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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Forward
Resource Adequacy Procurement Obligations.

R.19-11-009

**REPLY COMMENTS OF THE
CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON TRACK 1 PROPOSALS**

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Pursuant to the *Assigned Commissioner's Scoping Memo and Ruling* issued on January 22, 2020 ("Scoping Memo"), the California Community Choice Association¹ submits these reply comments to parties' opening comments on the import resource adequacy ("RA") proposals offered by Energy Division Staff ("Staff"), the California Independent System Operator ("CAISO"), Southern California Edison Company and Shell Energy North America (US), L.P. ("SCE/Shell"), Morgan Stanley Capital Group Inc. ("MSCG") and Powerex Corp. ("Powerex") (collectively, "Stakeholder Proposals").

I. INTRODUCTION

The Stakeholder Proposals identified a diverse range of measures to ensure that energy from imports shown for RA compliance will be available to serve California load when needed.

Generally, these measures include:

- Specific resource identification, verified by attestation, telemetry and/or other physical verification;

¹ California Community Choice Association represents the interests of 19 community choice electricity providers in California: Apple Valley Choice Energy, CleanPowerSF, Clean Power Alliance, Desert Community Energy, East Bay Community Energy, Lancaster Choice Energy, Marin Clean Energy, Monterey Bay Community Power, Peninsula Clean Energy, Pioneer Community Energy, Pico Rivera Innovative Municipal Energy, Rancho Mirage Energy Authority, Redwood Coast Energy Authority, San Jacinto Power, San Jose Clean Energy, Silicon Valley Clean Energy, Solana Energy Alliance, Sonoma Clean Power, and Valley Clean Energy.

- Commitment that the resource is surplus to the host balancing authority area (“BAA”) and available to serve California load;
- Firm transmission requirements, ranging from attestation to demonstration in month-ahead showings or Day Ahead Market (“DAM”) e-tagging;
- A Must-Offer Obligation (“MOO”) for all imports;
- A must-flow requirement during Availability Assessment Hours (“AAH”) for unspecified imports; and
- Offer caps ranging from \$250/MWh to \$1000/MWh for all or certain import products.

Parties’ comments on these proposals were as diverse as the proposals themselves. The Commission thus has before it a range of alternatives that can be brought together in a solution that best ensures reliability, while considering supply availability, the potential for market power exercise, price impacts, regulatory uncertainty, and jurisdictional boundaries. CalCCA submits that its Blended Proposal,² drawing from the proposals of the CAISO and MSCG, best serves this objective.

In support of its Blended Proposal, CalCCA responds to CAISO’s opening comments, opposing the proposed Real Time Market (“RTM”) MOO, and to the CAISO and Powerex proposals for a firm transmission requirement. CalCCA concludes as follows:

- An RTM MOO is unnecessary and will either reduce supply availability or increase the price of imports that are made available. As the CAISO itself has concluded: “Requiring resource adequacy imports to be backed by a real, physical resources will eliminate speculative import supply and mitigate the importer’s incentive to submit high energy bids.”³ Moreover, an RTM MOO will be unnecessary once the CAISO’s Day Ahead Market Enhancements (“DAME”) are implemented.

² *Opening Comments of the California Community Choice Association on Track 1 Proposals* (“CalCCA Comments”) Mar. 6, 2019, at 3-8. The Blended Proposal is attached for convenience as Appendix A.

³ *California Independent System Operator Corporation Track 1 Proposal*, Feb. 28, 2020 (“CAISO Proposal”), at 8 (emphasis supplied).

- ☒ A requirement to demonstrate firm transmission in the monthly RA showing will, like the RTM MOO, reduce supply availability and increase the cost of available supply. It will also create an environment that allows the exercise of market power by firm transmission holders in some markets.

CalCCA's Blended Proposal excludes both measures and thus better serves the interests of reliability and reasonable rates.

Finally, the broad spectrum of proposals and resulting lack of consensus on the optimal set of rules for imports demonstrates the need for the Commission to proceed prudently and with an eye towards an orderly transition to the new import RA paradigm. To this end, any rule changes should be prospective starting no earlier than compliance year 2021. This approach will facilitate timely resolution of the Commission's reliability and market concerns without undermining the short-term financial commitments LSEs have made in a good faith effort to comply with the regulatory and market uncertainty of the 2020 RA compliance year.

II. AN RTM MOO IS UNNECESSARY AND COUNTERPRODUCTIVE

The CAISO proposes to impose an RTM MOO on all imports,⁴ and Calpine⁵ and Middle River support the CAISO's proposal.⁶ An RTM MOO is unnecessary and will reduce supply availability or, for resources made available, increase prices and thus customer costs.

Import RA resources may be unwilling to participate in the California RA market under these conditions. This change would require them to commit their resources to the California market, where they may or may not be needed at their marginal cost plus the cost of firm transmission. And if these resources are willing to make such a commitment, it will come with a

⁴ *California Independent System Operator Corporation Comments on Track 1 Workshop Report and Proposals*, Mar. 6, 2020, at 1.

⁵ *Comments of Calpine Corporation on Track 1 Import Resource Adequacy Proposals*, Mar. 6, 2020, at 2.

⁶ *Middle River Power, LLC Opening Comments on Track 1 Proposals*, Mar. 6, 2020, at 20-21.

risk premium, generally driving up RA market prices for both internal and external resources. It should thus come as no surprise that both Calpine and Middle River support CAISO's proposal.

Moreover, it is not necessary to go to this end to prevent speculative RA supply. There are other means – source specification, attestations, telemetry and other measures – that can add supply security. Indeed, the CAISO's own comments suggest that an RTM MOO may be unnecessary for *supply security*. CAISO concludes: “[r]equiring resource adequacy imports to be backed by a real, physical resources will eliminate speculative import supply and mitigate the importer’s incentive to submit high energy bids.”⁷ CalCCA roundly agree.

The CAISO hints that its MOO proposal responds, in part, to the Commission’s concern regarding pricing, rather than purely supply security. It states:

The CAISO understands the Commission’s interest in the Real-Time Must Offer Obligation for all MWs included on RA showings and shares the common goal of ensuring that supply is backed by real physical resources *that have requirements to be made available to the CAISO markets with incentive to bid at their true marginal costs*.⁸

While price issues and hedging may merit consideration, measures adopted toward that end should be distinguished from those intended to prevent speculative supply. Further, CAISO noted that “Absent market power, suppliers of real, physical capacity dedicated to the CAISO are motivated to self-schedule or bid their physical resources into the CAISO’s market at marginal cost to profit from the use of their physical assets under the CAISO’s must offer obligation.”⁹ CalCCA contends that CAISO’s statement would be true with or without a must offer obligation, as the critical elements ensuring this outcome are the absence of market power and the

⁷ CAISO Proposal at 8.

⁸ *Id.* at 13 (emphasis supplied).

⁹ *Id.* at p. 8.

commitment of the real, physical capacity to the CAISO market, rather than the must offer obligation.

Finally, and critically, once the CAISO's DAME are implemented in Fall 2021, the need for an RTM MOO, if one exists, would cease for all resources – internal or external – that do not clear in the DAM, since the CAISO will rely on imbalance reserves and reliability capacity procured in the DAM to address uncertainties between the DAM and RTM.¹⁰

III. IMPOSING REQUIREMENTS TO DEMONSTRATE FIRM TRANSMISSION BEFORE FLOW WILL REDUCE IMPORT SUPPLIES AND WILL INCREASE CUSTOMER COSTS

Both the CAISO and Powerex propose, through different measures, to require a supplier to procure and commit firm transmission under circumstances where its supply may not be needed. This will both increase sunk costs to import suppliers, thus discouraging market participation, and drive up RA market prices. It also sets the stage for an exercise of market power in concentrated segments of the firm transmission market. For these reasons, most stakeholders concerned about customers' costs – The Utility Reform Network,¹¹ San Diego Gas & Electric Company,¹² Alliance for Retail Markets (“AReM”),¹³ PG&E,¹⁴ Shell¹⁵ and CalCCA¹⁶ – raise concerns about or directly oppose these strict firm transmission requirements.

¹⁰ CAISO Day Ahead Market Enhancements Straw Proposal, Feb. 3, 2020, at 22-23.

¹¹ *Comment of The Utility Reform Network on Track 1 Proposals*, Mar. 6, 2020, at 2.

¹² *San Diego Gas & Electric Company (U 902 E) Comments on Track 1 (Import Issues) Proposals & Workshop*, Mar. 6, 2020, at 7-8.

¹³ *Comments of the Alliance for Retail Energy Markets on Resource Adequacy Import Proposals*, Mar. 6, 2020 (“AReM Comments”), at 4-5.

¹⁴ *Comments of Pacific Gas and Electric Company (U 39 E) on Track 1 Proposals*, Mar. 6, 2020, at 2-3.

¹⁵ *Opening Comments of Shell Energy North America (US), L.P. on Track One Proposals*, Mar. 6, 2020, at 4.

¹⁶ CalCCA Comments at 5-6.

As with the RTM MOO, CalCCA contends that these month- or day-ahead demonstrations are unnecessary. There is a long history of energy being imported into the California market using readily available transmission, and there is no reason to believe that this transmission will not be available for imports committed to the California market. The focus thus must be on making sure that the resource is committed, which can be done through other measures proposed by the CAISO, including a requirement to demonstrate a specific source at the time of showing, an attestation that the supply is “surplus” to other commitments, and telemetry or other physical verification. Moreover, CalCCA’s members are willing to shore up commitments where there is no physical verification using an offer cap in the DAM. Collectively, these requirements will prevent speculative supply while avoiding unnecessary increases in RA market prices and rate increases to customers.

IV. IMPLEMENTATION OF NEW REQUIREMENTS SHOULD BE PROSPECTIVE, AND MULTI-YEAR COMMITMENTS SHOULD BE GRANDFATHERED THROUGH THE TRANSITION

CalCCA proposed in opening comments that the Commission defer implementation of any new rules to the 2021 compliance year.¹⁷ AReM shares this perspective, explaining as follows:

LSEs must have adequate notice of such regulatory changes to allow them to plan properly for achieving compliance. In addition, if the outcome of this proceeding changes the terms under which contracts may be used for RA Imports, there must be an appropriate transition period to ensure that existing contracts entered into in good faith by LSEs in California are not devalued.¹⁸

¹⁷ CalCCA Comments at 5-6.

¹⁸ AReM Comments at 7.

For these reasons, and consistent with the Commission conclusions regarding the need for grandfathering in the last major RA transition in 2004-2005,¹⁹ the Commission should apply the new rules prospectively. Similarly, consistent with the 2004-2005 transition, the Commission should grandfather any multi-year system RA contract executed on or after October 17, 2019 (the issuance date for D.19-10-021) and allow it to count for compliance until it expires under its own terms.

Even with clarity that implementation will be forward-looking and grandfathering will apply, ambiguity remains due to the Commission's still-pending modification of import requirements in D.19-10-021. Several Applications for Rehearing ("AfRs")²⁰ were filed in response to D.19-10-021, and the Commission has stayed the decision pending the outcome of the AfRs.²¹ CalCCA requests that the Commission urgently resolve the AfRs and provide clarity for 2020 requirements to avoid harm to parties' positions before contracts and showings for the important summer months must be concluded. Critically, even if the Commission resolves the AfR, given the regulatory uncertainty surrounding D.19-10-021, the Commission should grandfather any import RA contracts revised or executed in good faith in compliance with D.19-10-021 to either demonstrate resource specificity or comply with the decision's must flow obligation for non-resource specific imports.

¹⁹ See D.05-10-042 at 63-66.

²⁰ *Application for Rehearing of Decision 19-10-021 of the California Community Choice Association*, Oct. 24, 2019; *Application for Rehearing of Decision 19-10-021 of the California Independent System Operator Corporation*, Nov. 18, 2019; *Application for Rehearing of Decision 19-10-021 of Powerex Corp.*, Nov. 18, 2019.

²¹ D.19-12-064.

V. CONCLUSION

For all of the foregoing reasons, CalCCA requests adoption of the Blended Proposal.

Respectfully submitted,

CALIFORNIA COMMUNITY CHOICE
ASSOCIATION

A handwritten signature in blue ink that reads "Evelyn Kahl". The signature is written in a cursive style with a large initial 'E'.

Evelyn Kahl
General Counsel

March 11, 2020

APPENDIX A

Source	Firm Transmission	CAISO Tariff Changes
<i>Dynamic Products:</i> Capacity from dynamically scheduled or pseudo tie resources	Firm from source to CAISO	<ul style="list-style-type: none"> • Attest that supply is committed surplus that will not otherwise be sold • Require verification through the existing RTM MOO to ensure the resource specific supply remains available to the CAISO markets through the operational timeframe; and • Clarify that only source specific supply can qualify as resource adequacy import capacity.
<i>Telemetry Products:</i> Capacity from specific source (including aggregation of physical resources, or balancing authority surplus) with telemetry provided to CAISO	<p>The contract and attestation must confirm that the product “cannot be curtailed for economic reasons, and either (a) is delivered on transmission that cannot be curtailed in operating hours for economic reasons or bumped by higher priority transmission or (b) specifies firm delivery point (i.e., is not sellers choice).”</p> <p>Penalties could apply for failure to deliver using firm transmission</p>	<ul style="list-style-type: none"> • Attest that supply is committed surplus that will not otherwise be sold • Require verification through telemetry to ensure the resource specific supply remains available to the CAISO markets through the operational timeframe; and • Clarify that only source specific supply can qualify as resource adequacy import capacity.
<i>Attestation Products:</i> Capacity from specific source (including aggregation of physical resources, or balancing authority surplus) subject to attestation	Same as Telemetry Product firm transmission requirements	<ul style="list-style-type: none"> • Attest that supply is committed surplus that will not otherwise be sold • Clarify that only source specific supply can qualify as resource adequacy import capacity • Impose \$500/MWh offer cap in DAM and in RTM when awarded in DAM.
<i>Energy Products:</i> Energy contract imported by LSE from specific source (including aggregation of physical resources, or balancing authority surplus)	Same as Telemetry Product firm transmission requirements	<ul style="list-style-type: none"> • Same as Attestation Product.