs, which can significantly shorten the timeline for implementation.

While legislation for any of the CPE options could be beneficial, it appears to SCE that for any option other than the Distribution Utilities, such legislation would be necessary prior to implementation.

- ❖ **Shell Energy North America:** Once the CPUC chooses to make the CAISO the residual CPE (presumably in the fourth quarter of 2019), an implementation process should commence immediately. A final decision on implementation should be issued by June 2020, for implementation in the 2021 RA compliance year. This process could be delayed if legislation is required. Amendment of the CAISO’s tariffs should be accomplished by year-end 2020.

In any event, because implementation rules for the CPE must be developed in 2020, the CPUC should implement both the CPE requirement and the three-year forward local RA procurement requirement at the same time. This means that D.19-02-022 should be modified to defer the three-year forward local RA procurement obligation for all LSEs until the 2021 RA compliance year.

- ❖ **TURN:** TURN anticipates that a CPE would take several months to prepare to engage in central procurement after it is authorized by legislation. Assuming a CPE is authorized as of January 1, 2020, a state CPE might scramble to engage in procurement during 2020 for the 2021 RA compliance year. Until a state CPE is sufficiently functional, the Commission could engage the IOUs in the role of CPE much more quickly without legislation, for example, for the 2021 RA compliance year and possibly also the 2022 compliance year.

- ❖ **WPTF:** WPTF believes this issue was adequately covered at the May 15 workshop, at least with respect to the three entities that have been proposed. With respect to the auction-based residual procurement model outlined in these comments, WPTF believes the implementation timeline would be no longer and would likely be shorter than the aforesaid alternatives.

10. Provide any additional comments

- ❖ **Calpine:** Calpine is concerned about the treatment of market power mitigation in proposals for a central buyer. Many of the proposals seem to contemplate that a central buyer might choose not to procure capacity priced above a certain level, such as the CPM soft offer cap, and instead defer procurement to CAISO backstop mechanisms. This limitation might be particularly problematic to the extent that central procurement includes system RA. There are currently resources that are procured to meet system RA requirements only in the highest load months. These resources, including some imports as well as internal resources, may not be economic if they are only compensated at the soft offer cap for a few months.

Calpine believes that any central procurement approach should recognize that it may be necessary to pay more than the soft offer cap in a subset of months for resources that are not needed and consequently unlikely to be procured outside the relevant subset of months. (Alternatively, central procurement might be limited to full annual procurement with the recognition that some of the capacity that is procured might not be needed in all months.)

- ❖ **City of San Diego:** The City strongly encourages the Commission to seek a solution that balances (1) addressing the needs of local agencies and benefits to their constituents and (2) achieving State mandates and goals. The most "efficient" or easiest to implement solution may very well lead to a failure to adequately address local concerns, increased costs, or inefficiencies in procurement. The Commission should provide a long-term solution and a path forward for LSEs that maximizes control and transparency, minimizes procurement inefficiencies, and achieves both State and local goals.
- ❖ **CLECA:** CLECA believes that the workshop slides did not present a balanced perspective on the alternatives for a CPE.

For example, Slide 16, entitled "How Would the Costs Compare," indicates that the establishment of a not-for-profit corporation or a state agency as a CPE would require no compensation. The slide goes on to state that the distribution utility would require compensation to serve as the CPE. We believe this is misleading. We note that regardless of which entity serves as the CPE, administrative and establishment costs would be incurred and require compensation. These costs would have to be recovered from the LSEs and their customers, directly or indirectly. As we noted above, the

IOUs' costs might be lower, given that they already possess the structures to undertake electricity procurement on behalf of their customers. We assume that the IOUs could use some of their staff with expertise in electricity procurement for this purpose, albeit in a separate unit as stated above.

Similarly, Slide 18, entitled "Are There Differences In Knowledge and Expertise," states that existing knowledge and expertise would create a conflict of interest for the distribution utilities. As the consultant for TURN pointed out during the workshop, knowledge and expertise per se do not create conflict of interest. In fact, as we have noted above, the IOUs' knowledge and expertise could be an asset if they were to serve as CPEs.

Similarly, Slide 19 does not address the fact that it may be possible to put in measures to resolve the debt equivalence issues for the IOUs for contracts related to CPE activity. Similar to a not-for-profit corporation, requirements could be put in place that in the event of non-payment by an LSE of its CPE obligations, the costs will not be unduly borne by the IOU. For example, the CCA would back up its CPE obligation by city financing. The only portion that the IOU would be responsible for would be its allocated share of CPE costs for its bundled customers. Under the residual model, these costs would be minimized.

In Slide 20, entitled "Could the CPE be Timely Implemented," time estimates for establishing a not-for-profit corporation, a state agency, or an IOU as a CPE don't seem to be realistic. For example, the slide states that a state agency could begin to serve as the CPE within 6 to 18 months, which we consider an overly-ambitious estimate. Not only would legislation be required to designate either a new or an existing state agency as the CPE take time, but further delays could occur because the Commission and the agency would have to establish ways and means of coordinating their activities. Commission decisions might be needed, and CPUC proceedings could go on for years. We believe that the slide is somewhat misleading as it puts the timeframe for designating an IOU as a CPE on a par with timelines for a not-for-profit corporation or a state agency. We do not find that realistic.

- ❖ **Green Power Institute:** The California electric retail marketplace is in the process of transitioning from being served by a few large providers, to being served by a large number of small, local providers. While energy procurement at the local level is at the heart of the CCA movement, the procurement of RA products is more problematic. Indeed, it is questionable as to whether we would even be considering a CPE if the CCA movement had not occurred.

As we stated in our answer to question no. 1 above, we favor the full-procurement model over the residual model. In the opinion of the GPI, a simpler version of a full-procurement model could be attained by having the Commission apply the local RA requirements as a component of the transmission and distribution requirements of the system, rather than the energy requirements. In this model the RA requirements

would be applied to the wires utilities (the IOUs), who would procure their requirements as they do other grid-support services. The costs would be apportioned according to established mechanisms for transmission and distribution services. In effect, the IOUs would serve as the CPEs, and a new entity would not have to be created, even within the IOUs. As an added bonus, this type of system could be implemented much more quickly than would be the case for the creation of any type of brand new entity, which is likely to be at least 3-4 years.

- ❖ **Middle River Power:** MRP offers no additional comments at this time.
- ❖ **PG&E:** PG&E believes the CPE framework should be adopted as soon as practical.
- ❖ **SCE:** SCE appreciates the facilitation and the preparation of the workshop and these questions by CalCCA. As reflected in the responses to these questions, SCE believes that to derive an answer to these questions, one really needs to evaluate and develop appropriate rules tailored to the chosen CPE structure, in order to meet the pre-defined objectives and achieve the outcomes desired by the stakeholders and the Commission
- ❖ **TURN:** As another alternative for interim CPE function, the Commission itself could engage a consultant to conduct Local RA procurement for the CPUC-jurisdictional loads. The Commission would need processes to assign commercial responsibility for such resources and to allocate the benefits and costs of such procurement among the IOUs' customers.

APPENDIX C

Workshops #3 and #4 Presentation Deck

Selecting a Central Procurement Entity

WORKSHOPS 3 & 4

MAY 15, 2019

FACILITATED BY CALCCA

Agenda

Introduction

Safety Information

Proceeding Schedule Overview

Workshop Objectives

Central Procurement Entity Alternatives

Evaluation Criteria

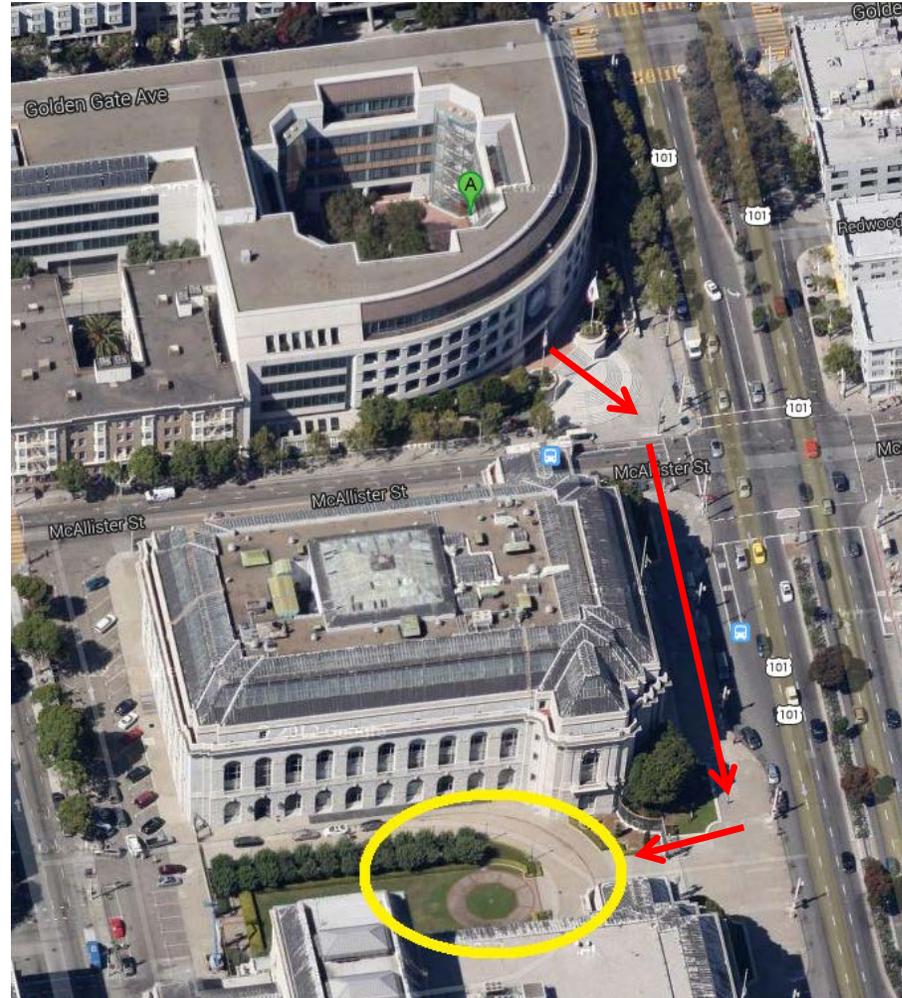
Group Discussion

Recommendations

Restrooms & Evacuation Procedure

Restrooms are out the hearing room doors and down the far end of the hallway.

In the event of an emergency evacuation, please cross McAllister Street, and gather in the Opera House courtyard down Van Ness, across from City Hall.



Schedule (Subject to Change)

| Date | Description | Stakeholder |
|---------|--|-------------------|
| 4/22-23 | Full, Residual and Hybrid Procurement (Workshops #1 and #2) | IOUs |
| 5/15 | Central Procurement Entity (Workshops #3 and #4) | CalCCA |
| 5/17 | Distribution of questions to Parties from Workshops #3 and 4 | CalCCA |
| 5/22 | Implementation and Other Issues (Workshops #5 and #6) | Shell Energy |
| 5/23 | Summary from Workshops #1 and #2 | IOUs |
| 5/27 | Parties respond to questions from Workshops #3 and #4 | All Parties |
| 5/30 | Parties respond to IOU summary re Workshops #1 and #2 | All Parties |
| 6/17 | Summary from Workshops #3 and #4 | CalCCA |
| 6/24 | Summary from Workshops #5 and #6 | Shell |
| 7/1 | Parties respond to Shell summary re Workshops #5 and #6 | All Parties |
| 7/17 | File Workshop Report | IOUs/CalCCA/Shell |
| 7/31 | Comments on Workshop Report | All Parties |
| Q4 2019 | Track 2 Proposed Decision | ALJs Allen & Chiv |

Workshop Objectives

Define organizational options for a Central Procurement Entity

Determine whether any alternative is a non-starter

Discuss advantages and disadvantages of each alternative

Identify areas of consensus and unresolved issues

Develop workshop recommendations

CPE Alternatives

Not for Profit Corporation

State Agency

Distribution Utility (Single or TAC-Area)

CAISO

Distribution Utility Affiliate

Joint Powers Authority

Entities Identified but Not Included

CAISO – Not interested in assuming the role, and relying on the CAISO would increase the scope of FERC jurisdiction

Joint Powers Authority – Includes only governmental entities and thus could not include all market participants (e.g., IOUs, ESPs)

Utility Affiliate – Presents structural challenges and financially ties the CPE with market participant(s)

Central Buyer Evaluation Criteria

- Accountability & Transparency
- Change in Law
- Competitive neutrality
- Costs
 - Administrative Costs
 - Compensation for Procurement
 - Cost of Funds
 - Debt Equivalence Premium
- Cost Recovery Authority
- Expertise and Knowledge
- Financial Stability
 - Credit Worthiness
 - Debt Equivalence Implications
- Implementation Timing and Cost
- Jurisdictional Implications
- Market Power Mitigation
- Precedent
- Procurement Oversight
- Reliability
- State Policy Facilitation

Could the CPE Ensure Reliability?

| Not for Profit Corporation | State Agency | Distribution Utility |
|-----------------------------------|---------------------|-----------------------------|
| Yes | Yes | Yes |

Could the CPE Reduce CAISO Backstop Procurement?

| Not for Profit Corporation | State Agency | Distribution Utility |
|-----------------------------------|---------------------|-----------------------------|
| Yes | Yes | Yes |

Could the CPE Eliminate the Exercise of Non-Utility Market Power?

Not for Profit Corporation

Not in the short-run. Jurisdiction over wholesale sales rests with FERC

In the long run, could support development of resources or transmission alternatives to reduce or eliminate market power

State Agency

Not in the short-run. Jurisdiction over wholesale sales rests with FERC

In the long run, could support development of resources or transmission alternatives to reduce or eliminate market power

Distribution Utility

Not in the short-run. Jurisdiction over wholesale sales rests with FERC

In the long run, could support development of resources or transmission alternatives to reduce or eliminate market power

Would the CPE Be a Regulated Utility?

| Not for Profit Corporation | State Agency | Distribution Utility |
|---|---------------------|--|
| <p>State or federal regulatory oversight will be required</p> <p>Could be established as an electrical corporation subject to CPUC jurisdiction</p> <p>Would be exempt from FERC jurisdiction if established and maintained as “instrumentality of the state”</p> <p>If not, could be subject to FERC depending upon scope of responsibilities and activities</p> | <p>No</p> | <p>Yes, subject to state jurisdiction</p> <p>Would not benefit from the same scope of exemption enjoyed by a state agency or instrumentality</p> |

Would Legislative Action Be Required or Advisable?

| Not for Profit Corporation | State Agency | Distribution Utility |
|---|---|--|
| <p>Yes</p> <p>To confer procurement and cost recovery authority</p> | <p>Yes</p> <p>To confer procurement and cost recovery authority</p> | <p>Using the CAM and 3 TAC area CPEs, no legislative action would be required</p> <p>Moving to a single distribution utility CPE may require legislation</p> |

Would the CPE Be Competitively Neutral?

Not for Profit Corporation

Yes, assuming it is not an LSE with retail load

State Agency

Yes

Distribution Utility

No, unless the utility develops a separate, walled procurement team

Would the CPE be Accountable and Transparent to the LSEs It Serves?

Not for Profit Corporation

Could require accountability to LSEs and their customers through transparency, *e.g.*,

- Continue existing forecasting process
- Report derivation of load ratio share/cost allocation
- Develop criteria for resource selection
- Show resource types procured
- Show prices through RA report with separate CPE-identified averages
- Ensure no financial incentive or conflict of interest
- Develop formulaic cost allocation with audit rights
- Require demonstration of compliance with processes and criteria

State Agency

Could require accountability to LSEs and their customers through transparency (see Not for Profit Corporation)

Presumption of transparency under Public Records Act

Distribution Utility

Could require accountability to LSEs and their customers through transparency (see Not for Profit Corporation)

PU Code permits a greater degree of confidentiality for IOU

Potential conflict of interest with retail market participation and transmission ownership

How Would the Costs Compare?

| Not for Profit Corporation | State Agency | Distribution Utility |
|--|--|---|
| <p>Start-up costs would be highest among the alternatives</p> <p>No compensation is required</p> <p>Cost of funds will depend on credit rating and other factors</p> <p>Debt equivalency/risk factor premiums to be addressed (depends on cost recovery authority)</p> | <p>Depending on state agency selected, start-up costs (staff, technology, infrastructure, etc.) could be lower</p> <p>No compensation required</p> <p>Cost of funds is lower due to ability to issue tax-exempt debt, and implicit/explicit mandate with cost recovery authority</p> | <p>If relies on current administrative functions, start-up costs may be lower; if not, start-up costs could be comparable to other alternatives</p> <p>Has existing billing systems, but they may not be suited to the new obligations and cost recovery mechanism for the CPE</p> <p>May require compensation</p> <p>Cost of funds may be higher than other CPE alternatives</p> |

Would the CPE Have the Necessary Cost Recovery Authority?

Not for Profit Corporation

Legislation could provide cost recovery authority

If organized as a utility,
Commission could confer cost recovery authority

State Agency

Legislation required to provide cost recovery authority

Distribution Utility

If one distribution utility for each TAC area, existing authority is sufficient

If organized as a single distribution utility central buyer, additional authority could be required

Are There Differences In Knowledge and Expertise?

Not for Profit Corporation

Would hire staff/consultants with knowledge and expertise

State Agency

Should hire staff/consultants with knowledge and expertise

Distribution Utility

Existing staff have knowledge and expertise

Existing knowledge and expertise creates conflict of interest

Likely would need to hire additional staff or move staff from other functions to cover the CPE obligations

Would the CPE Be Financially Capable of Performing the Role?

Not for Profit Corporation

Would need to build a credit rating or otherwise gain access to start-up funding

Debt equivalence affected by rating agency confidence in cost recovery

Financial stability and creditworthiness could be enhanced with state backing through legislation

State Agency

Existing creditworthiness

State has better capability to absorb the required debt obligation

Generally financially stable

Distribution Utility

Existing credit ratings (although not all favorable)

May have negative impact on capital structure from debt equivalence (depends on mandate/obligations)

Financial stability varies by IOU and would be affected by non-CPE operations

Could the CPE Be Timely Implemented?

Not for Profit Corporation

Likely would require long ramp before it could be operational (18-36 months)

State Agency

Likely would require minimum of six months to 18 months

Distribution Utility

Likely to require minimum of 12-18 months

Need for Commission approval could delay swift implementation

Is There Precedent for This Type of CPE?

Not for Profit Corporation

CAISO

State Agency

Illinois Power Agency

Department of Water Resources

Distribution Utility

Cost Allocation Mechanism

Could the CPE Promote State Policy?

| Not for Profit Corporation | State Agency | Distribution Utility |
|---|---------------------|-----------------------------|
| Yes, either through regulation as a utility or by statutory mandate | Yes | Yes |

Recommendations

Group Discussion

Next Steps for Workshop #3 and #4 Issues

- May 17 Distribution of questions to Parties
- May 27 Parties respond to questions
- June 17 CalCCA issues Workshops summary
- July 17 Three-part full report filed by IOUs, CalCCA and Shell
- July 31 Comments on full report