

**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

**CALIFORNIA COMMUNITY CHOICE ASSOCIATION
INFORMAL COMMENTS ON THE LOCAL CAPACITY REDUCTION
COMPENSATION MECHANISM**

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CALIFORNIA COMMUNITY CHOICE ASSOCIATION INFORMAL COMMENTS ON LCR COMPENSATION MECHANISM

The California Community Choice Association (CalCCA)¹ submits these informal comments on the issues identified in Decision (D.) 20-06-002 to update and summarize its proposal for designing the Resource Adequacy (RA) Central Procurement Entity (CPE) Local Capacity Requirement (LCR) Reduction Compensation Mechanism (RCM). CalCCA's initial proposal, presented in its July 20 informal comments, has evolved through discussions with other parties individually and in the July 27 workshop. Based on workshop feedback, CalCCA has narrowed its proposal to focus on one of the options included in its initial comments. These comments (1) discuss the challenges presented in designing an RCM around the principles discussed in D.20-06-002; (2) present responses to the questions directly posed by the Commission for the WG; and (3) summarize CalCCA's overall proposal.

I. INTERPRETING D.20-06-002

Discussions among the parties at the workshop raised questions regarding the boundaries prescribed by the Commission for RCM design. CalCCA thus identifies Commission directives on key issues and some of the challenges in integrating these directives.

For reference, CalCCA lists below the directives of D.20-06-002 relevant to RCM design.

Effectiveness:

1. The RCM cannot provide a "one for one" premium as CalCCA proposed without considering effectiveness. [p.41]
2. The RCM must address "local effectiveness" and "use limitations" of the shown resource.... [O¶ 5.d.]
3. The WG should consider how to adjust payments to an LSE "from year to year to account for changes in the effectiveness of the resource reducing local requirements." [O¶ 5.d.]

¹ California Community Choice Association represents the interests of 20 operational 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 José Clean Energy, Silicon Valley Clean Energy, Solana Energy Alliance, Sonoma Clean Power, Valley Clean Energy, and Western Community Energy.

4. CPE selection criteria must include (1) “Local effectiveness factors, as published in the California Independent System Operator’s Local Capacity Requirement Technical Studies” [O¶ 14.b.] and “Energy-use limitations” [O¶ 14.h.]

Least-Cost, Best-Fit:

5. “Because resources procured in the CPE solicitation would impact local compensation values and the least cost best fit solution, local resources shown by LSEs seeking a local premium payment would need to be evaluated alongside bid resources to fully assess the cost effectiveness of the local portfolio being considered by the CPE” [p. 42 and O¶ 5.d.]
6. “[T]he CPE would need a pre-determined local premium for shown preferred resources to reflect the cost to ratepayers of selecting the shown resources over purchasing bid resources” [p. 42]

Premium Determination:

7. The RCM should “only compensate[] LSEs for additional costs of procuring resources close to load rather than simply extending market power premiums to these LSEs” [p.43]
8. “[T]he CPE would need a pre-determined local premium for shown preferred resources to reflect the cost to ratepayers of selecting the shown resources over purchasing bid resources” [p. 42]
9. A “benefit of a pre-determined local premium is that it may be cost-based to reflect the additional costs that LSEs incurred by locating preferred resources close to load, rather than based on market-power inflated price premiums” [p.42]
10. “[T]he CPE would need a pre-determined local premium for shown preferred resources to reflect the cost to ratepayers of selecting the shown resources over purchasing bid resources” [p. 42]
11. The WG must determine “[h]ow to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices.” [O¶ 5.b.]

In addition to these directives, the Commission rejected CalCCA’s proposal for a one-for-one credit with ex post pricing based on the average price paid by the CPE for resources in the local area for which a resource is shown. It directed that “[a]n ‘LCR reduction compensation mechanism’ departs from CalCCA’s must-take, local price based proposal.” [p. 43] CalCCA interprets this directive as foreclosing reliance on: an ex post price; an average of bid prices accepted by the CPE; and a premium that ignores effectiveness and use limitations.

From these conclusions, CalCCA gleaned the boundaries to guide its proposal. The RCM must (i) have a pre-determined, rather than ex post, price premium; (ii) account for “local effectiveness” and “use limitations”; (iii) avoid the influence of “market power inflated price premiums”; and (iv) compare the premium “alongside” bid resources to evaluate the overall cost effectiveness of the CPE portfolio. While the Commission indicated that the premium “may” be cost-based, it did not foreclose a market-based premium.

CalCCA worked within these boundaries despite certain challenges, some of which are discussed below. A foundational principle, however, lacks clarity. D.20-06-002 did not make clear whether shown resources, even after adjusting for effectiveness and use limitations, would be “must take” or whether they could be rejected by the CPE if the RCM formula did not result in the most cost-effective CPE portfolio. While the Commission did not foreclose a must-take structure *provided* that it accounts for effectiveness and use limitations, CalCCA’s proposal nonetheless takes the most conservative reading of the decision: the CPE may reject a shown resource on cost effectiveness grounds. This approach gives more weight to the importance of a least-cost, best-fit portfolio and ratepayer value and substantially simplifies implementation.

II. RESPONSES TO D.20-06-002 QUESTIONS

1. How should the mechanism address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources?

Addressing effectiveness and use limitations was one of the most difficult challenges in designing an RCM. As discussed in CalCCA’s July 20 comments, D.20-06-002 essentially asked the WG to develop a methodology that neither the CAISO nor the Commission, to date, has been able to develop. CalCCA nonetheless framed two approaches to assessing these factors, which were presented at the workshop and are discussed below. Critically, however, CalCCA’s proposal summarized in Section IV does *not* require an express determination on either factor; instead, it relies on the CPE to assess them in evaluating the shown resource’s value. Whatever methodology the CPE applies to bid resources to assess effectiveness and use limitations will be equally applied to shown resources.

a. Methodologies Considered by CalCCA

CalCCA presented two possible methodologies at the workshop to evaluate effectiveness and use limitations. Both methodologies, however, require substantial additional development to implement and, even then, will provide only very rough justice.

Method 1: CAISO Local Effectiveness Factors

D.20-06-002 directs the CPE must consider in selecting resources in its solicitation the local effectiveness factors found in the California Independent System Operator (CAISO) Local Capacity Technical Report and Operating Procedure 2210Z. [O¶ 14.h.] These factors are stated as a percentage effectiveness for each existing resource in a local area. One approach thus would be to apply these factors, stated in percentages, to reduce the MW of shown capacity. The reduction would need to be scaled; CalCCA considered scaling the shown resource’s factor to the average of the factors for resources selected by the CPE in a local area.

While CalCCA believes that this approach could be used to provide some indication of the relative value of shown vs. bid resources, no party advocates using this approach. CalCCA believes that it would require development of potentially rigid selection criteria that may not align with the criteria needed for the CPE to assess the value of both shown and bid resources. In short, CalCCA does not believe this is approach would produce reasonable premiums. The CAISO has made clear, several times, that the published factors were not intended to be used in this manner. Indeed, the published factors represent a resource’s effectiveness in resolving the “highest” constraint in the area, among potentially dozens of constraints. So, for example, one resource might be highly effective in addressing the top constraint but completely ineffective in addressing another, and another might not be effective in addressing the top constraint but is highly effective in addressing 19 other constraints. Relying on the published factors would give full credit to the first resource and no credit to the other resource –an incomplete and inequitable result. In fact, as one IOU commenter noted during the July 27 workshop, it is highly unlikely that the CPE will apply these factors quantitatively but will consider them qualitatively among other resource characteristics. Reliance on CAISO’s published effectiveness factors to scale the shown resource MW will not fully or fairly represent a resource’s locational value.

Method 2: Addressing Use Limitations

CalCCA also considered a technology-specific approach to address use limitations. The CPE could develop a factor for battery storage by comparing the battery storage duration of the

shown resource to the duration of the resources selected by the CPE in the local area. If the CPE selected any four-hour batteries in an area, a four-hour shown battery would receive 100% credit. Alternatively, if the CPE selected no four-hour batteries in an area, the CAISO LCTR provides other potential avenues of assessing battery use limitations, including the data underlying LCTR Table 3.1-3 to compare a shown resource's storage duration to the CAISO-determined storage duration required in the local area. This approach, however, requires a consideration of the baseline underlying those required durations and interpretation of the overall data. Implementation, if possible, would require additional time and might in the end provide only rough justice to a shown resource.

A different approach would be needed for solar, wind, and hydro generation. PG&E identified, and CalCCA considered, relying on the LCTR's assessment in each local area of a resource type's contribution to the peak hour in the area. For example, PG&E pointed to the CAISO's assessment of the Sierra LCR area load and resources. [LCTR p. 42] The LCTR states that the "estimated time of local area peak is 19:10 PM," and ISO-metered solar output at the time is 2.0 percent. While the methodology was not discussed in detail, presumably PG&E intended to multiply storage MW of capacity in the Sierra area by 2 percent to adjust the MW to which the premium price would be applied. Unfortunately, this information is not provided for all local areas (*see, e.g.*, North Coast and North Bay LCR, p. 32). Further, this approach would not apply to wind and hydro resources, and separate methodologies would need to be developed.

Overall, a piecemeal approach to evaluating use limitations might be possible. Additional development would be required, however, and the result, again, would provide only rough justice to shown resources.

b. CalCCA Proposed Approach

CalCCA proposes that shown resources be compared for selection by the CPE alongside bid resources, subject to a pre-determined price cap, to ensure a least cost, best fit solution. Consequently, neither the premium nor the MW shown would be discounted. Like bids, if the CPE selects the resource, the resource owner will get the pre-determined price for the MW of NQC provided; if the CPE rejects the bid, the resource owner will get nothing. CalCCA's proposal thus leaves the question of how to evaluate effectiveness and use limitations to the CPE's process used for bid resources. As long as the CPE applies its selection criteria for both shown and bid resources in a non-discriminatory manner, LSEs can use the showing mechanism

to make their local resources available to the CPE without having to participate in the CPE solicitation process.

2. **How granular the premium should be (e.g., should different premiums be developed for different types of preferred resources, for new versus existing resources, and/or for sub areas, individual local areas, or TAC-wide local areas)?**

CalCCA proposes a premium for each local area or sub-area to ensure that the shown resources are reasonably valued and have a reasonable opportunity to “compete” with bid resources in the same local area. The premium would be set at a more aggregated level if required to mask prices of individual resources.

CalCCA’s proposal makes any other granularity, such as technology, unnecessary. The CPE will consider all of these factors in evaluating both shown and bid resources using the criteria mandated by the Commission for selecting resources from the solicitation.

3. **How to make the premiums as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices.**

CalCCA proposes development of a premium that will be published annually. The premium would be calculated as follows:

Year 1: Use the median price from the last two quarters of Energy Division PCIA responses for both system and local RA; subtract system price from local RA price and multiply by effective MW

Subsequent Years: Use the median price from the last two quarters of Energy Division PCIA responses for system RA and the most reported CPE solicitation results for local RA price; subtract system RA price from local RA price and multiply by effective MW

There would be little risk to the market of publishing the premiums determined using this methodology. The system prices ultimately will be published within a year in the annual Energy Division RA Report, so there is little or no risk in revealing these prices. Making the median CPE price in the prior solicitation public also presents little risk. The median reveals nothing about the stratification of bids around the median, nor does it illuminate bid prices for bundled system/local RA resources.

4. **Whether the compensation mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation (or require potential revisions to the iterative process), due to the complexity of overlaying both of these mechanisms into the bid evaluation process.**

CalCCA proposes that an LSE must choose between the bid and show options. Allowing a resource to show a resource at the pre-determined price but later revoke its showing if it is able to do better in the bid solicitation process is difficult to rationalize. Why would the CPE choose a resource in the bid process that has been made available through showing if the bid price is higher than the pre-determined price? To make this choice would be contrary to ratepayers' interests. Conversely, why would an LSE ask for less in the solicitation than it could otherwise garner through a showing? Even aside from these complications, allowing an LSE to both bid and show would require further implementation rules regarding the timing and sequencing of these elections. For these reasons, the Commission should reject the bid *and* show approach.

PG&E has proposed a variant of this approach: if an LSE chooses to show but not bid, it may receive the local premium at the pre-determined price; if an LSE bids and later shows when not selected in the solicitation process, the LSE may do so but may not receive the local premium. While there is a reasonable basis, from a ratepayer value standpoint, to adopt this approach, it creates questions around the CPE solicitation. If the CPE knows in advance that the LSE will show at no cost if its bid is not selected, why would the CPE under any circumstances select the bid? From a ratepayer standpoint, it would add unnecessary cost. This approach, however, could distort the bid solicitation process and create conditions that disadvantage non-LSE bidders.

5. How to best adjust the local compensation from year to year to account for changes in the effectiveness of the resource reducing the local requirements.

As with other questions, CalCCA's proposal simplifies the response to this question. The CPE is highly unlikely to adjust bid prices from year to year for resources selected in the solicitation. It will pay the price bid for the term proposed or it will reject the bid; the notion of accepting a bid subject to future modification is antithetical to the normal IOU solicitation process. Likewise, since the CPE will be comparing the shown resources alongside the bid resources, the same principle should apply. Either the CPE accepts the resource at the price and term shown, or it rejects the resource; there is no right to modify in the future as effectiveness changes. In short, there is no need under CalCCA's proposal to develop an annual effectiveness adjustment for shown resources.

6. How should the CPE incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred resources in instances in which price differentials are relatively small?

This question seems unrelated to the working group’s purpose and should be addressed holistically in the development of the CPE’s bid evaluation criteria. CalCCA observes, however, that if a gas and preferred resource produce roughly equal value in all respects (a highly unlikely scenario), the CPE should be bound to select the preferred resource.

7. In addition, please provide any informal comments on the treatment of existing contracts, including whether any proposed local capacity requirement reduction compensation mechanism should be applied to existing contracts and for what period of time.

CalCCA proposes to provide the premium to LSEs who have shown their existing local RA attributes to the CPE. “Existing contracts” should be defined as contracts executed to convey local RA attributes from a third party to an LSE executed not later than June 11, 2020 (the date D.20-06-002 was issued). The premium should be provided for the lesser of the remaining contract term and the end of the 2025 RA compliance year.

The IOUs propose to grant eligibility to utility-owned generation (UOG) under the “existing contract” provision. Their proposal falls unambiguously outside of the intent of D.20-06-002. CalCCA’s interpretation of the decision rests on the following Commission directives:

- “For existing local contracts, including gas contracts, a working group process is established in Section 3.5 to consider treatment of these existing contracts.” [p. 41]
- “The working group should submit a proposal on the treatment of existing contracts, which may include consideration of whether any proposed LCR reduction compensation mechanism should be applied to existing contracts.” [p. 46]
- “The working group directed in Ordering Paragraph 5 shall also consider and submit a proposal on the treatment of existing contracts, which may include consideration of whether any proposed Local Capacity Requirement reduction compensation mechanism should be applied to existing contracts.” [O¶ 6.]

The decision, in other contexts, distinguished IOU UOG and contracts. It stated: “[i]t is also reasonable for the IOU to bid its resources into the CPE’s RFO, including utility-owned generation (UOG) or contractually committed resources that are not already allocated to all benefitting customers, at their levelized fixed costs, and we direct the utility to do so when it is acting as the CPE.” [p. 48]

The Commission also set clear parameters on the choices an IOU has for its resources. It directed: “A distribution utility acting as the CPE should bid its own resources into the solicitation process at their levelized fixed costs.” It also specified: “A distribution utility shall have the same options as other load-serving entities in deciding whether to bid or show its resources into the central procurement entity’s solicitation process.” [COL 14.] In other words, the IOU will be able to show its preferred resources or energy storage to the CPE, just as other LSEs. The IOUs should also be able to show existing fossil contracts, subject to the terms and conditions discussed in CalCCA’s proposal above.

III. OTHER DESIGN ISSUES

D.20-06-002 did not address the term of a resource showing. CalCCA proposes that LSEs be permitted to show for up to whatever term is allowed for bid resources, recognizing that the term it shows will affect the CPE’s evaluation of its value. The term start date could be any year within the three-year forward CPE compliance period.

CalCCA also proposes requiring a showing, like a bid, to be documented through a confirm under the Edison Electric Institute (EEI) Master Agreement. Shown resources should have the same level of commitment to the CPE as any bid resource.

IV. SUMMARY OF CALCCA PROPOSAL

In response to the presentations and discussion at the July 27 workshop, CalCCA proposes the following framework for the RCM.

Shown Resources Compared Alongside Bid Resources	
CPE Obligation	CPE may accept or reject the showing if more cost-effective resources are available
Effectiveness	CPE applies effectiveness criteria to shown resources in the same way the criteria are applied to bid resources
Annual Price Update	If selected, LSE will be paid the pre-determined price for the shown resource without annual adjustment for effectiveness
Pre-determined Price	Pre-determined price set at median local RA price from last CPE solicitation less the most recent system RA prices; LSEs have the option to show their resources at a lower price if they choose
Calculation of Payment	If selected, LSE will be paid the pre-determined price for the shown resource
Premium Granularity	Local area or sub-area unless aggregation up is required to mask individual resource prices
Showing Term	LSE may show a resource for a term of up to three years, with the term commencing within the current three-year compliance period
Bid/Show Election	LSE may show or bid its resource, not both
Existing Contracts	Contracts executed to convey local RA attributes from a third party to an LSE executed not later than June 11, 2020 (the date D.20-06-002 was issued) may show for the local premium for the lesser of the remaining contract term and the end of the 2025 RA compliance year. Existing “resources” do not qualify for a local showing.