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.

Rulemaking 19-11-009

CALIFORNIA COMMUNITY CHOICE ASSOCIATION AND PACIFIC GAS AND ELECTRIC COMPANY’S (U 39 E) TRACK 3.A WORKING GROUP REPORT ON CONSENSUS AND NON-CONSENSUS ITEMS REGARDING DEVELOPMENT OF LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM AND PROPOSAL ON TREATMENT OF EXISTING CONTRACTS

EVELYN KAHL
General Counsel
CALIFORNIA COMMUNITY CHOICE ASSOCIATION
One Concord Center
2300 Clayton Road, Suite 1150
Concord, CA 94520
Telephone: (415) 254-5454
E-Mail: regulatory@cal-cca.org

NOELLE R. FORMOSA
Attorney for PACIFIC GAS AND ELECTRIC COMPANY
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-4655
Facsimile: (415) 973-5520
E-Mail: Noelle.Formosa@pge.com

Dated: September 1, 2020
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. Rulemaking 19-11-009

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Pursuant to the schedule set forth in (i) Ordering Paragraphs 5 and 6 in the June 11, 2020 Decision (D.) 20-06-002 and (ii) the July 7, 2020 Assigned Commissioner’s Amended Track 3.A and 3.B Scoping Memo and Ruling and in accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Community Choice Association (“CalCCA”), on behalf of itself and Pacific Gas and Electric Company (“PG&E”) (together, the “Co-Chairs”), respectfully submits this final Track 3.A Working Group report, attached hereto as Attachment 1, on consensus and non-consensus items regarding the Local Capacity Requirement (“LCR”) Reduction Compensation Mechanism (“RCM”) and Treatment of Existing Contracts (“Report”), which also includes a proposal on treatment of existing contracts, as required in Ordering Paragraph 6 of D.20-06-002.1

The Report also provides parties’ informal comments addressing and considering the issues included in Ordering Paragraphs 5 and 6 of D.20-06-002.2

1 Pursuant to Rule 1.8(d), counsel for CalCCA certifies that PG&E has authorized CalCCA to sign and tender this document and to make the representations stated in Rule 1.8(b) on PG&E’s behalf.

2 D.20-06-002, Ordering Paragraphs 5-6 at 92-93.
- Resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources;

- 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);

- How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;

- 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;

- 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; and

- Treatment of existing contracts, including consideration of whether any proposed LCR RCM should be applied to these contracts.

Although not directly related to the LCR RCM design or treatment of existing contracts, the Report also provides and summarizes parties’ informal comments responding to the directive for the working group to consider “how the CPE will 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.”

The Report includes the following appendices documenting the formal working group process:

Appendix A  JULY 6, 2020 SERVICE EMAIL
Appendix B  JULY 20, 2020 INFORMAL COMMENTS
Appendix C  JULY 27, 2020 WORKING GROUP WORKSHOP PRESENTATIONS
Appendix D  AUGUST 3, 2020 INFORMAL COMMENTS
Appendix E  AUGUST 17, 2020 INFORMAL REPLY COMMENTS
Appendix F  AUGUST 26, 2020 INFORMAL COMMENTS ON DRAFT REPORT
Appendix G  FINAL MATRIX OF PARTY POSITIONS

3  Id. at 44-45.
The Co-Chairs appreciate the opportunity to submit this Report.

September 1, 2020

Respectfully submitted,

Evelyn Kahl
General Counsel to the
California Community Choice Association
ATTACHMENT 1 TO
CALIFORNIA COMMUNITY CHOICE ASSOCIATION AND PACIFIC GAS AND ELEC
TRIC COMPANY’S (U 39 E)\(^1\) TRACK 3.A WORKING GROUP REPORT ON
CONSENSUS AND NON-CONSENSUS ITEMS REGARDING DEVELOPMENT OF
LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM
AND PROPOSAL ON TREATMENT OF EXISTING CONTRACTS

WORKING GROUP REPORT

\(^1\) Portions of this report written by PG&E, which include Sections I.A, II.B, III.B, IV, and V, were prepared by Erica Brown, Rhett Kikuyama, Luke Nickerman, Greg Rybka, Lisa Wan, and Noelle Formosa.
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I. Background

A. Procedural Background and Scope

Decision (D.) 20-06-002 adopts implementation details for the central procurement of multi-year local resource adequacy (RA) to begin for the 2023 compliance year in the Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) distribution service areas, including identifying PG&E and SCE as the central procurement entities (CPE) for their respective distribution service areas and adopting a hybrid central procurement framework.\(^2\) The framework places full local RA procurement responsibility on behalf of all load serving entities (LSE) on the CPE, and LSEs no longer receive individual local requirements.\(^3\) LSEs that have procured local resources may “(1) show the resource to reduce the central procurement entity’s (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.” \(^4\) Under the “show” option, the LSE does not receive one-for-one credit for its local resources.\(^5\)

In adopting the hybrid central procurement framework, the California Public Utilities Commission (Commission) found that, even without a financial crediting mechanism, the framework does not disincentivize procurement of local resources because LSEs procure local resources...
resources for many reasons beyond the local RA value. The Commission recognized, however, that “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” To that end, the Commission committed to developing an “LCR reduction compensation mechanism, if details can be assessed and developed.” The Commission defined “LCR reduction compensation mechanism” as a “financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value.”

To develop such a mechanism, the Commission directed a working group (WG) co-led by CalCCA and either PG&E or SCE. The Commission also included within the scope of the WG issues related to treatment of existing contracts, including potential application of the LCR RCM to these contracts. The Commission further required the co-leads to file a WG report on consensus and non-consensus items (Report) in this proceeding by September 1, 2020. In addition, the assigned Commissioner in this proceeding issued the Assigned Commissioner’s Amended Track 3.A and 3.B Scoping Memo and Ruling, dated July 7, 2020 (Amended Scoping Memo), designating evaluation of an LCR RCM as an issue in Track 3.A and requiring WG reports and proposals from parties to be filed on September 1, 2020.

In both D.20-06-002 and the Amended Scoping Memo, the Commission identified four specific issues to be addressed by the Report:

a. How granular the premium should be (e.g., should different premiums be developed for different types of preferred resources, for new versus existing

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6 Id. at 40-41, 72.
7 Id. at 42, 72.
8 Id., at 43.
9 Id., at 42.
10 Id. at Ordering Paragraph 5.
11 Id. at 46, 75 and Ordering Paragraph 6.
12 Id. at Ordering Paragraph 5.
resources, and/or for sub-local areas, individual local areas, or TAC-wide local areas);

b. How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;

c. 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; and

d. 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.

In addition, the Commission directed in D.20-06-002 that the Report “address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources.”\footnote{Id. at Ordering Paragraph 5. The Amended Scoping Memo includes a similar requirement. Amended Scoping Memo at 3.} D.20-06-002 also requires the WG to (i) “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”\footnote{Id. at Ordering Paragraph 6.} and (ii) consider how the CPE will 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.”\footnote{Id. at pp. 44-45. The four issues identified above (a.-d.) and the three issues identified in this paragraph (i.e. in the first sentence and romanettes (i) and (ii) of the second sentence) are referred to herein as the “7 Issues.” The 7 Issues are also outlined in the email attached as Appendix A.} The Report must also address consensus and non-consensus items regarding treatment of existing contracts.\footnote{Ibid.}

Using this guidance, CalCCA and PG&E, serving as WG co-leads, sent an email to the service list on July 6, 2020, soliciting initial input from stakeholders through informal comments submitted on July 20, 2020, and seeking participation by other stakeholders with an interest in
presenting at a WG workshop on the identified issues set for July 27, 2020.\textsuperscript{17} Eight parties submitted informal comments on the 7 Issues on July 20, 2020 ahead of the July 27, 2020 WG workshop. These informal comments are attached as Appendix B to this Report. Three parties (PG&E, CalCCA, and San Diego Gas & Electric Company (SDG&E)) expressed interest in presenting at the WG workshop. The co-leads facilitated the WG workshop by WebEx on July 27, 2020, beginning at 10:00 a.m. The co-leads jointly presented a review of the 7 Issues identified in D.20-06-002 and initial informal comments on the 7 Issues. Additionally, PG&E made a presentation as a participant in the WG to address pending issues. CalCCA also presented as a WG participant, offering two proposals. The only other party presenting a proposal was SDG&E. These presentations are attached as Appendix C. WG participants submitted informal comments and replies regarding the WG workshop on August 3, 2020, attached as Appendix D, and on August 17, 2020, attached as Appendix E, respectively. A draft of the Report was circulated to WG participants on August 21, 2020, with informal comments on the draft Report submitted on August 26, 2020 and attached here as Appendix F.

The workshop and parties’ informal comments have helped inform this Report.

B. Topics Expressly Excluded from Scope

The Commission expressly identified certain topics as out-of-scope.\textsuperscript{18} They include:

1. One-for-one credit mechanism for local RA that does not account for relative effectiveness of shown resources relative to bid resources;\textsuperscript{19}

2. Ex-post price premium based on the average price paid by the CPE for resources in the local area for which a resource is shown;\textsuperscript{20}

\textsuperscript{17} The email to the service list laying out the WG schedule is attached as Appendix A.

\textsuperscript{18} D.20-06-002 at 43 (“The Commission is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts).”).

\textsuperscript{19} \textit{Id.} at 41.

\textsuperscript{20} \textit{Id.} at 42.
3. Credit mechanism for fossil fuel resources (other than potentially for existing contracts);\textsuperscript{21} and

4. An LCR RCM mechanism for the SDG&E Transmission Access Charge (TAC) area, where a CPE will not be designated at this time.\textsuperscript{22}

Stakeholders generally adhered to this guidance in offering proposals presented through the WG process and described in this Report.

C. Schedule of Completed Activities

The co-leads scheduled and completed the following WG activities:

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 6, 2020</td>
<td>Co-leads circulated notice to the service lists of WG co-leads and WG schedule, including workshop, and request for informal comments on 7 Issues outlined in D.20-06-002 on pages 43-45 and in Ordering Paragraphs 5 and 6.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 17, 2020</td>
<td>Co-leads circulated notice of workshop date and call-in information to the service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 20, 2020</td>
<td>Parties submitted informal comments to the service lists in response to the co-leads’ request on 7 Issues outlined in D.20-06-002 and notified co-leads of intent to present at workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 24, 2020</td>
<td>Co-leads circulated notice of agenda and presentation materials for the virtual workshop to service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 27, 2020</td>
<td>Co-leads hosted a virtual workshop on WebEx on LCR RCM and the treatment of existing contracts.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 30, 2020</td>
<td>Co-leads again circulated presentations from virtual workshop to workshop participants, in addition to a matrix for parties to utilize in developing informal comments on the workshop.</td>
<td>Complete</td>
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\textsuperscript{21} Id. at 41.

\textsuperscript{22} Id. at Conclusion of Law 6.
July 31, 2020 | Co-leads circulated updated schedule for WG to the service lists, including dates for informal reply comments on workshop, issuance of a draft Report, and informal comments on the draft Report. | Complete

August 3, 2020 | Parties submitted informal comments on the workshop to co-leads, which were circulated to the service lists on August 4, 2020. | Complete

August 17, 2020 | Parties submitted informal reply comments on the August 3 informal comments to the service lists (PG&E’s informal reply comments were sent to the co-leads on August 17, 2020, and to the service lists on August 19, 2020). | Complete

August 20, 2020 | Co-leads circulated an updated schedule for the WG to the service lists | Complete

August 21, 2020 | Co-leads served a draft Report to the service lists for comment. | Complete

August 26, 2020 | Parties submitted informal comments on the draft Report to the service lists. | Complete

September 1, 2020 | Co-leads filed and served Report. | Complete

II. Guiding Principles and Objectives

The co-leads presented their views and interpretations on guiding principles and objectives in the July 27, 2020 workshop presentations.

A. Guidance from D.20-06-002

Drawing from D.20-06-002, the co-leads identified the following explicit guidance provided by the Commission, with the corresponding page number or ordering paragraph (OP) in brackets:

Effectiveness:

1. The LCR RCM cannot provide a “one for one” premium as CalCCA proposed without considering effectiveness. [p. 41]
2. The LCR RCM must address “local effectiveness” and “use limitations” of the shown resource to align the financial compensation with the actual LCR megawatt (MW) reduction the resource provided. [p. 42, OP 5]

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.” [OP 5.d.]


Least-Cost, Best-Fit:

a. “Because resources procured in the CPE solicitation would impact local compensation values and the least cost best fit solution, local resources shown by LSE’s 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]

b. “[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]

c. “[E]nsures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value…” [p. 43]

Premium Determination and Market Power Issues:

1. The LCR 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]

2. “[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]

3. 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]

4. “To the extent that market power inflates local area capacity prices, an ex post benchmark would exacerbate this problem by providing inflated prices to local resources shown by LSEs” [p. 42]

5. 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.” [OP 5.b]

Preferred Resource Development in Local Areas

1. “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” [p. 41]
B. PG&E Proposed Principles

Based on the guidance in D.20-06-002, PG&E outlined the following four recommended principles for the LCR RCM in its workshop presentation included in Appendix C:

- The LCR RCM should:
  - Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;
  - Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;
  - Result in lower total costs to customers without sacrificing local area reliability; and
  - Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

WG participants also provided recommendations and comments on guiding principles. The Alliance for Retail Energy Markets (AReM) proposed the following principles in the evaluation of the need and structure for any such compensation mechanism:

- No CPE Over-procurement – The ability for an LSE to receive an LCR RCM payment from the CPE must not result in over-procurement by the CPE with those costs spread among all LSEs;

- Cost Causation – Customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; costs should not be spread to other LSEs or their customers;

- Premiums Paid for Shown Resources Must Be Aligned with the Auction – LSEs with resource types that are worth a premium to the CPE should be eligible for compensation up to that premium, i.e., if the CPE auction awards a higher RA price to energy storage, any LSE-shown resource that is energy storage should be eligible for the LCR RCM premium that does not exceed the premium paid for such resources in the auction; and

- Payment Length for Show Resources Must Be Aligned with the Local RA Requirement – The number of years an LSE is eligible for an LCR RCM payment should not be longer than up to three years – the term of the Local RA requirement.
California Energy Storage Alliance (CESA), in addition to responses to the specific 7 Issues presented, also suggested that the WG should:

- consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective local RA requirements, and
- clarify and discuss the implications of the CPE buying all RA attributes if selected.

III. Description of Proposals

A. CalCCA Proposals

1. CalCCA Option #1

CalCCA’s initial proposal, presented in its July 20, 2020, informal comments, advanced a CPE “must take” model. The model evolved as a result of the workshop and parties’ comments, however, into a refined “Option #1” proposal presented in CalCCA’s July 27, 2020, comments. CalCCA does not recommend adoption of this approach but prefers its “Option #2” described below.

Under the must-take model, the CPE would be bound to take any local RA attributes from preferred or energy storage resources shown by an LSE. The price would be determined using the following formula:

**Year 1:** Use the median price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both system and local RA; subtract system RA price from local RA and multiply by effective MW

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

This formulation removes the risk of market power influence by relying on the median CPE bid price rather than an average bid price. The median price is also unlikely to suggest pricing to future bidders, which an average price would do.
The number of MW shown by the LSE would be adjusted for effectiveness, using one of two methods. The first method would rely on published California Independent System Operator Corporation (CAISO) effectiveness factors, scaling a resource’s effectiveness to the average effectiveness procured by the CPE in that specific local area. Because these factors do not fairly represent the value of resources, due to their focus on a limited subset of constraints, CalCCA did not favor this approach. The second method would rely on a yet-to-be determined methodology using data regarding peak contribution of particular technologies in specific local areas and data underlying the CAISO’s identified storage need in its annual Local Capacity Technical Study. CalCCA pointed out, however, that developing these technology-specific methodologies would be time consuming and would, at best, provide only rough justice in determining the showing value.

CalCCA does not support adoption of Option #1 due to the complexity of developing reasonable effectiveness calculations. In addition, it is difficult to square a CPE “must-take” model with the directive in D.20-06-002 that shown resources must be “evaluated alongside bid resources.”

2. **CalCCA Option #2**

CalCCA advances its Option #2 as the preferred methodology for the LCR RCM. Unlike Option #1, the CPE would not be bound to accept all shown resources but could reject them after considering their value “alongside bid resources.” The “pre-determined price” calculation would be the same as Option #1:

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

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results
(prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

The only difference is that an LSE could choose to show its resources to the CPE for local credit at a price lower than the pre-determined price if desired.

The primary benefit of this approach, however, is administrative simplicity. Option #2 does not require further work to develop highly technical, technology-specific effectiveness values. Instead, it relies on the guidelines the CPE will use to evaluate bid resources. In other words, the CPE would apply the same methodology or considerations to bid and shown local RA resources in comparing their value.

Beyond these fundamental features, CalCCA addressed term and documentation of showings. Resources committed through a showing would have a three-year commitment where the term start date could be any year within the three-year forward compliance period. The showing (like bid) would be documented through a confirm under the Edison Electric Institute (EEI) Master Agreement.

3. CalCCA Proposal on Treatment of Existing Contracts

In essence, since preferred and storage resources are covered by the showing option, the legacy treatment for existing contracts identified by D.20-06-002 LCR RCM would only apply to existing fossil contracts. The Commission did not extend this same authority for an investor owned utility (IOU) to show fossil utility owned generation (UOG). As stated in D.20-06-002, existing fossil UOG would be required to bid into the CPE solicitation, and bid UOG would receive Cost Allocation Mechanism (CAM) treatment.23

CalCCA proposes that existing fossil contracts receive legacy treatment for five years from the implementation of the CPE. Legacy contracts will include only resources that are

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23 D.20-06-002 at 48.
currently online and were contracted by an LSE on or before June 11, 2020 (the date D.20-06-002 was issued).

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<thead>
<tr>
<th>Summary of CalCCA Option #2 LCR RCM Recommendation</th>
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<td><strong>CPE Obligation</strong></td>
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<td><strong>Annual Price Update</strong></td>
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<td><strong>Bid/Show Election</strong></td>
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<td><strong>Existing Contracts</strong></td>
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**B. SDG&E Proposal**

SDG&E developed a proposal, included it in their July 20, 2020 comments, and presented the proposal at the July 27, 2020 workshop. SDG&E’s proposal addressed resource applicability, local premium, effectiveness factors, duration, and cost-allocation.
On resource applicability, SDG&E noted that the LCR RCM would apply to only three categories of shown resources:

1. All energy storage;
2. All preferred resources; and
3. Existing contracts of existing fossil fuel resources.

On the local premium, SDG&E proposed that the CPE utilize the relevant PCIA System RA Market Price Benchmark (MPB) for its area, either north of path (NP)-15 or south of path (SP)-15 for the compliance year. SDG&E noted that the System RA MPB is typically available in November prior to the compliance year. SDG&E suggested consideration of the weighted average price of local resources that were contracted by the CPE for the compliance year. This means that the CPE must identify the specific cost related to RA capacity procured if it procured other attributes, such as flexible RA or energy tolling, which is necessary to ensure an apples-to-apples comparison. SDG&E also explored using the PCIA local MPB, however it was unclear how the CPE procurement of local resources would impact the PCIA local MPB calculation. Therefore, SDG&E recommended using prices relevant to CPE procurement. SDG&E also maintained that both values could be made publicly available in November after the CPE has finished its procurement along with the publication of the annual PCIA MPBs.

On effectiveness, SDG&E recommended that effectiveness factors should be guided by the CAISO and the annual Local Capacity Technical Study (LCTS). However, since that methodology may be too complex, SDG&E offered a simpler alternative until a more precise methodology can be adopted. SDG&E proposed that the effectiveness factors for all shown resources be calculated based on the percentage resulting from the local or sub-local area LCR divided by the total amount of capacity shown and CPE procured capacity. SDG&E provided the
example that if the LCR is 100 MWs and 40 MWs were shown by LSEs, and 80 MWs were procured by the CPE, the percentage would be 100 MW / 120 MW, or 83.33 percent. LSEs that showed the total of 40 MWs would receive a credit of approximately 33.33 MWs.

In terms of duration, SDG&E proposed that the resources would be shown annually on a three-year rolling basis. SDG&E’s proposal provided a process for how capacity would continue to be shown as well as offered in future years to the CPE.

For cost-allocation, SDG&E proposed that the premium associated with the shown local RA capacity would reduce the costs allocated to the LSE by the CPE for the procurement.

C. PG&E Presentation and Proposals

While PG&E did not present a full proposal at the July 27, 2020 workshop, PG&E’s presentation included proposed guiding principles for the LCR RCM, detailed above in Section II and repeated here for convenience:

- The LCR RCM should:
  - Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;
  - Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;
  - Result in lower total costs to customers without sacrificing local area reliability; and
  - Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

PG&E’s presentation explained that PG&E had not identified a mechanism for developing a price that clearly met these proposed guiding principles. In attempting to establish an appropriate local price, PG&E considered two options: cost-based and market-based. PG&E discussed how each of these prices could be derived and outlined the drawbacks of each option.
PG&E also proposed that the LCR RCM premium should be as granular as possible in order to send the correct market signals.

PG&E further explained its view that any “workable” solution must be paired with a transparent and appropriate effectiveness adjustment and demonstration of reduction in total costs to customers. PG&E’s presentation provided information regarding the complexity and potential infeasibility of developing effectiveness adjustments using CAISO effectiveness factors, as well as other measures of effectiveness that could be explored.

PG&E concluded its presentation by stating that the LCR RCM should not result in an increase in total costs to customers. In other words, resources paid through this mechanism must be lower cost than its alternative, and the mechanism must not be game-able.

In addition, PG&E utilized the July 20, 2020, informal comments to provide its proposals with respect to treatment of existing contracts and existing owned resources. First, PG&E proposed that legacy treatment of existing contracts not be afforded to contracts for local resources that were procured outside of an LSE’s transmission access charge (TAC) area (e.g. a northern California LSE that procured a resource within a southern California LSE’s TAC), as those resources were not procured by the LSE to meet local RA requirements, but were likely procured to meet the LSE’s system RA requirements. PG&E also proposed that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired, prior to the date of issuance of D.19-02-022, March 4, 2019 (i.e. when the Commission affirmed its intent to adopt a centralized procurement framework for local RA resources and the possibility that LSEs may no longer have a procurement obligation for local RA). PG&E also proposed that legacy treatment not be applied for the full term of an existing contract or the life of an existing owned resource.
IV. Consensus and Non-Consensus Items

A. Matrix of Party Positions

As part of the WG process, the co-leads developed a matrix of party positions that covers key questions, including effectiveness, granularity, transparency, bidding issues, annual adjustments, the evaluation process, and shows where there is consensus and non-consensus among parties. The matrix was distributed to workshop participants on July 30, 2020, and parties provided edits to the matrix as part of informal comments submitted on August 3, 2020. The matrix has been updated to incorporate edits submitted on August 3, 2020, and is included in this Report as Appendix G.

B. Summary of Consensus and Non-Consensus Items for the 7 Issues

1. Cost-effectiveness

While some parties stated that the mechanism should not provide compensation if the resource does not provide value (CalPA) or does not reduce costs (PG&E), other parties argued that cost-effectiveness should not be in scope (CEDMC). Others raised feasibility of the mechanism if CAISO would need to provide information on effectiveness (SCE, SDG&E). Others argued that the CPE should produce multiple portfolios, akin to the transmission alternative portfolios the CAISO creates in the Transmission Planning Process, as a means to address cost-effectiveness (CESA).

With respect to how the mechanism should address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources, six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the topic should be within the scope of the mechanism and one party (CEDMC) stated that it should be outside of the scope of the mechanism.
PG&E and CESA expressed that a resource should demonstrate its effectiveness to receive compensation. CESA looks to have the assessment incorporate non-quantitative criteria, whereas PG&E looks to have only quantitative criteria used.

Six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the effectiveness adjustments could be determined by the CAISO through various mechanisms. The specific actions suggested by the parties varied, ranging from: adjustments to NQC values (PG&E), determination of effectiveness based on the portfolio options of the CPE (SCE), using the Local Capacity Technical Study (SDG&E), and developing a stakeholder process for determining the appropriate mechanism (CalCCA).

CalCCA’s final proposal (Option #2) left the question to the CPE. The CPE is required to take effectiveness into account in selecting bids from its solicitations. Since CalCCA’s proposal (Option #2) contemplates a comparison of shown preferred resources alongside bid resources, CalCCA submits that the CPE should apply the same criteria – whatever they may be – to both bid and shown resources.

2. Premium granularity

There was a broad spectrum of perspectives on premium granularity. Some parties argued that the premium should be dependent on the data available; for example, it could be sub-local area, local area, or TAC-wide area (SCE). Others argued for premiums for each resource technology type (CalPA) or by resource type, location, or operational characteristics (CEDMC), or based on location, including disadvantaged communities (DACs), GHG emissions reduction, and market power mitigation (CESA).

With respect to how granular the premium should be, three parties stated that the price premiums should be differentiated by local areas or sub-local areas (CalCCA, PG&E, and
SDG&E) [Note: Although SCE mentioned this as a possible option, it was not proposing differentiation by the TAC wide area.] unless a higher level of aggregation was required to mask the price of individual resource prices. SDG&E stated that it believed the complexity of developing individual premiums for the various types of resources in either sub-local areas or local areas makes the task infeasible.

One party stated that a series of premiums should be stacked to arrive at the final premium for a resource (e.g., closer-to-load, within a DAC, GHG emission reduction, and offers market power mitigation) (CESA). An additional party referenced a premium for a resource being located within a DAC (CEDMC).

3. **Transparency of premium**

Parties broadly supported as much transparency as possible, while still protecting market-sensitive information. Parties presented numerous ideas on how and when data should be presented. For instance, PG&E advocated for aggregating data upfront and making more detailed data available after sufficient time had passed. CalPA argued for posting the premiums to the service list and CESA argued that premiums should be made available by resource class. SDG&E argued that advance knowledge of the premium is not necessary since LSEs may have elected to show the resource if the offer is not selected by the CPE. The LSE does not lose any optionality in maximizing value for its customers.

CalCCA observed that its proposal would allow for full transparency of the predetermined price. Neither source of data required for the calculation -- the median bid price from the last CPE solicitation and the aggregated RA prices reported to Energy Division -- presents concerns regarding market sensitivity. The Energy Division prices are made public
annually, and the median CPE price would reveal very little about the stratification of bids actually accepted by the CPE.

4. **Bidding issues**

On the issue of whether the mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation, both PG&E and CalCCA argued that the LSE would need to choose between voluntarily showing (for mechanism eligibility) and bidding / showing as part of the solicitation process. CESA argued that the LSE should not be precluded from also bidding and showing. SCE recommended that this topic be further discussed in workshops to address issues of gaming risk.

CalCCA also proposes a price formula for the pre-determined price. The “pre-determined price” calculation would be calculated as follows:

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

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

An LSE could choose to show its preferred or energy storage resources to the CPE for local credit at a price up to the pre-determined price if desired.

5. **Annual adjustments to local compensation**

Parties had differing views on how frequently the mechanism should be adjusted. PG&E and SDG&E advocated that the premium should be updated annually to reflect the most recent CAISO Local Capacity Technical Study Report. CESA argued that an annual adjustment would not be necessary. Others argued that annual adjustments would ultimately depend on the details of the mechanism (SCE).
Because CalCCA proposes comparison of the shown resource alongside bid resources, as D.20-06-002 requires, CalCCA proposes no annual adjustment to the compensation. Bid resources are not adjusted annually for effectiveness but are paid as bid. In the same way, shown resources should be paid for the term of the showing at the pre-determined price (or below).

6. Bid evaluation process

On the question of how the CPE should incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred resources, there were several disparate ideas. SCE argued that the question should be addressed in CPE implementation as it relates to the bid selection process and bid selection criteria and how the CPE will fairly implement the least-cost-best-fit procurement criteria. CEDMC argued that both qualitative and quantitative criteria be considered, and preferred resources should be favored over fossil-fueled resources. CESA argued that the criteria should link to integrated-resource-plan-identified future long-term procurement needs in local or sub-local areas and adhere to the loading order and Senate Bill 1136 statutory requirements to facilitate the development of preferred, energy storage, and hybrid resources to the greatest extent possible.

7. Treatment of existing contracts

There were several proposals relating to the treatment of existing contracts that spanned a cutoff date for qualification, the period over which a contract should qualify, and whether UOG should qualify.

On the issue of a cutoff date, PG&E advocated that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired prior to the date of issuance of D.19-02-022, March 4, 2019. CalCCA argued that the mechanism should be applied to existing contracts entered into by an LSE on or before June 11, 2020. SCE stated that the cut-
off date should be around the date when the Proposed Decision or the Final Decision was issued, i.e., either March 26, 2020 or June 11, 2020; while SCE is not opposed to PG&E’s proposed March 4, 2019 cut-off date.

On the issue of the period over which a contract should qualify, SCE argued that it should be for up to a five-year term length. PG&E also stated that legacy treatment should not apply for the full term of the existing contract or owned resource. CalCCA recommends that the term be consistent with the terms sought for bid resources.

Lastly, on the issue of UOG, CalCCA argued that UOG should not be eligible, while PG&E advocated for eligibility for UOG.

V. Consensus and Non-Consensus Around Full LCR RCM Proposals

A. CalCCA’s Proposal (Option #2)

CalCCA offered a complete proposal (Option #2) for the LCR RCM, summarized in their comments as follows:
Shown Resources Compared Alongside Bid Resources

<table>
<thead>
<tr>
<th>CPE Obligation</th>
<th>CPE may accept or reject the showing if more cost-effective resources are available.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness</td>
<td>CPE applies effectiveness criteria to shown resources in the same way the criteria are applied to bid resources.</td>
</tr>
<tr>
<td>Annual Price Update</td>
<td>No annual adjustment for effectiveness.</td>
</tr>
<tr>
<td>Pre-determined Price</td>
<td>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.</td>
</tr>
<tr>
<td>Calculation of Payment</td>
<td>If selected, LSE will be paid the pre-determined price (or the LSE’s lower shown price) for the local RA premium.</td>
</tr>
<tr>
<td>Premium Granularity</td>
<td>Local area or sub-local area unless aggregation up is required to mask individual resource prices; no technology differentiation in pre-determined price.</td>
</tr>
<tr>
<td>Showing Term</td>
<td>LSE may show a resource for whatever term the CPE permits for its solicitations, with the term commencing within the current three-year compliance period.</td>
</tr>
<tr>
<td>Bid/Show Election</td>
<td>LSE may show or bid its resource, not both.</td>
</tr>
<tr>
<td>Existing Contracts</td>
<td>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 its local RA attributes and receive the local premium for the lesser of the remaining contract term and the end of the 2025 RA compliance year. Existing owned fossil resources do not qualify for a local showing.</td>
</tr>
</tbody>
</table>

Several parties expressed interest in this proposal, although there was not broad consensus reached from all parties involved in the WG. Both Calpine Corporation and AReM submitted informal comments questioning the concept of permitting bids outside of the auction process and suggesting that there should be “full flexibility to specify the prices at which shown resources will be compared to bid resources” in the CPE’s auction to provide LSEs “incentives to offer competitively to ensure that their resources are selected over offered resources.” AReM observed that all options for a compensation mechanism have risks for market power and gaming.
and questioned “if the limited potential benefits warrant moving forward with any compensation mechanism.”

PG&E submitted comments in reply to CalCCA’s proposal (Option #2) stating that PG&E did not find that the proposal clearly meets all of the objectives in D.20-06-002; however, PG&E believes it is reasonable and the only workable solution that has been put forth by the WG that clearly meets the objective of allowing LSEs to retain the system and flexible RA attributes and receive compensation for the local RA attribute under the hybrid procurement framework. If the Commission is willing to consider this proposal, PG&E believes that (i) all LSEs, including IOUs, should be able to avail themselves of the LCR RCM in the same manner (which requires the Commission to revisit IOU bidding requirements in D.20-06-002 in a new track of the RA proceeding or identify another venue to evaluate the bidding requirements for IOUs to participate in the LCR RCM proposed by CalCCA in Option #2), and (ii) LSEs should continue to be afforded the “voluntarily shown” option, without compensation under the LCR RCM, should LSEs want to retain the system/flexible RA products for use toward its LSE-specific system and flexible RA requirements.

SCE also submitted comments in reply to CalCCA’s proposal (Option #2) stating that there are merits to the proposal, and it should be further explored. SCE recommended a few clarifications to the proposal, including (i) if a shown resource is selected by the CPE during the solicitation, then the LSE should be paid its offer price for the shown resource, not the pre-determined premium, and (ii) the option of showing a local resource without direct compensation should be retained and made available to all LSEs.
B. SDG&E’s Proposal

As described in Section III.B, SDG&E also provided a full proposal on the LCR RCM. PG&E submitted comments on SDG&E’s proposal expressing concerns that the proposed methodology does not appropriately addresses cost effectiveness concerns. PG&E believes that it may overestimate voluntarily shown resources, which may result in customers paying for resources that do not provide any ratepayer value or any local area reliability benefits to the system. Additionally, PG&E has concerns with SDG&E’s proposal on local premium price, as this methodology is similar to the financial crediting mechanism proposed by CalCCA in Rulemaking 17-09-020 that was rejected by the Commission and specifically excluded from the scope of consideration in this Track.

Appendices

Appendix A: July 6, 2020 Service Email
Appendix B: July 20, 2020 Informal Comments
Appendix C: July 27, 2020 Working Group Workshop Presentations
Appendix D: August 3, 2020 Informal Comments
Appendix E: August 17, 2020 Informal Reply Comments
Appendix F: August 26, 2020 Informal Comments on Draft Report
Appendix G: Final Matrix of Party Positions
Resending to the service list, due to clerical error on the CalCCA contact. Melissa Brandt (mbrandt@ebce.org) is the correct contact, not Todd Edmister.

~

To R.17-09-020 and R.19-11-009 Service Lists:

This email provides notice of working group co-leads and a schedule for the working group authorized in Decision (D.) 20-06-002 to develop and assess proposals regarding (a) a local capacity requirement reduction compensation mechanism and (b) treatment of existing local resource adequacy (RA) contracts in light of the hybrid central procurement structure adopted by the California Public Utilities Commission (Commission) for local RA procurement beginning in 2021. In addition, this email seeks informal written comments from parties on the issues outlined in Ordering Paragraphs 5 and 6 of D.20-06-002 by July 20, 2020.

**Background**

In D.20-06-002, the Commission adopted a hybrid central procurement structure for local RA procurement beginning in 2021. As stated in D.20-06-002, in order to compensate load-serving entities (LSEs) for shown local preferred and energy storage resources, “[t]he Commission will develop an LCR reduction compensation mechanism, if details can be assessed and developed.” The LCR reduction mechanism will be a “financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value.” “The Commission is not open to considering a one-for-one credit, [the California Community Choice Association’s (CalCCA)] proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing [ ] contracts).”

To facilitate the assessment and development of such a mechanism, the Commission directed a working group and also ordered that this working group consider and submit a proposal on the treatment of existing contracts. The Commission required that the working group be co-led by CalCCA and either Pacific Gas and Electric Company (PG&E) or Southern California Edison Company and that a working group report on consensus and non-consensus items must be filed in R.19-11-009 by September 1, 2020. Notably, D.20-06-002 requires that any proposal to be offered for consideration must be presented through the working group report.

**Working Group Co-Leads**

The working group co-leads for the issues specified above are CalCCA and PG&E.
Please include the following CalCCA and PG&E representatives on all communications related to this working group:

**CalCCA:**
- Evelyn Kahl – evelyn@cal-cca.org
- CC Song – ccsong@cleanpoweralliance.com
- Deb Emerson – demerson@sonomacleanpower.org
- Melissa Brandt – mbrandt@ebce.org

**PG&E:**
- Erica Brown – Erica.Brown@pge.com
- Rhett Kikuyama – Rhett.Kikuyama@pge.com
- Lisa Wan – Lisa.Wan@pge.com
- Noelle Formosa - Noelle.formosa@pge.com

**Working Group Schedule**

Given the expedited timeframe for preparation of the working group report, as acknowledged in D.20-06-002, CalCCA and PG&E have developed the following expedited schedule to facilitate assessment and discussion of proposals. As noted below, please notify the Co-Leads by July 20, 2020 if your organization has an intent to present a proposal at the workshop by sending an email to the email addresses listed under “Working Group Co-Leads” above. Additional details regarding the workshop will be communicated to the service lists at a later date.

<table>
<thead>
<tr>
<th>Event</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice to Service List of Co-Leads and Schedule/Request for Informal Comments</td>
<td>July 6, 2020</td>
</tr>
<tr>
<td>Parties Provide Informal Comments to Service Lists and Notify Co-Leads of Intent to Present at Workshop</td>
<td>July 20, 2020</td>
</tr>
<tr>
<td>Workshop on Parties’ Proposals</td>
<td>July 27, 2020 (tentative)</td>
</tr>
<tr>
<td>Parties Provide Informal Comments on Workshop to Co-Leads</td>
<td>August 3, 2020 (tentative)</td>
</tr>
<tr>
<td>Co-Leads File Working Group Report</td>
<td>September 1, 2020</td>
</tr>
</tbody>
</table>

**Request for informal written comments on issues outlined on pages 43-45 and in Ordering Paragraphs 5 and 6 of D.20-06-002 - Due July 20, 2020**

In order to facilitate development of proposals in advance of the workshop scheduled for July 27, 2020, CalCCA and PG&E request informal written comments from parties on the following issues by July 20, 2020. Please transmit any informal comments to the
service lists in R.17-09-020 and R.19-11-009.

1. Page 43: 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?

2. Page 44 & Ordering Paragraph 5:

   a. 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);

   b. 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;

   c. 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; and

   d. 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.

3. Pages 44-45: 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?

4. Ordering Paragraph 6: 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.

Please contact Lisa Wan at lisa.wan@pge.com if you have any questions.

On behalf of Noelle R. Formosa,

**Michael Leung**
Case Coordinator
77 Beale St | Rm 2340J
San Francisco, CA 94105
415-973-2766 | M7L7@PGE.com
APPENDIX B

JULY 20, 2020 INFORMAL COMMENTS
The Alliance for Retail Energy Markets ("AReM")\(^1\) submits these informal comments regarding the Local Capacity Requirements ("LCR") Reduction Compensation Mechanism, as requested by e-mail on July 6, 2020 by the Co-Leads of the Working Group directed in Ordering Paragraph 5 of Decision ("D.") 20-06-002 implementing the Central Procurement Entity ("CPE"). Consideration of the LCR Reduction Compensation Mechanism has been incorporated into the scope of Track 3A in Rulemaking 19-11-009.\(^2\) As noted in the July 6\(^{th}\) e-mail, this Working Group will also address the treatment of existing contracts as directed in Ordering Paragraph 6 of D.20-06-002.

AReM has no specific proposal to submit for consideration at this time on the LCR Reduction Compensation Mechanism or the treatment of existing contracts. With respect to the requirement that the Co-Leads for this Working Group assess and develop a LCR Reduction Compensation Mechanism, AReM believes that there are many details that need to be discussed to determine if such a mechanism is necessary and feasible, particularly to gain a better understanding of why “shown” resources – those owned or controlled by Load Serving Entities ("LSEs") who opt to show the resource to the CPE in order to reduce the amount that the CPE must procure – should be eligible for a payment outside of the auction process. AReM looks forward to working with the Co-Leads on this issue. AReM requests that the Co-Leads focus on

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\(^1\) AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California’s direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

the following principles in the evaluation of the need and structure for any such Compensation Mechanism:

1. **No CPE Overprocurement**: The ability for a LSE to receive a LCR Reduction Compensation Mechanism payment from the CPE must not result in overprocurement by the CPE with the overprocurement costs spread among all LSEs.

2. **Cost Causation**: The customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.

3. **Premiums Paid for Shown Resources Must Be Aligned with the Auction**: To the extent that payments for shown resources are determined to be warranted, LSEs with such resource types that are worth a premium to the CPE should be eligible for compensation up to that premium. That is, if the CPE auction awards a higher Resource Adequacy (“RA”) price to energy storage, any LSE-shown resource that is energy storage should be eligible for the LCR Reduction Compensation Mechanism premium that does not exceed the premium paid for such resources in the auction.

4. **Payment Length for Shown Resources Must Be Aligned with the Local RA Requirement**: The number of years of compensation for which a LSE is eligible for a LCR Reduction Compensation Mechanism payment should be for no longer than up to three years – the term of the Local RA requirement.

*Submitted on behalf of AReM by:*
Sue Mara
RTOAdvisors, L.L.C
164 Springdale Way
Redwood City, CA 94062
(415) 902-4108
sue.mara@rtoadvisors.com
July 20, 2020
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 REQUIREMENT COMPENSATION MECHANISM

Evelyn Kahl, General Counsel
California Community Choice Association
One Concord Center
2300 Clayton Road, Suite 1150
Concord, CA  94520
(415) 254-5454
regulatory@cal-cca.org

July 20, 2020
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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 Annual
Local and Flexible Procurement Obligations for
the 2019 and 2020 Compliance Years.

R.17-09-020

CALIFORNIA COMMUNITY CHOICE ASSOCIATION
INFORMAL COMMENTS ON LOCAL CAPACITY REQUIREMENT
COMPENSATION MECHANISM

The California Community Choice Association (CalCCA)\(^1\) submits these informal
comments on the issues identified in Decision (D.) 20-06-002 for resolution in the Resource

I. INTRODUCTION

The Commission recognized in D.20-06-002 that a “financial credit mechanism
potentially provides LSEs with additional incentives for investments in preferred and energy
storage local resources in constrained local areas.”\(^2\) It tasked the CPE WG with further
developing this mechanism for implementation within certain parameters. The parameters center
primarily on mitigating the influence of “market power inflated premiums” and reflecting the
effectiveness of a resource in addressing local constraints in the compensation mechanism. The

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\(^1\) 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.

\(^2\) D.20-06-002 at 41.
Commission further provided a list of questions to be answered by the CPE WG. These comments explore these issues and present a framework for discussion with stakeholders.

II. PROPOSAL

A. Accounting for Local RA Resource Effectiveness

Decision 20-06-002 requires the LCR Reduction Mechanism compensate LSEs for shown local RA preferred resources only “to the extent they provide ratepayer value.”  Consequently, it requires the Working Group to address “the resource cost effectiveness concerns [] (including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources).” Subject to concerns regarding feasibility and consistency, CalCCA generally supports the principle that LSEs should receive credit for shown local RA resources in proportion to the resources’ relative usefulness in meeting California Independent System Operator (CAISO) needs.

As an initial matter, CalCCA questions the premise that preferred resources shown under the LCR Compensation Mechanism can be “evaluated alongside bid resources” as D.20-06-002 suggests. The Commission has required a “pre-determined” price for shown resources, which gets set prior to the solicitation. If the goal is to consider the value of the showing relative to the selected portfolio, an ex post price would be necessary to ensure that the shown resources were not priced higher than the bid prices – an approach the Commission expressly rejected. Moreover, in providing the showing option, the Commission has acknowledged the need to balance the incremental pricing precision that might arise if all resources were priced in the bid solicitation process with the need for development incentives for individual LSEs with. Instead

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3 Id. at 43.
4 Ibid.
5 D.20-06-002 at 42.
6 Ibid.
of considering the shown resources “alongside” the bid resources, the shown resources should form the baseline for the CPE portfolio completed through the solicitation process.

Increasing the challenge of meeting the Commission’s expectations, D.20-06-002 tasked the Working Group with an issue that the Commission itself has not tackled in its local RA program: differentiating effectiveness among local RA resources for purposes of valuing the local RA contribution. Today, the only clear information an LSE has about the relative reliability value of a particular local RA resource derives from the Net Qualifying Capacity (NQC) and Effective Load Carrying Capability (ELCC) signals. While the CAISO annual Local Capacity Technical Study discusses effectiveness, neither the Commission nor the CAISO has translated the relative local effectiveness of a resource into an implementable metric. To the contrary, the Commission’s own counting conventions value all local RA MW equally.

Not even the CAISO – the one who ultimately determines effectiveness of the local RA portfolio – can assign a single effectiveness factor to any resource. The CAISO explained the challenge in its comments on the RA-CPE Settlement:

As noted above, effectiveness, used correctly, measures the impact a specific resource has on the most stringent contingency in a local capacity area or sub-area. As the CAISO noted in its annual Local Capacity Technical Study, a single resource may impact multiple local areas and/or subareas. Additionally, the effectiveness factor is a measure of the resource’s impact on the most stringent contingency. In some instances, the second most stringent contingency may only be slightly less severe than the most stringent but the same resource may be substantially less effective at addressing the second most stringent contingency.\(^7\)

For these reasons, the CAISO stressed that the effectiveness factors it identifies “are not definitive metrics that guarantee local reliability.”\(^8\) Critically, the CAISO concluded:


\(^8\) Id. at 5-6.
Alternatives to the current methodology of one-for-one MW accounting for local capacity resources to include a more granular effectiveness assessment would add exponential levels of complexity to the central procurement process and would be unlikely to impact overall reliability in local capacity areas.9

The practical effect of the issue raised by CAISO is that even if a new local resource were more effective than existing resources at addressing “the most stringent contingency in a local capacity area or sub-area” it might be less effective at addressing the next several most stringent contingencies. Therefore, its presence might not result in an overall reduction in the need for local capacity resources in the local area, or an increase in overall reliability. This Working Group is unlikely to solve a problem in three months that neither the Commission nor the CAISO has solved over the course of years.

In considering solutions, CalCCA observes that the preferred resource showing is not the only process affected by effectiveness. Decision 20-06-002 requires the CPE to include “local effectiveness factors,” in its resource selection criteria.10 It is not clear how the criterion would be applied, nor whether or how it would affect valuation. The methodology for determining the relative value of resources in a local area, regardless of methodology, should be consistently and transparently applied in both the CPE solicitation and the showing process.

Despite these concerns, CalCCA has begun to consider alternative approaches to ensuring “ratepayer value” and preventing “leaning.” Exploring metrics for resources with use limitations, including battery storage, hydro, and fossil generation with limited starts or air quality restrictions, offers the most promise. Any metric of the “effectiveness” of a resource at meeting the local capacity area reliability requirements that could be derived would be incorporated not through a price reduction, but into a technology-specific modification of the number of MW

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9 Id. at 6.
10 D.20-06-002, Ordering Paragraph 14.b at 95.
receiving the premium for each local capacity area or sub-area. While CalCCA does not offer a specific proposal in these comments, the CAISO’s 2021 Local Capacity Technical Report offers an example of a potential starting point for a methodology to estimate overall effectiveness of battery storage that would be limited by charging restrictions. Table 3.1-3 “includes estimated characteristics (MW, MWh, discharge duration) required from battery storage technology in order to seamlessly integrate in each local area and sub-area.” The Pmax field identifies the maximum amount of storage that can be used to address the local capacity need, while the Energy divided by the Pmax identifies the duration of storage needed. These factors could be incorporated into an approach for identifying the MW credit to apply for storage resources in each local capacity area or sub-area, though a more detailed exploration would be required to pursue this type of approach.

CalCCA recommends that effectiveness be considered beyond this Working Group considering its broader relevance. Because the CAISO is the only stakeholder with the ability to assess overall portfolio effectiveness, the CAISO should lead a stakeholder process to develop factors that could be used by both the CPE in its selection criteria and to value shown resources. Ultimately, usefulness must be judged by the CAISO – the expert on local reliability -- and the Commission should look to the CAISO for mechanisms to compare resource effectiveness at meeting the local capacity area reliability requirements.

B. Calculation of the LCR Reduction Premium

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11 2021 Local Capacity Technical Study
12 Id. at 27-28.
13 For example, the CAISO’s LCR technical studies take into consideration existing local resources and, in some cases, such as for the OCEI project in the Oakland sub-area, planned resources. These resources thus may have greater effectiveness at meeting the local capacity requirements than the values identified by the CAISO in the LCR technical studies for incremental resources.
The Commission in D.20-06-002 set three boundaries for designing the LCR compensation mechanism:

   a. The premium must be “pre-determined”;\textsuperscript{14}

   b. The premium must reflect “the cost to ratepayers of selecting the shown resources over purchasing bid resources”;\textsuperscript{15}

   c. The premium must mitigate the risk that it will reflect prices charged by sellers exercising market power, noting that “it may be cost-based” and “compensate LSEs for additional costs of procuring resources close to load” to prevent this result.\textsuperscript{16}

In addition, the Commission posed specific questions to the Working Group, seeking recommendations on the level of granularity required for the premium and transparency of the premium value.

CalCCA’s proposal aims to meet these objectives, to the extent they can be met. The amount of premium would be pre-determined, rather than determined ex post, recognizing that the Commission rejected CalCCA’s ex post premium proposal.\textsuperscript{17} The pre-determined price will benefit showing LSEs to ensure they have knowledge of the perceived resource value before deciding whether to bid or show their resources. The premium would also, as directed by the Commission, mitigate the risk of “market-power inflated premiums.” CalCCA’s proposal mitigates this risk by relying on a median referent price, rather than average prices as CalCCA initially proposed,\textsuperscript{18} since a median price is unaffected by high outliers in a price distribution. Finally, the CalCCA proposal addresses transparency by relying on information that is (or will become) public through Energy Division reports.

\textsuperscript{14} Id. at 42.
\textsuperscript{15} Ibid.
\textsuperscript{16} Ibid.
\textsuperscript{17} D.20-06-002 at 42.
\textsuperscript{18} Id. at 40.
The premium would be calculated as follows:

**Year 1:** Use the median price from the last four 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 four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW.

Price premiums would be differentiated by local areas, including the disaggregated “PG&E Other” areas, unless a higher level of aggregation were required to mask the price of individual resource prices.

CalCCA considered a cost-based approach, which D.20-06-002 suggested as an option. There are no known objective sources, however, for data to establish cost-based premiums. In addition, CalCCA submits that its proposed market-based approach best serves both LSEs and ratepayers for several reasons.

- **Simpler than a Cost-Based Approach.** The cost of any project is a function of many factors, making it nearly impossible to find comparable projects to isolate the “local” value.

- **More Accurate Than a Cost-Based Approach.** Using cost-based premiums would require unbundling a local RA premium from a bundle of attributes, including energy, system RA, and, potentially, RPS attributes. There is simply no way to know which portion of the value stream lies with local RA.

- **Market Based Approach More Effectively Protects Ratepayers.** Using a cost-based approach would harm ratepayers if the resource cost were higher than the prices the RA-CPE otherwise could have received in the market.

- **Market Based Approach Ensures Transparency.** Cost-based premiums would not be transparent.

And, as discussed above, using a transparent, median, recorded local RA price best mitigates the risk “market power inflated premiums,” eliminating the need for a cost-based solution.
C. Other Considerations

Although not identified for Working Group consideration by D.20-06-002, CalCCA offers two recommendations on other LCR Compensation Mechanism Issues. First, the Commission should clarify the term of any showing. CalCCA recommends that resources be committed, through the solicitation or showing, for a three-year term. The start year for the term must be within the three-year forward compliance period. Second, a showing, like a successful bid, should be documented through a confirm under the EEI Master Agreement. The commitment for showing should have the same weight as a bid resource commitment to ensure the resource remains available for RA-CPE reliance.

D. LSE Elections

Decision 20-06-002 asked for comments on whether an LSE would need to choose between showing or participating in the solicitation. CalCCA recommends that the LSE be required to choose between these options. Showing will precede the solicitation, subject to a pre-determined premium value -- so an LSE will need to make the decision at that time. It should not be permitted to game a strategy between the two options, e.g., choosing to show only if its bid is rejected.

E. Treatment of Existing Contracts

Decision 20-06-002 requires the Working Group to submit a proposal on the treatment of existing contracts.\textsuperscript{19} It provides that the proposal “provides which may include consideration of whether any proposed LCR reduction compensation mechanism should be applied to existing contracts.” It suggests that the solution should be limited, however, to resources currently online “absent compelling information” provided by the Working Group.\textsuperscript{20}

\textsuperscript{19} D.20-06-002 at 46.
\textsuperscript{20} Ibid.
CalCCA supports the Commission’s direction. The same LCR Compensation Mechanism adopted for preferred resources should be applied to existing contracts entered into by an LSE on or before June 11, 2020. This mechanism should not be applied to utility owned generation, which will be required to bid into the RA CPE solicitation.

III. CONCLUSION

CalCCA looks forward to further exploring these and other proposals with stakeholders at the July 27, 2020, CPE WG workshop.

Respectfully submitted,

[Signature]

Evelyn Kahl
General Counsel to the
California Community Choice Association

July 20, 2020
July 20, 2020

To: Evelyn Kahl, CalCCA (evelyn@cal-cca.org)  
CC Song, Clean Power Alliance (ccsong@cleanpoweralliance.com)  
Deb Emerson, Sonoma Clean Power (demerson@sonomacleanpower.org)  
Melissa Brandt, East Bay Community Energy (mbrandt@ebce.org)  
Erica Brown, PG&E (Erica.Brown@pge.com)  
Rhett Kikuyama, PG&E (Rhett.Kikuyama@pge.com)  
Lisa Wan, PG&E (Lisa.Wan@pge.com)  
Noelle Formosa, PG&E (Noelle.formosa@pge.com)

cc: R.19-11-009 Service List

Subject: CESA’s informal comments for the Central Buyer Working Group

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Re: CESA’s Informal Comments on the Working Group on LCR Compensation Mechanism and Treatment of Existing Contracts

Dear Working Group Co-Leads:

The California Energy Storage Alliance (CESA) appreciates the opportunity to participate in the Working Group and offers our informal comments to the questions posed in Decision (D.) 20-06-002, issued by the California Public Utilities Commission (Commission) on June 17, 2020. In addition to our responses, CESA offers a high-level comment on some key clarifications needed to establish a common understanding of the new central buyer framework for Local Resource Adequacy (RA) procurement, which has raised a number of questions and created uncertainty from industry on the implication of this decision on existing contracts as well as on future resource procurement. Our informal comments can be summarized as follows:

- To balance cost-effectiveness and resource effectiveness considerations, the Central Procurement Entity (CPE) Request for Offers (RFO) should identify multiple portfolios of bid and shown resources.

- The Local Capacity Requirements (LCR) Reduction Compensation Mechanism should consider premiums related to being closer-to-load, siting in disadvantaged communities (DACs), greenhouse gas (GHG) emissions reduction, and market power mitigation.

- To balance transparency with confidentiality of market-sensitive information, the local premium for shown resources should be calculated based on base
assumptions of a resource class that can be customizable to reflect the specific project value and benefits.

- The compensation mechanism should not preclude an LSE from both bidding or showing a resource since the effectiveness of many resources will not be able to be ascertained until an actual resource portfolio is constructed and aggregated from the CPE RFO bids.

- Unless substantiated otherwise, a year-to-year adjustment to the local compensation mechanism should not be established and may not be needed.

- The CPE RFO evaluation criteria should mirror the premium factors in the local compensation mechanism, link to IRP-identified future long-term procurement needs in local or sub-local areas, and adhere to the loading order and SB 1136 statutory requirements to the greatest extent possible.

- The working group should consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective Local RA requirements.

- The working group should clarify and discuss the implications of the CPE buying all RA attributes if selected.

**Responses**

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?**

   CESA is unclear on how the CPE framework will address the aforementioned concerns while balancing cost effectiveness. For example, it is unclear if the CPE will use local effectiveness and use limitations as the binding, initial screening criteria for evaluating resources bid into the RFO and then consider resource costs and benefits, or if the bids will be assessed comprehensively for effectiveness, limitations, costs, and benefits. If the former, CESA is concerned that the CPE RFO will over-select a resource portfolio that includes a substantial portion of existing fossil generation. Rather, CESA favors an approach where the CPE RFO considers identifying multiple portfolios of bid and shown resources that, on one end, considers effectiveness as the binding, initial screening criteria and, on the other end, more heavily considers preferred attributes while ensuring effectiveness. Several portfolios could be presented in between these extremes to identify the least-cost best-fit resources that meet reliability needs while advancing decarbonization objectives. This approach would be akin to the transmission alternative...
portfolios created by the California Independent System Operator (CAISO) in their Transmission Planning Process (TPP).

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)?**

   CESA generally supports granularity to the premium of the LCR reduction compensation mechanism and proposes the following premiums for consideration in the working group:

   - **Closer-to-load premium:** Percentage premium should be considered to recognize the value-add of RA resources that are located closer to load, thus minimizing line losses and offering direct customer or community benefits. Some line loss factor for resources connected at different service levels could be established to support distribution-connected and customer-sited Local RA preferred or storage resources that are shown.

   - **DAC premium:** For local preferred or storage resources in DAC areas as defined, some administratively-set percentage premium could be applied to such shown resources. This could be reflected in some administratively-set calculation of the pollution burden faced by DAC customers, particularly from local criteria pollutants, which have yet to be adequately reflected in a systematic fashion in the IRP or RA settings.

   - **GHG emissions reduction premium:** For local preferred or storage resources that are already being modeled as needed in the IRP to reduce GHG emissions and local pollutants, the GHG mitigation price from the IRP models for the applicable planning year should be factored into the premium applied to shown resources.

   - **Market power mitigation premium:** For certain constrained areas with major market power issues, some premium could be applied to new local preferred or storage resources that mitigate these market power impacts with the addition of new supply resources. This premium would recognize the value provided by new-build resources that face disadvantages in the CPE RFO (compared to existing, already built and depreciated resources) due to the cost of new entry of resources.
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.**

CESA agrees that premiums should protect market-sensitive information. One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class. For example, energy storage resources as an asset class may have common premiums that are broadly applicable to all project types, with differences depending on whether they are hybridized with generation, interconnected in front of the meter or behind the meter, or reflect a technology with different performance capabilities. Even with these base assumptions of a resource class, however, the premiums should be customizable to reflect the specific project value and benefits. A one-size-fits-all premium may undercut the incremental value-add of certain projects. CESA looks forward to discussing whether and how any customizable premium could be considered.

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.**

The compensation mechanism should not preclude an LSE from both bidding or showing a resource. CESA agrees that overlaying both of these mechanisms is complex and not preferable, but the compensation mechanism and bid evaluation criteria should generally mirror each other. As CESA understands it, the major difference between bidding or showing a resource depends on the resource effectiveness in meeting the local need, which determines whether a resource warrants 1-for-1 crediting. Even with resource effectiveness factors published in the CAISO’s Local Capacity Technical Report, the effectiveness of many resources will not be able to be ascertained until an actual resource portfolio is constructed and aggregated from the CPE RFO bids. For example, in certain constrained local areas, the resource effectiveness of energy storage will not be known in advance of the RFO until all eligible resources are submitted as bids in the RFO and sufficient generation is made available in the resulting portfolio. A generation-heavy portfolio from one LSE may then address the charging limitations of a storage-heavy portfolio from another LSE. Precluding an LSE from both bidding and showing options in order to claim the compensation mechanism would thus be unreasonable and not lead to the identification of the least-cost best-fit portfolio, as directed by D.20-06-002.
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.**

Unless substantiated otherwise, CESA opposes a year-to-year adjustment to the local compensation mechanism. None of CESA’s proposed premiums suggested for inclusion in the LCR reduction compensation mechanism are subject to change over time. Meanwhile, resource effectiveness considerations are already factored in the CPE RFO, which are run on a three-year forward basis such that any changes in resource effectiveness factors would determine whether a local resource is selected or just credited as a shown resource. CESA sees no need to add an additional changing variable in the local compensation mechanism, which only adds to the regulatory uncertainty of the Local RA value and compensation for a particular resource. Already, the CPE structure has introduced a significant level of uncertainty where new resources are not guaranteed to be selected as part of a least-cost best-fit portfolio in the long term.

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?**

CESA believes that many of the premiums added to the LCR reduction compensation mechanism should be mirrored in the bid evaluation criteria for the CPE RFO. CESA generally supports the selection criteria included in D.20-06-002 at 52-53 and adds further perspective on how the criteria could be enhanced:

- **Future needs in local and sub-local areas:** This is the criterion where CESA sees potential to link IRP-identified future long-term procurement needs with the short-term forward procurement of the RA Program. Depending on the scope and modeling conducted in the new IRP proceeding (R.20-05-003), CESA believes that this is an area where the specific GHG adder price identified in the Reference System Portfolio could be added to the evaluation of existing fossil generation versus new preferred resources. If the IRP is able to conduct such locational assessments, the GHG mitigation price identified in the IRP could be incorporated here as a benefit for preferred or storage resources. In the interim, the system-level GHG mitigation price for three years ahead could be used in the RFO in alignment with the three-year forward requirements for Local RA.

- **Local effectiveness factors:** CESA seeks clarification from the CAISO in terms of how energy durations and charging limitations would be assessed in the RFO and translated to a Local RA value, specifically as it applies to storage. For example, this criterion appears to introduce a deviation from the current RA counting conventions for storage where long-duration storage or storage hybridized with generation may have Local RA capacity
values and commensurate compensation that is not limited to the four-hour capacity convention for storage resources.

- **Resource costs:** This criterion is straightforward, so CESA has no further comment at this time.

- **Operational characteristics of the resources:** It is unclear how these characteristics will be reflected in the RFO in an administratively efficient fashion. Operational assumptions as identified in the IRP and as required under RA availability and performance obligations should instead be used to consider how resources may impact GHG emissions, reliability, etc.

- **Location of the facility:** As noted above, a premium should be attributed to preferred or storage resources that are located in disadvantaged communities.

- **Costs of potential alternatives:** This criterion is straightforward, so CESA has no further comment at this time.

- **GHG adders:** If the GHG mitigation benefits for future needs in local and sub-local areas (as noted above) is incorporated, this criterion may be duplicative. If not, then GHG adders should be added to the

- **Energy-use limitations:** To the degree that this criterion is duplicative of local effectiveness factors, particularly for energy storage resources, consideration of energy-use limitations may not be needed. Even for all other resources, energy-use limitations may be addressed in Track 3 proposals and should generally be reflected in the RA requirements for resources. Already, imports and certain demand response resources *(i.e., DRAM)* have some level of energy requirements that may be duplicative of this criterion.

- **Procurement of preferred resources and energy storage:** D.20-06-002 cites previous statutory language that makes clear that the loading order should be adhered to. Statutory changes pursuant to Senate Bill (SB) 1136 also sets this preference for clean RA resources. Some administratively-set “tolerance band” for bid prices *(e.g., 10%)* could be established to encourage the selection of preferred or storage resources, even if the net prices exceed existing fossil generation by a “minor” amount.

Given the above, CESA requests that the working group also come to agreement on the specific evaluation criteria to be used in the CPE RFO. A stakeholder process to assess and develop these criteria will play an important role in advancing the intent of the Commission decision to ensure local reliability but also to advance preferred resources in line with the state’s policy goals. Otherwise, CESA fears that the CPE RFO will be a black
box that makes it unclear to stakeholders on how and why certain resources were selected. Notably, one area of ambiguity in the decision is around how dispatch rights to the CPE, even as an optional term, will factor into bid selection.

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.

CESA does not have a response at this time but may offer comments in the future.

General Comments & Questions

D.20-06-002 presents a number of substantial changes to the Local RA procurement paradigm that has raised a number of questions among industry in terms of how this would impact existing contracts and future procurement. While the working group is tasked with developing an LCR reduction compensation mechanism, stakeholders may also benefit from level setting and establishing a common understanding of the CPE structure as a threshold matter. This exercise may streamline working group discussions.

1. The working group should consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective Local RA requirements.

D.20-06-002 at 27 explained that new local demand-side resources that are not integrated in the CAISO market would have its load impacts flow into the California Energy Commission (CEC) load forecast and thus reduce the overall local needs. CESA finds this problematic and significantly dilutes (if not eliminates) the incentive for any given LSE to develop load-modifying programs. Prior to this decision, CESA understands that the load forecast adjustment process was specific to an LSE. Instead of the decision’s approach discussed in “theory”, CESA recommends that the working consider how LSE-specific load adjustment processes can be maintained, which would in effect reduce the pro rata share of load that any given LSE would be subject to for the overall Local RA requirements. This is reasonable given that LSE-specific load forecasting is already done today and is not expected to change.
2. The working group should clarify and discuss the implications of the CPE buying all RA attributes if selected.

As CESA understands it, based on the 2019 working group report, resources that are bid and selected in the CPE RFO will count on a 1-for-1 basis to the collective Local RA requirements and would also count fully toward the system- or TAC-wide System and Flexible RA value for all applicable LSEs. While local attributes are the most valuable based on reported average prices, the purchase of all RA attributes by the CPE raises a number of questions and concerns. First, System and Flexible RA requirements are only needed on a one-year forward basis at this time, so it is unclear whether the CPE would be purchasing all RA attributes on a similar three-year forward basis as done for Local RA. Second, this would raise concerns about whether and how an LSE will be fully credited for procured for the purpose of System and Flexible RA. Clarifications on the impact to System and Flexible RA in the working group would be helpful.

Conclusion

CESA appreciates the opportunity to provide these informal comments and hope these responses are helpful. Please do not hesitate to reach out if you have any follow up questions or would like to discuss further.

Sincerely,

Jin Noh
Senior Policy Manager
California Energy Storage Alliance (CESA)
jnoh@storagealliance.org
California Efficiency + Demand Management Council Informal Comments on Issues Outlined on Pages 43-45 and in Ordering Paragraphs 5 and 6 of D.20-06-002

Introduction:

The California Efficiency + Demand Management Council (Council) respectfully submits these informal written comments on issues outlined on pages 43-45 and in Ordering Paragraphs 5 and 6 of Decision (D.) 20-06-002 (Decision on Central Procurement of the Resource Adequacy Program), issued in Rulemaking (R.) 17-09-020 (Resource Adequacy (RA)) on June 11, 2020.1 Interested parties were requested to provide informal written comments on various issues outlined in D.20-06-002.

Background:

The Council is a statewide trade association of non-utility businesses that provide energy efficiency, demand response, and data analytics services and products in California.2 Our member companies employ many thousands of Californians throughout the state. They include demand response (DR) and grid services technology providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and manufacturers of energy efficiency (EE) products and equipment. The Council’s mission is to support appropriate EE and DR policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

Informal Written Comments:

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?

Cost effectiveness of local resources should not be within the scope of the mechanism. It seems reasonable to expect that procurement of local resources by load serving entities (LSEs) would be done through competitive solicitations with the optimal products selected, so procured local resources should be cost-effective by definition. Also, adding a cost-effectiveness threshold to the mechanism could

1 The views expressed by the California Efficiency + Demand Management Council are not necessarily those of its individual members.
2 Additional information about the Council, including the organization’s current membership, Board of Directors, antitrust guidelines and code of ethics for its members, can be found at http://www.cedmc.org. The views expressed by the Council are not necessarily those of its individual members.
create an artificial bid cap and impinge on the procurement rights of LSEs by introducing a round of “second-guessing” of LSE procurement decisions and risk creating an incentive to simply procure the cheapest capacity rather than types of capacity that best conform with each LSE’s needs and best contribute to the State’s environmental goals. For instance, it may be cheaper in some instances for a CCA to procure fossil-fueled generation but procuring demand response (DR), energy storage, or renewables might be more aligned with its mission and would be more consistent with the Loading Order.

The only consideration of use limitations in the context of the mechanism should be to ensure compliance with the Maximum Cumulative Capacity (MCC) Bucket limitations for DR and other use-limited resources. Though the Council continues to believe that the current MCC Bucket regime is too restrictive for DR, it is in place to ensure that there is a sufficient amount of energy behind the capacity procured to meet RA requirements which is why the procurement of DR and other use-limited resources is limited. Therefore, any additional handicapping based on use-limitations would only be redundant with the procurement limitations enforced by the MCC Buckets.

The Council assumes that the use of the term, “local effectiveness”, refers to the effectiveness factors used by the CAISO in its Local Capacity Technical Studies. If so, considering effectiveness factor for DR resources would be particularly difficult because their size and constituent customer mix (and therefore geographic distribution within a subLAP) can be very dynamic. If the Commission has a different definition in mind for “local effectiveness”, further clarification is needed. In the meantime, the Commission should avoid further complicating what is already likely to be a very complicated process of getting the Central Procurement Entity (CPE) procurement process off the ground.

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)?**

   It may be beneficial to apply premiums to some resources to incentivize their procurement, or more appropriately in the context of the CPE model, avoid disincentivizing their procurement. Though D.20-06-002 made clear that procurement of preferred resources should be a priority, whether that will result in additional preferred resources being procured remains to be seen.

   Factors on which to base a premium can be resource location, resource type (especially preferred resources), or operational characteristics. A good example is preferred resources located in disadvantaged communities (DACs) that can reduce the need to dispatch fossil-fueled generators, or any type of resource located in a particularly constrained area or sub-area. In addition, premiums could be applied to ensure that preferred resources are considered on a level the playing field with fully-depreciated gas-fired generation.

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?**

   Premiums should be as transparent as possible if they are to effectively incentivize the desired outcomes. From a conceptual standpoint, market actors cannot make an informed decision on whether to put forth a product if its value is not reasonably known. Similarly, each CPE’s least cost, best fit
methodology used in their respective procurement processes should be as transparent as possible to ensure that resource providers can develop the products of greatest value.

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?**

   The Council has no comment on this question but reserves the right to comment in the future.

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?**

   The Council has no comment on this question but reserves the right to comment in the future.

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?**

   Both qualitative and quantitative criteria should be considered. Consistent with D.20-06-002, preferred resources should be favored over fossil-fueled resources and certainly not disadvantaged. One aspect of this is ensuring that preferred resources are fairly compared to existing, fully-depreciated gas resources on a cost basis. In addition, there should be greater consideration given to low- or zero-emission resources to reflect their additional value in meeting the State’s environmental goals.

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.**

   The Council has no specific recommendations on this issue at this time.

Sincerely,

Greg Wikler  
Executive Director  
California Efficiency + Demand Management Council
Pursuant to the request of the California Community Choice Association and Pacific Gas and Electric Company (“PG&E”) dated July 6, 2020, PG&E provides the following informal comments on issues outlined on pages 43-45 and in Ordering Paragraphs 5 and 6 of Decision (“D.”) 20-06-002.

1. PAGE 43

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?

As PG&E has previously mentioned in the resource adequacy (“RA”) proceeding, local resources are not equally “effective” in meeting local area reliability needs. Local RA resources may be differentiated by a number of factors, including, but not limited to, energy-limitations deliverability, availability, and dispatchability for the California Independent System Operator Corporation (“CAISO”), based on the specific local area load profile and limited transmission capability and the CAISO’s local effectiveness factors for differing contingencies. To address resource “effectiveness” concerns, load serving entities (“LSEs”) that voluntarily show local resources should only be compensated for resources that either have been demonstrated to meet up-front eligibility requirements or have an effectiveness adjustment applied to the net qualifying capacity (“NQC”) of the voluntarily shown resource. The following is a non-exhaustive list of potential up-front eligibility requirements for consideration by the working group: (1) the resource must be a preferred resource or an energy storage resource, (2) the resource must be category 2 or greater under the California Public Utilities Commission’s (“Commission”) Maximum Cumulative Capacity construct, and (3) the resource must be available to self-schedule and/or economically bid, at a minimum, during the availability assessment hours. These requirements have been previously discussed and vetted in the RA proceeding and provide a reasonable approach to ensure that a proposed compensation mechanism appropriately values “effective” resources while addressing energy-limitation concerns in meeting local area reliability needs.

Additionally, the central procurement entity (“CPE”) should demonstrate that selection of a voluntarily shown resource reduces total customer costs compared to the costs of local procurement if that resource had not been voluntarily shown by an LSE. Specifically, that resource must displace procurement of more expensive local RA capacity. For example, consider a scenario in which a single resource that costs $10 is needed in a sub-local area with a $5 local premium. If an LSE invests in a preferred resource in that sub-local area that does not meet the full local area reliability need and elects to show that resource, customers should not be

required to pay both the $5 local premium for the preferred resource and the $10 cost of the needed resource; the CPE should only procure the $10 resource in that case.

2. PAGE 44 & ORDERING PARAGRAPH 5

a. 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);

**Locational Granularity.** PG&E believes it will be difficult to balance the objective of sending the right market signal to ensure development of preferred resources in the most constrained areas with the objective of mitigating market power impacts. Ideally, the proposed compensation mechanism would be calculated for each sub-local area; however, given there is likely substantial market power at the sub-local area level, it is more likely the local premium would reflect that market power. PG&E does not have a solution to this issue at this time but notes the complexity here.

If the primary objective is to ensure the development of preferred resources in locally constrained areas, the proposed compensation mechanism should be as granular as the sub-local areas (e.g. the Moss Landing/South Bay sub-local area in the Greater Bay Area local capacity area (“LCA”)). This level of granularity is aligned with how the CAISO reviews and evaluates the effectiveness of the local RA resources to meet the applicable Local Capacity Technical Study criteria as required by CAISO Tariff Sections 43.2.1.1 and 43.2.2 and how the CAISO identifies collective local capacity deficiencies among the service territories of the respective investor-owned utilities.

Establishing a local premium at an aggregated level such as the individual LCA (e.g. Fresno or even the aggregated Other PG&E Area) is not likely to incent the development of preferred resources in locally constrained areas and help California transition from carbon emitting resources in local areas consistent with state policy goals. For example, the Fresno LCA has 2,950 megawatts (“MW”) of available capacity to meet an LCA requirement of 1,694 MWs for 2023. However, there remain multiple sub-local areas (e.g. Coalinga, Panoche, Reedley) that do not have sufficient available capacity, have not experienced the development of preferred resources or energy storage resources in recent years or will continue to rely on carbon emitting resources absent new development. Here, an aggregated level local premium would distort the market signal and overcompensate for less constrained areas within the Fresno LCA.

However, PG&E is concerned that, if the proposed compensation mechanism is based on observed prices, a granular local premium could also be inflated due to market power or gamed. This would over-compensate voluntarily shown resources developed in those areas, resulting in harm to customers. As noted in the CAISO Department of Market Monitoring’s 2019 Annual Report on Market Issues & Performance, several LCAs are not competitive: “The North Coast/North Bay, Sierra, Stockton, LA Basin, and San Diego/Imperial Valley local areas are not
structurally competitive because there is at least one supplier that is pivotal and controls a significant portion of capacity needed to meet local requirements.”

**Technology Granularity.** The proposed compensation mechanism for voluntarily shown resources should reflect the contribution of a resource type to local area reliability. A 4-hour duration battery should not be paid the same local premium as an 8-hour duration battery, nor should a solar resource be paid the same local premium as a solar-plus-storage (battery) resource since there are differentials in how much each of these contributes to local area reliability. Ensuring that the payment to voluntarily shown resources reflects its contribution to local area reliability will incent investment in the resource types that are most “effective” at meeting the reliability needs of a particular LCA or sub-local area. As PG&E mentioned above, an adjustment should be applied to the NQC of the voluntarily shown resource to account for the “effectiveness” of that resource.

b. 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;

PG&E understands that publishing transparent local premiums would provide the best market signal for LSEs investing in local preferred resources. However, publication of prices could be problematic two ways: (1) if the local premium is based on observed prices and published at a very granular level (e.g., sub-local area), then market-sensitive bid information could be revealed and (2) publication may influence the behavior of bidders in a way that harms customers, particularly if a large volume of local resources are voluntarily shown. For example, consider an area with a local premium of $5. Any needed resource in that area may continue to bid above $5, and less “effective” resources would be incented to bid just under $5 even if they would ordinarily bid $3. This is because the market participant would effectively know the bids of all voluntarily shown resources in the area. PG&E believes it is possible that many LSEs will elect to voluntarily show resources because they are interested in retaining the system and flexible attributes. While the CPE may be able to monitor for and detect egregious examples of manipulative behavior, it is unlikely to be able to completely mitigate for it.

Potential options for mitigating these concerns include publishing aggregated data upfront and more granular data after a sufficient period of time has passed or publishing rankings (e.g., highest value area to lowest) or tiers with ranges (e.g., top five local premiums include these areas and are between $5 and $7). Aggregation of local premiums would also lesson these impacts but would send less precise market signals as noted above.

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c. 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;

As part of the CPE’s solicitation process, PG&E believes that an LSE should be allowed to either: (1) voluntarily show the resource for a local premium or (2) both bid and voluntarily show the resource for no local premium. In other words, if an LSE would like the voluntarily shown resource to be eligible for the proposed compensation mechanism, the LSE cannot select the option to both bid and voluntarily show the resource as part of the CPE’s solicitation process. Allowing a bid and show for a local premium option would incent bidding at high prices behavior for LSEs that are willing to accept a lower local premium.

d. 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.

Local RA capacity requirements are based on the CAISO’s local capacity technical studies and the CAISO ultimately determines whether the capacity procured by LSEs or, in the future, the CPE meets local area reliability needs or requires backstop. For example, in the CAISO’s 2021 Local Capacity Technical Study Report, CAISO conducted an analysis on estimated maximum limits on the amount of energy storage resources that can be deployed to displace other local area resources. The estimated maximum limits are based on LCAs and sub-local areas having limited transmission capability and, therefore, must rely on internal local resources to be available to reliably provide energy to serve local load or potential increases to local load during the charging cycle for energy storage. As a result, there is likely diminishing return once the estimated maximum limits are exceeded absent an increase in transmission capability, changes in the local load or changes to the transmission configuration, among other things. Therefore, any effectiveness adjustment to local premiums should reflect the assumptions and findings of the most recent CAISO Local Capacity Technical Study Report.

3. PAGES 44-45

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?

PG&E does not have informal comments on this issue at this time.
4. ORDERING PARAGRAPH 6

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.

PG&E believes that it is reasonable for the Commission to consider proposals for legacy treatment of existing contracts that were procured to meet an LSE’s local RA requirements prior to the consideration of a centralized procurement framework for local RA resources. PG&E notes that legacy treatment of existing contracts should not be afforded to contracts for local resources that were procured outside of that LSE’s transmission access charge ("TAC") area (e.g. a northern California LSE that procured a resource within a southern California LSE’s TAC) as those resources were not procured by the LSE to meet local RA requirements but were likely procured to meet the LSE’s system RA requirements.

Below, PG&E provides suggested parameters within which a local resource should be deemed to be “existing” for purposes of legacy treatment and how long the legacy treatment should be applied.

Any proposed legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired, prior to the date of issuance of D.19-02-022, March 4, 2019. This date effectively represents the date the Commission affirmed its intent to adopt a centralized procurement framework for local RA resources and the possibility that LSEs may no longer have a procurement obligation for local RA.

PG&E does not support any proposal for legacy treatment that would be applied for the full term of an existing contract or the life of an existing owned resource.
The Public Advocates Office’s Informal Comments
on the Treatment of a Local Capacity Requirement Reduction Compensation Mechanism

R.17-09-020 (RA) and R.19-11-009 (RA)
July 20, 2020

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<thead>
<tr>
<th>Submitted by</th>
<th>Organization</th>
<th>Date Submitted</th>
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</thead>
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<tr>
<td>Patrick Cunningham</td>
<td>Public Advocates Office - California Public Utilities Commission</td>
<td>July 20, 2020</td>
</tr>
<tr>
<td>Public Utilities Regulatory Analyst</td>
<td>505 Van Ness Avenue San Francisco, CA 94102</td>
<td></td>
</tr>
<tr>
<td>Kyle Navis</td>
<td>Public Advocates Office - California Public Utilities Commission</td>
<td></td>
</tr>
<tr>
<td>Public Utility Regulatory Analyst</td>
<td>505 Van Ness Avenue San Francisco, CA 94102</td>
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INTRODUCTION

Decision (D.) 20-06-002,¹ issued in the California Public Utilities Commission’s (Commission) predecessor resource adequacy (RA) proceeding, Rulemaking (R.) 17-09-020, directs the California Community Choice Association (CalCCA) and either Pacific Gas and Electric Company (PG&E) or Southern California Edison Company (SCE) to co-lead a working group to develop a local capacity requirement (LCR) reduction compensation mechanism. On July 6, 2020, PG&E sent an email to the service list of R.17-09-020 and the current RA proceeding, R.19-11-009, providing notice of the working group co-leads (CalCCA and PG&E) and a schedule for the working group activities authorized in D.20-06-002. The July 6, 2020 email requests parties to submit informal comments to the RA service lists on July 20, 2020 regarding a series of questions on the development of a LCR reduction compensation mechanism.

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits the following informal comments in response to questions on the development of a LCR reduction compensation mechanism.

**BACKGROUND**

D.20-06-002 adopted a Central Procurement Entity (CPE) to procure local RA in the PG&E and SCE Transmission Access Charge (TAC) areas. D.20-06-002 adopted a “hybrid” procurement model that allows load-serving entities (LSEs) to 1) sell their local RA capacity to the CPE, 2) utilize a resource for their own system and flexible RA requirements, or 3) voluntarily show the resource to both meet their own system and flexible RA requirements and also reduce the amount of local RA the CPE will need to procure for the area.\(^2\) Under the third option, the LSE would not sell the capacity to the CPE; rather, the capacity would be shown to exist and would be used to meet the local RA requirements wherever the capacity is located. Moreover, under the third option, the LSE would not receive a one-for-one credit as if it had sold the capacity to the CPE.\(^3\)

In response to comments on the proposed decision, D.20-06-002 also stated that “[t]he Commission will develop an LCR reduction compensation mechanism, if details can be assessed and developed” in a future decision.\(^4\) The Commission called for a working group to consider an LCR reduction compensation mechanism which may provide a financial credit for preferred\(^5\) and energy storage resources.\(^6\) An LCR reduction compensation mechanism may\(^2\) essentially create a pre-determined premium adjusting how the CPE values and pays for a local preferred resource or energy storage resource that is offered to the CPE by an LSE.

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\(^2\) D.20-06-002, p. 23.

\(^3\) Since the CPE procures local RA to meet requirements and shares that costs to all LSEs in the local area, Option 3 would only reduce a single LSE’s costs proportional to their share of the net costs that were reduced by showing, but not selling, the local RA capacity. (D.20-06-002, pp. 23-24.)

\(^4\) D.20-06-002, p. 43.

\(^5\) Cal Advocates notes that “preferred resources” is not defined in D.20-06-002 but assumes the same definition defined in the State’s Energy Action Plan II, October 2005, p. 2: energy efficiency, demand response, renewable resources, distributed generation.

\(^6\) D.20-06-002, p. 42.

\(^2\) The precise nature of the mechanism is yet to be determined as no proposal for its design has been presented.
A working group meeting is tentatively scheduled for July 27, 2020 to discuss proposals and consider stakeholder informal comments.

**DISCUSSION**

Cal Advocates provides the following comments in response to the questions identified in the July 6, 2020 email from the working group co-leads.

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?**

   The mechanism should not include any value if the resource is unable to provide local RA capacity. The CPE will only procure the local RA attributes of an offered resource in solicitations.\(^8\) The effectiveness and ability of a resource to provide those local RA attributes should match or exceed the requirements of the Commission and/or California Independent System Operator (CAISO) that qualify specific technologies’ ability to count as local RA. The mechanism should not give any value to a resource that does not provide local RA with respect to regulatory standards. The mechanism also should not provide a higher premium for particularly effective resources because local RA capacity is agnostic of effectiveness beyond the requirements to qualify as local RA. Exceptionally effective resources are already compensated in the CAISO markets through their ability to provide flexible capacity, residual unit capacity, or ancillary services, and may also be used to meet non-RA requirements like Renewable Portfolio Standards (RPS) compliance amounts, and Assembly Bill (AB) 2514 energy storage compliance volumes.\(^9\)

2. **Should different premiums be developed for different types of preferred resources (e.g., for different types of resources, new versus existing resources, and/or for sub areas, individual local areas)?**

   If an LCR reduction compensation mechanism is adopted, there should be pre-determined premiums calculated for each resource technology type, similar to how production and investment tax credit rates have been set differently for solar and wind resources. This may allow the Commission to value different technologies depending on their suitability to meet state

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\(^8\) Other attributes like flexible RA are credited back to the Seller, no energy is transacted, and dispatch rights are optional and have a means of recovery. (D.20-06-002, Ordering Paragraphs 8 and 19.)

\(^9\) Public Utilities Code Section 9620(c).
climate change goals and provide incentives to specific technologies which can best meet the state’s goals.

3. **How should the premiums be made as transparent as possible?**

   If a mechanism is adopted, the Commission should post the premium rate(s) to the service list and include them in both its annual Resource Adequacy Report and the annual Final RA Guide. This may not be feasible if a premium is created for each unique resource since it may be calculated depending on market sensitive resource information.

4. **Should the compensation mechanism 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?**

   Cal Advocates has no response to this topic at this time.

5. **How should the local compensation from year to year be adjusted to account for changes in the effectiveness of the resource reducing the local requirements?**

   The premium should be a rate based on the net qualifying capacity (NQC) of the resource. This rate would allow the total payout of the premium to increase or decrease as the NQC is adjusted year to year. While the NQC may not capture the entire scope of a resource’s “effectiveness,” it is the primary expression of a resource’s local RA capacity value and is being used by the LSE and/or CPE to meet local RA requirements.

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?**

   Cal Advocates has no response to this topic at this time.

7. **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.**

   Cal Advocates has no response to this topic at this time.
CONCLUSION

The Public Advocates looks forward to attending the LCR Compensation Mechanism working group meeting tentatively scheduled for July 27, 2020 to discuss proposals and consider stakeholder informal comments on these issues.

Please contact Patrick Cunningham at Patrick.Cunningham@cpuc.ca.gov or 415-703-1993 with any questions regarding these comments.
Southern California Edison Company’s Informal Comments Regarding Local Capacity Requirement (LCR) Reduction Compensation Mechanism and Existing Contracts
July 20, 2020

Southern California Edison Company (SCE) appreciates the opportunity to submit informal comments on issues related to a potential LCR reduction compensation mechanism and treatment of existing resource adequacy (RA) contracts as outlined in Decision 20-06-002 (Final Decision). The comments below address the questions set forth in the July 6, 2020 email of the Working Group co-leads.

1. **Page 43: 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?**

   SCE understands this question is intended for new resources, given that Question #4 below explicitly addresses whether any proposed mechanism should be applied to existing contracts. With this understanding, new resource development should be addressed in the Integrated Resource Planning (IRP) proceeding and other applicable proceedings (e.g., Renewables Portfolio Standard) that address new resource development and procurement. The Final Decision recognizes that local preferred resources will be developed without a financial credit mechanism, stating:

   
   
   [W]e believe the [investor-owned utility (IOU)] acting as the [central procurement entity (CPE)] allows for development of local preferred resources, even without a financial crediting mechanism. This is especially true for locally constrained areas that involve transmission solutions, such as recent successful centralized procurement by IOUs in the Moorpark/Santa Clara and Moss Landing/South Bay sub-local areas…. [A] hybrid model does not disincentivize procurement of local resources because [load-serving entities (LSEs)] procure local resources for many reasons beyond the local RA value.¹

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¹ Final Decision at 40-41.
Therefore, SCE recommends the starting point to answering this question should be to recognize that the IRP proceeding and other applicable proceedings are the appropriate venues for discussion of new resource development, which is a responsibility that applies to all LSEs.

Nevertheless, there are various questions and issues that should be considered in evaluating a potential LCR reduction compensation mechanism. First, it can be difficult to determine the local RA value of a new resource in advance of CPE procurement due to market dynamics and the timing of procurement (e.g., one to three years ahead and for new resources, with a likely term of 10-20 years even if the CPE only contracts with the LSE for a shorter time frame). An LCR reduction compensation mechanism would need to ensure the local RA premium is pre-determined, as required by the Final Decision, to mitigate market power concerns. The mechanism would also need to ensure that the pre-determined premium represents a reasonably accurate local RA value for the resource, consistent with the market conditions at the time when the CPE procurement is actually conducted.

Second, when local effectiveness of a resource is considered, it can be difficult to pre-determine the local RA value since the effectiveness factor can vary year-by-year, depending on the portfolio of resources included in the local study that determines the local need. Third, while the resource may be needed for a local area currently, the need may change in the future; therefore, it can be inappropriate to compensate a resource at a pre-determined premium when the need does not exist or decreases in the future years, unless the pre-determined premium is tied to the market conditions at the time of the resource’s actual contribution to the local RA need (which again can be difficult when the premium is pre-determined).

Finally, it should be evaluated whether the California Independent System Operator (CAISO) would need to provide the information on effectiveness factors and the value of use-limited resources in meeting a local area need in its LCR studies. This information would be

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2 SCE utilizes the term “premium” to denote the value of a resource meeting a local area need that is above the value of a resource not meeting the local area need (i.e., the difference in value between local and system RA).

3 See Final Decision at 42.
needed to derive a pre-determined local RA premium tailored to the effectiveness and use limitations of the resource. During workshops related to the topic of effectiveness factors, the CAISO indicated that effectiveness is not something that can be determined \textit{a priori}. Rather, effectiveness is determined by the fleet of resources available and the contingencies that the fleet meets. Based upon these factors, creating a pre-determined local premium that accounts for effectiveness may be a difficult, if not impossible, task. Such a premium may be determined after-the-fact but would then not be able to inform the procurement decision of the CPE during their solicitation, and would be inconsistent with the Final Decision.

2. **Page 44 & Ordering Paragraph 5:**

   a. \textbf{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)?}

   As noted above, the premium should reflect the actual contribution to the local RA need of a resource and market conditions. When different types of preferred resources have the same contribution, then their premium should be the same; in other words, the premium should be on a MW-basis for preferred resources, new or existing. On the question of whether there should be different premiums for sub-areas, individual local areas, or Transmission Access Charge-wide local areas, such granularity should consider, and very likely depend on, data availability and the robustness of the data that report historic RA prices for these areas.

   b. \textbf{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?}

   SCE strongly agrees that transparency and potential market sensitivity of the premiums should be considered. The transparency of the premiums would depend heavily on the data used
to determine the premiums. If such data are based on the public Commission RA Reports, which are published annually, then the transparency issue is addressed because those reports contain aggregated data that remove market-sensitive information. If such data are based on some other sources, then those sources should be evaluated to ensure the desired level of transparency can be provided while appropriately protecting market-sensitive information.

c. 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?

Given the complexity of the iterative process and the potential interaction between the iterative process and the compensation mechanism, SCE recommends that this topic be discussed in workshops. In particular, the workshops must examine the potential for gaming of bids based upon known minimum premium values and the resultant efficiency of the procurement process.

d. 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?

The answer to this question would depend on the details of the mechanism and specifically, how the effectiveness of resources is considered in deriving the premium. For instance, if the premium is based on the CPE procurement costs, which may account for the effectiveness of resources in its bid selection (assuming the resource is selected by the CPE), then the changes in the effectiveness of resources may already be incorporated in deriving the premium. Since the purpose of compensating a resource at a local premium is to ensure the resource is contributing to meeting a local RA need, the question implies that any resource that receives the local RA premium will be picked up by the CPE. However, not all resources will be picked up by the CPE. This may happen for several reasons. The CPE is anticipated to conduct its procurement in consultation with the CAISO to evaluate effectiveness of the procured fleet. It is therefore possible that the effectiveness of the shown resource seeking the fixed local
premium payment is so ineffective that it does not eliminate other procurement and as such, the payment of the premium becomes excess procurement by the CPE. It is also possible that another equally effective resource is offering to sell its RA to the CPE, which would include system and flex in addition to the local attribute. If the price of this resource is very near the fixed price premium, customers would be better off to procure the resource with the system and flex attributes rather than pay the premium and receive only the local RA attribute. These issues should be discussed in the workshops.

3. **Pages 44-45: 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?**

SCE recommends this question be addressed in the area of CPE implementation as it relates to the bid selection process and bid selection criteria. This question addresses how the CPE will fairly implement the least-cost, best-fit procurement criteria. It addresses differences between gas and renewable resources as a general matter and is not focused on the premium of a local resource over system resources.

4. **Ordering Paragraph 6: 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.**

SCE proposes that the LCR reduction compensation mechanism should apply to only those existing resources signed before the issuance date of the Proposed Decision on Central Procurement of the Resource Adequacy Program, which was issued in R.17-09-020 on March 26, 2020. For contracts that are signed after this date, contracting parties would have known the potential of the central procurement of local RA, which has been a part of the scope of the RA proceeding for some time. Indeed, the Commission first determined that central
procurement of local RA was needed almost two years ago in its Track 1 decision, finding that “we believe that a central buyer system - for at least some portion of local RA - is the solution most likely to provide cost efficiency, market certainty, reliability, administrative efficiency, and customer protection.”

The LCR reduction compensation mechanism for new resources could apply to contracts signed prior to the proposed decision; therefore, this limitation is only for local RA contracts with existing resources. Local RA contracts with existing resources would likely have been signed for three- to five-year durations. As such, SCE proposes that the payment of an LCR reduction compensation mechanism for existing resources should be for up to a five-year term length.

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4 Decision 18-06-030 at 32.
July 20, 2020

INFORMAL COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY REGARDING THE WORKING GROUP ON THE LOCAL CAPACITY REQUIREMENT COMPENSATION MECHANISM AND TREATMENT OF EXISTING CONTRACTS (R.17-09-020 & R.19-11-009)

San Diego Gas & Electric Company ("SDG&E") appreciates this opportunity to provide informal comments regarding the Working Group on the Local Capacity Requirement ("LCR") Compensation Mechanism and Treatment of Existing Contracts. Pursuant to Decision ("D.") 20-06-002, the Commission authorized a working group to “develop [an LCR] reduction compensation mechanism that properly compensates load-serving entities for shown local preferred and energy storage resources.”¹ The Commission further directed that “[t]he working group . . . 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.”² The Commission also made clear that it “is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts).”³

Thus, SDG&E understands the LCR reduction compensation mechanism ("Mechanism") to apply to only three categories of shown resources:

1. All energy storage;
2. All preferred resources; and
3. Grandfathered contracts of existing fossil fuel resources.

For Categories 1 and 2, resources self-procured and shown by a load serving entity ("LSE") should receive a premium payment regardless of when the resource was or will be procured. However, Category 3 resources must be existing fossil fuel resources and contracts must be executed prior to a specific date. SDG&E proposes that grandfathered contracts be required to have a contract execution date prior to, June 11, 2020, the date D.20-06-002 was adopted. Similarly, for fossil fuel resources that are owned and not contracted by an LSE, including those owned by an Investor Owned Utility ("IOU"), the Commission should require the resource to have an approval date or online date prior to June 11, 2020.

¹  D.20-06-002, Ordering Paragraph 5.
²  Id. at Ordering Paragraph 6.
³  Id. at p. 43.
Local Premium

The Commission seeks feedback regarding “[h]ow 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).” The Commission uses the term “premium” because when LSEs show local resources, LSEs retain the system and flexible RA attributes, whereas when the LSE offers and sells the RA attributes to the central procurement entity (“CPE”), it does not retain any RA attributes. Therefore, the LSE is only “showing” the Local RA attribute while keeping all other attributes and products associated with the Local resource. SDG&E proposes that all resource types in the three categories of shown resources receive the same premium rather receiving than technology-specific premiums. While SDG&E understands that each resource type has different capacity costs, SDG&E believes the complexity of developing individual premiums for the various types of resources in either sub-areas or local areas makes this task infeasible.

In order to calculate the premium, the CPE would need to compare the prices of Local RA and System RA attributes in order to determine the Local premium. SDG&E proposes that the CPE utilize the relevant Power Cost Indifference Adjustment (“PCIA”) System RA Market Price Benchmark (“MPB”) for its area, either NP-15 or SP-15 for the compliance year. The System RA MPB is typically available in November prior to the compliance year. SDG&E suggests consideration of the weighted average price of Local resources that were contracted by the CPE for the compliance year. This means that the CPE must identify the specific cost related to RA capacity procured if it procured other attributes, such as Flexible RA or energy tolling. This is necessary to ensure an apples-to-apples comparison. Another approach would be to use the PCIA Local MPB, however it is unclear how the CPE procurement of Local resources will impact the PCIA Local MPB calculation. Therefore, in the interim, SDG&E recommends using prices relevant to CPE procurement. SDG&E believes that both values can be made publicly available in November after the CPE has finished its procurement along with the publication of the annual PCIA MPBs.

While it may be the case that advance knowledge of the premium value could factor into an LSE’s decision to show or offer, SDG&E does not believe that advance knowledge is necessary since LSEs would still be able to show the resource if the offer is not selected by the CPE. In this sense, the LSE does not lose any optionality in maximizing value for its customers.

Effectiveness Factors

Decisions regarding effectiveness factors should be guided by the California Independent System Operator (“CAISO”) and the annual Local Capacity Technical Study (“LCTS”). It may be possible to incorporate each resource’s effectiveness factor into the Mechanism. However, to the extent the methodology is too complex, SDG&E offers a simple alternative until a more precise methodology can be adopted. SDG&E proposes that the effectiveness factors for all shown resources be calculated based on the percentage resulting from the local or sub-area LCR divided by the total amount of capacity shown and CPE procured capacity. For instance, if the

\[ \text{Effectiveness Factor} = \frac{\text{Local or Sub-Area LCR}}{\text{Local or Sub-Area LCR} + \text{CPE Procured Capacity}} \]

4 Id. at p. 44.
LCR is 100 MWs and 40 MWs were shown by LSEs, and 80 MWs were procured by the CPE, the percentage would be 100 MW / 120 MW, or 83.33 percent. LSEs that showed the total of 40 MWs would receive a credit of approximately 33.33 MWs, assuming that all volumes were within one of the three categories listed above. This method could be further modified to also incorporate any backstop procurement performed by the CAISO during the year ahead process, such as capacity procurement mechanism or reliability must run (“RMR”) contracts.

**Duration**

SDG&E proposes to allow LSEs to show Local RA resources annually on a three rolling year basis. Although LSEs may have shown or offered Local RA resources for a three-year period, changes to the LCR, particularly increases, will require additional capacity for the next three-year period. As CPE procurement moves into future years, additional years will need to be procured or shown by LSEs. LSEs should have the opportunity to show additional resources not shown or procured by the CPE previously. Under SDG&E’s proposal, shown local RA capacity is committed for a period of up to three years. There would not be a process to decommit a resource except for certain reasons, such as resource retirements or force majeure. If an LSE sells its shown Local RA to another LSE, it must notify the CPE so that the CPE can validate that all shown RA resources continue to be shown even by the new LSE.

SDG&E does not propose a separate rule for grandfathered contracts. However, SDG&E is not opposed to a one-time election for grandfathered contracts in which the grandfathered contracts would be committed for the term of the contract which may exceed the rolling three-year Local RA program.

**Cost Allocation**

The premium associated with the shown local RA capacity would reduce the costs allocated to the LSE by the CPE for the procurement. This means that the CPE must collect the premium from LSEs in order to remain balanced. For example, in the example below, CPE procurement results in $5,000,000 of cost for 2023 in a Local area. The shown RA Premium is $10/kW-year. Each LSE and IOU has their respective load ratio shares as well as their shown RA which totals to 360 MWs and a calculated premium of $3,600,000. If the CPE were to net out the premium payments from that of the CPE procurement from each LSE, the CPE would only collect $1,400,000 from all LSEs and would not have sufficient funds to pay for the original CPE procurement of $5,000,000. This example is illustrated in Table 1 below.

---

5 This example uses a simplified assumption that all shown RA volumes are 100 percent effective. To the extent shown RA volumes do not all qualify for the Mechanism, or the effectiveness is not calculated to be 100 percent, the volumes would be impacted as well as the total premium that would be collected and netted.
### Table 1

<table>
<thead>
<tr>
<th></th>
<th>LSE A</th>
<th>LSE B</th>
<th>LSE C</th>
<th>IOU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Load Ratio</td>
<td>10%</td>
<td>20%</td>
<td>15%</td>
<td>55%</td>
<td>100%</td>
</tr>
<tr>
<td>Shown RA (MW)</td>
<td>100</td>
<td>50</td>
<td>10</td>
<td>200</td>
<td>360</td>
</tr>
<tr>
<td>Shown RA Premium</td>
<td>$1,000,000</td>
<td>$500,000</td>
<td>$100,000</td>
<td>$2,000,000</td>
<td>$3,600,000</td>
</tr>
<tr>
<td>CPE Procurement Cost Allocation</td>
<td>$500,000</td>
<td>$1,000,000</td>
<td>$750,000</td>
<td>$2,750,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>CPE Costs to be collected</td>
<td>($500,000)</td>
<td>$500,000</td>
<td>$650,000</td>
<td>$750,000</td>
<td>$1,400,000</td>
</tr>
</tbody>
</table>

Based on Table 1 above, the shown RA premiums must also be collected from LSEs in order to ensure the CPE is able to pay for the CPE procurement. In this case, each LSE would receive their ratio share of the total CPE costs (including any premiums incurred). LSEs would then pay their ratio share of the total cost less any premium for their shown resources. If an LSE’s premium exceeds its load ratio share of the total cost, the CPE would pay the LSE that amount from the funds collected. Table 2 below illustrates this concept.

### Table 2

<table>
<thead>
<tr>
<th></th>
<th>LSE A</th>
<th>LSE B</th>
<th>LSE C</th>
<th>IOU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Load Ratio</td>
<td>10%</td>
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<td>100</td>
<td>50</td>
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<td>200</td>
<td>360</td>
</tr>
<tr>
<td>Shown RA Premium</td>
<td>$1,000,000</td>
<td>$500,000</td>
<td>$100,000</td>
<td>$2,000,000</td>
<td>$3,600,000</td>
</tr>
<tr>
<td>Total CPE Costs with Shown RA Premium</td>
<td>$860,000</td>
<td>$1,720,000</td>
<td>$1,290,000</td>
<td>$4,730,000</td>
<td>$8,600,000</td>
</tr>
<tr>
<td>LSE cost allocation net of Premium</td>
<td>($140,000)</td>
<td>$1,220,000</td>
<td>$1,190,000</td>
<td>$2,730,000</td>
<td>$5,000,000</td>
</tr>
</tbody>
</table>

The annual LSE cost allocation net of the premium may change based on new effectiveness factors as well as new premium values.

SDG&E submits that the proposal above allows LSEs to receive appropriate compensation for their investments in self-procured local resources shown to the CPE.

***
Working Group Workshop on Local Capacity Requirement Reduction Compensation Mechanism and Treatment of Existing Contracts

Co-Leads: California Community Choice Association & Pacific Gas and Electric Company

July 27, 2020
# Agenda

<table>
<thead>
<tr>
<th>Topic</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction and Safety</td>
<td>10:00 AM</td>
</tr>
<tr>
<td>Procedural Background</td>
<td>10:05 AM</td>
</tr>
<tr>
<td>Workshop Goals</td>
<td>10:15 AM</td>
</tr>
<tr>
<td>Summary of Informal Comments</td>
<td>10:20 AM</td>
</tr>
<tr>
<td>Parties’ Proposals (PG&amp;E, CalCCA, SDG&amp;E)</td>
<td>11:00 AM</td>
</tr>
<tr>
<td>LUNCH BREAK</td>
<td>1:00 PM</td>
</tr>
<tr>
<td>Discussion</td>
<td>1:45 PM</td>
</tr>
<tr>
<td>Next Steps</td>
<td>3:45 PM</td>
</tr>
</tbody>
</table>
Procedural Background

• Resource Adequacy (RA) Central Procurement (CP) framework
  June 11, 2020 Decision (D.20-06-002)
  • Adopted a central procurement structure for local RA beginning with the 2023 RA compliance year
  • PG&E and SCE to act as CP entities (CPEs) in their respective Transmission Access Charge (TAC) areas
  • Authorized a working group (WG) to develop and assess proposals regarding:
    • A local capacity requirement (LCR) reduction compensation mechanism to compensate LSEs for shown local preferred and energy storage resources
    • Treatment of existing local RA contracts
    • CalCCA and either PG&E or SCE to be co-leads (PG&E will serve as a co-lead)
    • Proposals offered for consideration to be presented through a WG report
Workshop Goals

• Gain a shared perspective on the intent and boundaries of D.20-06-002
• Present party proposals and perspectives on compensation mechanisms for local RA and the treatment of existing local RA contracts
• Explore party proposal and perspectives to advance development of solutions
• Identify areas of consensus and non-consensus
• Establish next steps
Summary of Parties’ Informal Comments
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?

- CalCCA: Incorporated not through a price reduction, but into a technology-specific modification of the MW; CAISO should lead a stakeholder process to develop factors that could be used.
- CalIPA: The effectiveness and ability of a resource to provide those local RA attributes should match or exceed the requirements of the Commission and/or CAISO that qualify specific technologies’ ability to count as local RA.
- PG&E: Local resources are not equally “effective” in meeting local area reliability needs; Should only be compensated for resources that either have been demonstrated to meet up-front eligibility requirements or have an effectiveness adjustment applied to the NQC.
- SCE: Local effectiveness is determined by CAISO based on the fleet of resources available and the contingencies that the fleet meets; CAISO would need to provide the information on effectiveness factors and the value of use-limited resources in meeting a local area need in its LCR studies.
- SDG&E: Should be guided by the CAISO and the annual Local Capacity Technical Study.
- CESA: Favors an approach where the CPE RFO considers identifying multiple portfolios of bid and shown resources that, on one end, considers effectiveness as the binding, initial screening criteria and, on the other end, more heavily considers preferred attributes while ensuring effectiveness.
- Council: Cost effectiveness of local resources should not be within the scope of the mechanism.
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**: Price premiums would be differentiated by local areas, including the disaggregated “PG&E Other” areas, unless a higher level of aggregation were required to mask the price of individual resource prices.
- **CalPA**: There should be pre-determined premiums calculated for each resource technology type.
- **PG&E**: Ideally, the proposed compensation mechanism would be calculated for each sub-local area; Should reflect the contribution of a resource type to local area reliability.
- **SCE**: The premium should reflect the actual contribution to the local RA need of a resource and market conditions; The level of granularity should consider, and very likely depend on, data availability and the robustness of the data that report historic RA prices for these areas.
- **SDG&E**: Believes the complexity of developing individual premiums for the various types of resources in either sub-areas or local areas makes this task infeasible.
- **CESA**: Generally supports granularity of the LCR reduction compensation mechanism and proposed the following premiums for consideration (1) closer-to-load, (2) DAC, (3) GHG emissions reduction and (4) market power mitigation; A one-size-fits-all premium may undercut the incremental value-add of certain projects.
- **Council**: Factors on which to base a premium can be resource location, resource type (especially preferred resources), or operational characteristics or for resources located in DACs.
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

- **CalPA**: The Commission should post the premium and include them in both its annual RA Report and the annual Final RA Guide; This may not be feasible if a premium is created for each unique resource since it may be calculated depending on market sensitive resource information.
- **PG&E**: Potential options include publishing aggregated data upfront and more granular data after a sufficient period of time has passed or publishing rankings (e.g., highest value area to lowest) or tiers with ranges (e.g., top five local premiums include these areas and are between $5 and $7).
- **SCE**: The transparency of the premiums would depend heavily on the data used to determine the premiums.
- **CESA**: One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class.
- **Council**: Should be as transparent as possible to ensure that resource providers can develop the products of greatest value.
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:** LSE must chose to either bid or show
- **CESA:** LSE may bid and/or show
- **PG&E:** LSE may 1) voluntarily show a resource for local premium but may not bid or 2) bid and voluntarily show the resource for no local premium
- **SCE:** Due to complexity, recommends this be discussed in workshops evaluating gaming risk
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.

- **CESA**: Year-to-year adjustment to the local CM should not be established and may not be needed.
- **PG&E**: Any effectiveness adjustment to local premiums should reflect the assumptions and findings of the most recent CAISO Local Capacity Technical Study Report.
- **Public Advocate**: Premium would increase or decrease as NQC is adjusted year to year.
- **SCE**: Depends on details of the mechanism on how the effectiveness of resources is considered in deriving a premium.
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?

- **CESA**: CPE RFO evaluation criteria mirror the premium factors in the local CM, link to IRP-identified future long-term procurement needs in local or sub-local areas, adhere to the loading order and SB 1136

- **Council**: Both qualitative and quantitative criteria should be considered; preferred resources - favored over fossil-fuel resources and not disadvantaged, fairly compared to existing, fully-depreciated gas resources on a cost basis; greater consideration to low- or zero-emission resources in meeting State’s environmental goals

- **SCE**: Recommends to be addressed in the area of CPE implementation as it relates to the bid selection process and criteria
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**: Compensation mechanism adopted for preferred resources should be applied to existing contracts entered into by an LSE before June 11, 2020; not apply to fossil UOG, which will be required to bid into the solicitation.

- **PG&E**: Legacy treatment of LSE’s local RA existing contracts should be applied only to contracts executed, or owned resources that were acquired, prior to issuance of D.19-02-022(3/4/2019); not to local resources procured outside of the LSE’s TAC area; do not support being applied for the full term of an existing contract or the life of an existing owned resource.

- **SCE**: Apply to only those existing resources signed before the issuance of central procurement decision on 3/26/2020; for new resources it could apply to contracts signed prior to the PD, therefore limitation is only for local RA contracts with existing resources - up to a five-year term length.

- **SDG&E**: Do not propose a separate rule for existing contracts, but not opposed to a one-time election exceeding the rolling three-year Local RA program.
Additional Comments

- **AREM**: The ability for a LSE to receive a payment from the CPE must not result in over-procurement by the CPE with the over-procurement costs spread among all LSEs.
- **AREM**: The customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.
- **CalCCA**: Use of a median referent price, which is unaffected by high outliers in a price distribution.
- **CalCCA**: Recommends that resources be committed for a three-year term; Showing, like a successful bid, should be documented through a confirm.
- **SDG&E**: Shown local RA capacity is committed for a period of up to three years; No process to decommit a resource except for certain reasons, such as resource retirements or force majeure.
Party Proposals
Lunch Break
45 minutes
Discussion

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?

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);

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;

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; and

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.

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?

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.
Next Steps

• **Week of July 27** – Co-Leads to send a matrix to help WG participants to provide positions

• **August 3** – WG participants to provide informal comments on workshop and proposals, with the above matrix filled out

• **August 12** – Co-Leads to email Draft WG Report to WG participants for review

• **August 17** – WG participants to email comments on the Draft WG Report to Co-Leads

• **September 1** – Co-Leads to file Final WG Report on consensus and non-consensus items to CPUC

• **Q4 2020** – Proposed Decision (expected)
Workshop for July 27, 2020
Scope of the Working Group

Scope
The Commission will develop an LCR reduction compensation mechanism, if details can be assessed and developed

1. **LCR Reduction Compensation Mechanism (LCR-CM):** Appropriately compensates LSEs for shown local preferred resources

2. **Treatment of Existing Contracts:** Contracts that have been procured in anticipation of multi-year local obligations for 2023 and beyond, including consideration of whether any proposed LCR-CM should be applied to existing contracts

Out-of-Scope
- One-for-one credit
- CalCCA’s proposed financial credit mechanism (difference between weighted average price of CPE procurement and system average price)
- A credit mechanism for fossil fuel resources (other than potentially for existing contracts)
<table>
<thead>
<tr>
<th></th>
<th>The Compensation Mechanism Should...</th>
<th>Decision Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Incent preferred resource development in local areas</strong> to reduce dependence on fossil-generation for reliability</td>
<td>“[P]rovides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” (p. 41)</td>
</tr>
<tr>
<td>2</td>
<td>Reflect the <strong>effectiveness</strong> of a resource at meeting reliability requirements to prevent “leaning” by LSEs</td>
<td>“[C]onsiders local effectiveness factors and use limitations to the shown MW value would more closely align the financial compensation with the actual LCR MW reduction the resource provided.” (p. 42)</td>
</tr>
<tr>
<td>3</td>
<td><strong>Result in lower total costs</strong> to customers without sacrificing local area reliability</td>
<td>“[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) “[E]nsures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value...”(p. 43)</td>
</tr>
<tr>
<td>4</td>
<td><strong>Not be reflective of market power and/or introduce gaming opportunities</strong> but may reflect a “premium” based on the additional cost of developing resources in local areas</td>
<td>“[A]nother 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) “[E]nsures that ratepayers are: ....(2) only compensating LSEs for additional costs of procuring resources close to load rather than simply extending market power premiums to these LSEs.” (p. 43) “To the extent that market power inflates local area capacity prices, an ex post benchmark would exacerbate this problem by providing inflated prices to local resources shown by LSEs.” (p. 42)</td>
</tr>
</tbody>
</table>
Part I: Establishing the Price for the LCR-CM

PG&E has not identified a mechanism for developing a price that clearly meets the decision-informed principles. A “workable” solution must be paired with a transparent and appropriate effectiveness adjustment and demonstration of reduction in total costs to customers.

PG&E has considered 2 options for developing a local price, each with drawbacks:

1. **Cost-Based** – set the price based on the difference in developing a resource within a local area and a system resource
   - Potential data sources: Padilla report data request, PCIA data request, new data request
   - Issues: data may be too thin, potentially requires aggregation (e.g., resource type, local areas) and the use of stale data; administratively complex

2. **Market-Based** – set based on the results of CPE procurement
   - Issues: may be reflective of market power, which could result in overcompensating resources and gaming (bidding in essential resources at high prices and showing ineffective resources)

In order to send the correct market signals, the LCR-CM should be as granular as possible:

- Sub-local area granularity: aligned with CAISO Local Capacity Technical Study criteria
- Establishing a local premium at an aggregated level such as the individual LCA (e.g. Fresno or even the aggregated Other PG&E Area) could overcompensate for less constrained areas within the individual LCA and distort market signals
Part II. Applying an Effectiveness Adjustment

Developing effectiveness adjustments using CAISO effectiveness factors is highly complex and potentially infeasible. PG&E is considering whether other ways of assessing resource effectiveness may be “workable.”

Challenges with translating effectiveness factors into qualifying capacity or price effectiveness adjustments

• Effectiveness factors represent only the single most binding constraint in a local area. Local areas have numerous constraints and a resource’s effectiveness varies by constraint; Effectiveness factors of a resource depends on the evaluation of portfolio as a whole.
• Should not further complicate CAISO’s local study process

Alternative Measures of Effectiveness

• Resources may be differentiated by a number of factors including energy-limitations deliverability, availability, and dispatchability for the CAISO
• Considerations:
  • Peak-based - an adjustment could be applied to the NQC to reflect the resource’s contribution to meeting the reliability needs (e.g., peak requirement) of a particular LCA or sub-local area as defined in the CAISO Local Technical Study
  • Energy-based – MCC buckets or similar construct could be adapted to ensure resource is available when it is needed
  • Technology-based – not all resource types are equally effective at meeting reliability needs and should be compensated accordingly (e.g., 4-hour versus 8-hour duration battery)
Ensuring consistency with least-cost, best-fit

- If the LCR-CM results in lower total costs but sacrifices local area reliability, then the CPE should not accept the shown resources. Otherwise, all customers will be subsidizing the customers of the LSE showing the resources.
- A procurement run with and without shown resources could demonstrate overall cost savings or cost increase, but running for each shown resource would add significant complexity.

Gaming concerns – PG&E is concerned that the LCR-CM may introduce gaming opportunities.

- **Bidding expensive, show cheap** – Potential for a pattern whereby older, more expensive essential resources are bid, creating a high LCR-CM price, and cheaper, less effective resources are shown. Shown resources would then be paid more than their marginal costs.
- **Bid to the Premium** - If a high volume of resources are shown in a given local area, other resources in that area may adjust their price based on the premium so that the premium becomes a cap for otherwise cheaper resources.
Resource Adequacy Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) Workshop

July 27, 2020

Evelyn Kahl, CalCCA
Matt Langer, Clean Power Alliance
Doug Boccignone (Flynn), CalCCA
CalCCA Topics
Overview

• Decision Constraints
• Frameworks to Address Constraints
  ▪ #1 Selection of shown local attribute assured; price adjusted for effectiveness
  ▪ #2 Selection of shown local attribute not assured; CPE assesses effectiveness
• LSE Showing and Bid Elections
• Existing Contracts
• Other Considerations
D.20–06–002 Constraints
Resource Effectiveness

Working group must address:

• “[R]esource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources.” [O¶ 5.d.]

• “[H]ow to best adjust the local compensation from year to year to account for changes in the effectiveness of the resource reducing the local requirements.” [O¶ 5.d.]

Premium must “only compensate[]resources to the extent they provide ratepayer value” and “only compensating LSEs for additional costs of procuring resources close to load rather than simply extending market power premiums to these LSEs” [43]

“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” [42]
“[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” [42]

Premium must “only compensate[]resources to the extent they provide ratepayer value” [43]

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” [42]
Working Group must address:

- “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)” [O¶ 5.a.]
- “How 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.]
Principles Gleaned from D.20–06–002

Premium must:
• Be pre-determined
• Provide transparency
• Avoid influence of “market–power inflated price premiums”
• Reflect resource effectiveness and use limitations to ensure ratepayer value and least–cost procurement
1. Shown resource local attributes are “must-take” for the CPE, but premium must be pre-determined, adjusted for resource effectiveness and use limitations, and transparent.

2. Shown resource local attributes are considered alongside bids in the CPE solicitation at a pre-determined price and may be rejected by the CPE depending on their value relative to bid resources.
Pre-determined Price Calculation

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 or use average prices from the same sources excluding prices that are deemed to have been inflated by market power.

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 or use average prices from the same sources excluding prices that are deemed to have been inflated by market power.
Straw Proposal #1
Overview

Local attribute is treated as “must take” by the CPE

Pre-determined price
- Compare prior year’s local RA premiums paid by CPE at local area granularity to most recent system RA prices collected by Energy Division
- Would be public

Effectiveness adjustment alternatives
- Apply CAISO-determined effectiveness factors, scaling the % to the average effectiveness of the resources procured in the local area
- Adjust use-limited resources by technology (e.g., battery storage) scaled to average battery storage duration of the resources selected by CPE in the local area OR use CAISO Local Capacity Technical Study Report if no use limited resources displaced/selected for the local area
Straw Proposal #1
CAISO Effectiveness Factor Adjustment

- Reference Attachment B of CAISO Local Capacity Technical Report (LCTR) and Operating Procedure 2210Z which provide effectiveness % for each generating unit
- Identify the effectiveness factors of the resources procured in the local area
- Scale the effectiveness of the shown resource to the average effectiveness factor (e.g., 50% average, 25% shown resource = 50% effectiveness adjustment)
- Adjust number of MW eligible for premium by effectiveness adjustment %
Straw Proposal #1
Use Limited Resource Adjustment

Battery storage
• Scale battery storage duration to average duration of the resources selected by CPE in the local area OR, if none selected
• Reference data underlying Table 3.1–3 in CAISO LCTR
  ▪ Rely on underlying data to determine effectiveness multiplying the MW of NQC by the shown resource storage duration times the Energy MWh divided by the Capacity MW
  ▪ Adjust number of MW eligible for premium by ULR adjustment factor

Solar and wind generation: based on MW contribution of the resource type to peak period needs
Straw Proposal #2
Evaluate Shown Resources with Bid-in Resources

• Shown resource local attributes are considered alongside bids in the CPE solicitation
• Shown resources will be evaluated at the pre-determined price or the LSE may choose to show at a lower price
• CPE applies the same criteria, including effectiveness, for both shown and bid resources
• CPE may accept or reject shown resource at the price and quantity shown depending on the value relative to bid resources
LSE Elections

- Working Group tasked with determining “[w]hether 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 be permitted to show in advance of the solicitation or bid into the solicitation, but not both
Existing Contract Treatment

- Working Group tasked to submit proposals on “treatment of existing contracts, which may include consideration of whether any proposed Local Capacity Requirement reduction compensation mechanism should be applied to existing contracts”
- Support application of the LCR RCM adopted for preferred resources to existing fossil contracts for a five-year period, provided the resources are currently online and were entered into by an LSE on or before June 11, 2020
- Consistent with the language of D.20–06–002, existing fossil UOG would be required to bid into the CPE solicitation, and bid UOG would receive CAM treatment
Other Considerations

• Resources committed through a showing would have a three-year commitment
• Term start date could be any year within the three-year forward compliance period
• Showing (like bid) documented through a confirm under the Edison Electric Institute (EEI) Master Agreement
SDG&E Proposal Based On Decision Language

“As discussed above, a hybrid model does not disincentivize procurement of local resources because LSEs procure local resources for many reasons beyond the local RA value. However, we recognize that a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” D.20-06-002, p 40

“The Commission recognizes that a financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value would more closely align the financial compensation with the actual LCR MW reduction the resource provided.” p 42

“The Commission is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts).” p 43
Resource Eligibility

The Decision identifies three types of resources as eligible to receive the LCR compensation mechanism:

- Preferred resources
- Energy storage resources
- Potentially existing grandfathered fossil fuel resources

SDG&E’s proposal for grandfathered fossil fuel resources is determined by the approval date of the Decision:

- Contracts must be executed and/or online prior to June 11, 2020 and/or
- Resource must have been online prior to June 11, 2020
## Local Premium Rate

Local Premium Rate = Weighted avg price of CPE procured resources minus NP/SP-15 MPB

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>One Premium Rate Per Local Area</strong></td>
<td>- Limits complexity&lt;br&gt;- Sub-area premiums may be calculated if data is available&lt;br&gt;- Minimum number of CPE contracts in sub-area may be required</td>
</tr>
<tr>
<td><strong>Same Premium For All Eligible Technologies</strong></td>
<td>- Limits complexity</td>
</tr>
<tr>
<td><strong>CPE Local Procurement Price</strong></td>
<td>- CPE can mitigate market power by not procuring&lt;br&gt;- CPE tasked to minimize procurement cost by deselecting offers that would also “show” if not elected (pp 38-39)&lt;br&gt;- CPE must identify RA-only cost of tolling contract if necessary</td>
</tr>
<tr>
<td><strong>System MPB</strong></td>
<td>- Publicly available price provided by CPUC based on market transactions of LSEs</td>
</tr>
</tbody>
</table>
Effectiveness Factors

CAISO effectiveness factors are only published relative to a single contingency for the study process.

Utilizing the published value may not yield the expected precision.

SDG&E’s proposal attempts to simplify the calculation that the CPE would use:

- Effectiveness Factor = LCR / Total (Shown + CPE procured)
- Calculation could be further adjusted to include CAISO CPM and RMR
- Calculation may not work if Total capacity (Shown + CPE procured) < LCR
Duration of Shown Capacity

SDG&E proposal

- LSEs may show Local RA resources annually on a three year rolling basis, *i.e.* Year 0 for Years 1 - 3
- LSEs may show additional Local RA resources for the next three year rolling basis, *i.e.* Year 1 for Years 2-4
- When LCR increases for Years 2-4, LSEs should have ability to show more resources just as CPE has ability to procure more resources
- Previously shown capacity cannot be decommitted during the same time period except for certain reasons, *i.e.* retirements or force majeure
- If LSE sells shown Local RA resource to another LSE, it must notify the CPE to track the shown resource by the LSE for the same duration as before
- It may be reasonable to have a one-time election for grandfathered contracts/resources for the term of the contract which may exceed the rolling three-year Local RA program
- Effectiveness and Local Premiums are not locked in for the shown duration; both are updated with new information available
Cost Allocation Example

- Assumptions
  - CPE Procurement is $5 Million
  - Shown Local RA Premium is $10/kW-yr
  - All MWs are 100% Effective and qualify for Premium compensation

<table>
<thead>
<tr>
<th></th>
<th>LSE A</th>
<th>LSE B</th>
<th>LSE C</th>
<th>IOU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Load Ratio</td>
<td>10%</td>
<td>20%</td>
<td>15%</td>
<td>55%</td>
<td>100%</td>
</tr>
<tr>
<td>Shown RA (MW)</td>
<td>100</td>
<td>50</td>
<td>100</td>
<td>200</td>
<td>360</td>
</tr>
<tr>
<td>Shown RA Premium</td>
<td>$1,000,000</td>
<td>$500,000</td>
<td>$1,000,000</td>
<td>$2,000,000</td>
<td>$3,600,000</td>
</tr>
<tr>
<td>CPE Procurement Costs</td>
<td>$500,000</td>
<td>$1,000,000</td>
<td>$750,000</td>
<td>$2,750,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Total CPE Procurement Cost + Shown RA Premium</td>
<td>$860,000</td>
<td>$1,720,000</td>
<td>$1,290,000</td>
<td>$4,730,000</td>
<td>$8,600,000</td>
</tr>
<tr>
<td>LSE Cost Allocation net of Premium</td>
<td>($140,000)</td>
<td>$1,220,000</td>
<td>$290,000</td>
<td>$2,730,000</td>
<td>$5,000,000</td>
</tr>
</tbody>
</table>
Subject: AREM's Comments on the Matrix for the LCR Reduction Compensation Mechanism
Date: Monday, August 3, 2020 at 12:34:53 PM Pacific Daylight Time
From: Sue Mara
To: Evelyn Kahl, ccsong@cleanpoweralliance.com, demerson@sonomacleanpower.org, mbrandt@ebce.org, Erica.Brown@pge.com, Rhet.Kikuyama@pge.com, Lisa.Wan@pge.com, Noelle.formosa@pge.com, s.tougas@cleanenergyregresarch.com
Attachments: MATRIX_CPE-LCR-RCM_Party-Positions-AREM's Comments.xlsx

To Co-Leads on LCR Reduction Compensation Mechanism:

Attached are AREM's comments on the matrix. Deletions are shown by strikeout and our additions are shown in red.

AREM has confined its comments to corrections regarding its July 20th comments and is not stating a position on the 7 questions posed.

Regards,

Sue Mara
On Behalf of AREM

Sue Mara
RTOAdvisors, L.L.C.
164 Springdale Way
Redwood City, CA 94062
sue.mara@rtoadvisors.com
(415) 902-4108
<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
<th>[Additional Question]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>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?</td>
<td>Should effectiveness be determined by using the:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- CAISO’s Effectiveness Factors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- CAISO’s LCTS Contribution to Peak Load Methodology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- CAISO’s LCTS Energy Storage Limitation Study</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Other</td>
</tr>
<tr>
<td>2</td>
<td>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).</td>
<td>Should effectiveness adjustments be applied to the:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Price premium</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- MW of shown capacity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Other</td>
</tr>
<tr>
<td>3</td>
<td>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;</td>
<td>Should the premiums be:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Publicly posted</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Confidential</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Other</td>
</tr>
<tr>
<td>4</td>
<td>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;</td>
<td>Should the mechanism allow LSEs to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Bid and show</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Bid or show</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- PG&amp;E’s proposal (if an LSE voluntarily shows, the LSE cannot select the option to both bid and voluntarily show the resource as part of the CPE’s solicitation process)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Other</td>
</tr>
<tr>
<td>5</td>
<td>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.</td>
<td>Should the premium be:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Fixed for the term of the commitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Adjusted year to year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Other</td>
</tr>
<tr>
<td>6</td>
<td>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?</td>
<td>In the Workshop, parties agreed that this should be addressed in a working group or through future proposals made in the RA proceeding, as suggested by the Commission (page 53-54 of D.20-02-006)</td>
</tr>
<tr>
<td>7</td>
<td>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.</td>
<td>What should be the cut off date for legacy treatment of existing contracts?</td>
</tr>
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<td></td>
<td></td>
<td>What are the terms (length of time) for applying legacy treatment of existing contracts?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>What should be the eligibility rules for the treatment of existing contracts?</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>Other</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>Overall</td>
</tr>
</tbody>
</table>
Incorporated not through a price reduction, but into a technology-specific modification of the megawatt (MW); California Independent System Operator (CAISO) should lead a stakeholder process to develop factors that could be used.

Price premiums would be differentiated by local areas, including the disaggregated “PG&E Other” areas, unless a higher level of aggregation were required to mask the price of individual resource prices.

Load serving entity (LSE) must chose to either bid or show.

Compensation mechanism adopted for preferred resources should be applied to existing contracts entered into by an LSE before June 11, 2020; not apply to fossil utility owned generation (UOG), which will be required to bid into the solicitation.

Use of a median referent price, which is unaffected by high outliers in a price distribution.

Price premiums would be differentiated by local areas, including the disaggregated “PG&E Other” areas, unless a higher level of aggregation were required to mask the price of individual resource prices.

1. The ability for a LSE to receive a payment from the CPE must not result in over-procurement by the CPE with the over-procurement costs spread among all LSEs.
2. The customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.
3. To the extent payments for shown resources are determined to be warranted, LSEs with such resource types that are worth a premium to the CPE should be eligible for compensation up to that premium.
4. The number of years of compensation for which a LSE is eligible for a LCR Reduction Compensation Mechanism payment should be for no longer than up to three years – the term of the Local RA requirement.
<table>
<thead>
<tr>
<th>California Energy Storage Alliance (CESA)</th>
<th>California Efficiency + Demand Management Council (Council)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favors an approach where the central procurement entity (CPE) request for offer (RFO) considers identifying multiple portfolios of bid and shown resources that, on one end, considers effectiveness as the binding, initial screening criteria and, on the other end, more heavily considers preferred attributes while ensuring effectiveness.</td>
<td>Cost effectiveness of local resources should not be within the scope of the mechanism.</td>
</tr>
<tr>
<td>Generally supports granularity of the LCR reduction compensation mechanism and proposed the following premiums for consideration (1) closer-to-load, (2) Disadvantaged communities (DAC), (3) Greenhouse gas (GHG) emissions reduction and (4) market power mitigation; A one-size-fits-all premium may undercut the incremental value-add of certain projects.</td>
<td>Factors on which to base a premium can be resource location, resource type (especially preferred resources), or operational characteristics or for resources located in DACs.</td>
</tr>
<tr>
<td>One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class.</td>
<td>Should be as transparent as possible to ensure that resource providers can develop the products of greatest value.</td>
</tr>
<tr>
<td>LSE may bid and/or show.</td>
<td>N/A</td>
</tr>
<tr>
<td>Year-to-year adjustment to the local compensation mechanism should not be established and may not be needed.</td>
<td>N/A</td>
</tr>
<tr>
<td>CPE RFO evaluation criteria mirror the premium factors in the local compensation mechanism, link to IRP-identified future long-term procurement needs in local or sub-local areas, adhere to the loading order and SB 1136. Both qualitative and quantitative criteria should be considered; preferred resources - favored over fossil-fuel resources and not disadvantaged, fairly compared to existing, fully-depreciated gas resources on a cost basis; greater consideration to low- or zero-emission resources in meeting State's environmental goals.</td>
<td>N/A</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Pacific Gas and Electric Company (PG&amp;E)</td>
<td>Public Advocates Office (CalPA)</td>
</tr>
<tr>
<td>----------------------------------------</td>
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</tr>
<tr>
<td>Local resources are not equally “effective” in meeting local area reliability needs; Should only be compensated for resources that either have been demonstrated to meet up-front eligibility requirements or have an effectiveness adjustment applied to the net qualifying capacity (NQC).</td>
<td>The effectiveness and ability of a resource to provide those local resource adequacy (RA) attributes should match or exceed the requirements of the Commission and/or CAISO that qualify specific technologies’ ability to count as local RA.</td>
</tr>
<tr>
<td>Ideally, the proposed compensation mechanism would be calculated for each sub-local area; Should reflect the contribution of a resource type to local area reliability.</td>
<td>There should be pre-determined premiums calculated for each resource technology type.</td>
</tr>
<tr>
<td>Potential options include publishing aggregated data upfront and more granular data after a sufficient period of time has passed or publishing rankings (e.g., highest value area to lowest) or tiers with ranges (e.g., top five local premiums include these areas and are between $5 and $7).</td>
<td>The Commission should post the premium and include them in both its annual RA Report and the annual Final RA Guide; This may not be feasible if a premium is created for each unique resource since it may be calculated depending on market sensitive resource information.</td>
</tr>
<tr>
<td>LSE may 1) voluntarily show a resource for local premium but may not bid or 2) bid and voluntarily show the resource for no local premium.</td>
<td>N/A</td>
</tr>
<tr>
<td>Any effectiveness adjustment to local premiums should reflect the assumptions and findings of the most recent CAISO Local Capacity Technical Study Report.</td>
<td>Premium would increase or decrease as NQC is adjusted year to year.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Legacy treatment of LSE’s local RA existing contracts should be applied only to contracts executed, or owned resources that were acquired, prior to issuance of D.19-02-022(3/4/2019); not to local resources procured outside of the LSE’s transmission area charge (TAC) area; do not support being applied for the full term of an existing contract.</td>
<td>N/A</td>
</tr>
<tr>
<td>San Diego Gas &amp; Electric Company (SDG&amp;E)</td>
<td></td>
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<td>----------------------------------------</td>
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<tr>
<td>Should be guided by the CAISO and the annual Local Capacity Technical Study.</td>
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<tr>
<td>Believes the complexity of developing individual premiums for the various types of resources in either sub-areas or local areas makes this task infeasible</td>
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<tr>
<td>N/A</td>
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<td>N/A</td>
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<tr>
<td>N/A</td>
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<tr>
<td>Do not propose a separate rule for existing contracts, but not opposed to a one-time election exceeding the rolling three-year Local RA program.</td>
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</tr>
<tr>
<td>Shown local RA capacity is committed for a period of up to three years; No process to decommit a resource except for certain reasons, such as resource retirements or force majeure.</td>
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</tr>
<tr>
<td>D-6</td>
<td></td>
</tr>
</tbody>
</table>
Subject: R.17-09-020 RA CalCCA Informal Comments on Compensation Mechanism
Date: Monday, August 3, 2020 at 7:26:52 PM Pacific Daylight Time
From: Shawn-Dai Linderman
To: FJackson.Stoddard@MorganLewis.com, monica.schwebs@morganlewis.com, Irafii@buchalter.com, L.Tougas@CleanEnergyregresearch.com, Maria@OhmConnect.com, NicholasC@AdvMicrogrid.com, Shagun Tougas, AnnaFero@dwt.com, TBrunello@Calstrat.com, Buck.Endemann@KLGates.com, jmclintyre@goodinmacbride.com, KatieJorrie@dwt.com, MSomogyi@GoodinMacBride.com, nsikand@goodinmacbride.com, Tara.Kaushik@HKlaw.com, DWtcpucDockets@dwt.com, Allie@Reimagine-Power.com, steven@moss.net, james@voltus.co, mplante@voltus.co, charles.middlekauff@pge.com, SSMyers@att.net, RegRelcpucCases@pge.com, Debra.Lloyd@CityofPaloAlto.org, fwahl@tesla.com, Nathanael Miksis, Pushkar Wagle, MikeMoore315@yahoo.com, Emmie@elsysinc.com, BarmackM@calpine.com, galamberg@petersonpower.com, SAroa@LSpower.com, Sarah.Qureshi@NextEraEnergy.com, AHarron@HarronLLC.com, Cynthia.Clark@UCOP.edu, sberelson@cedmc.org, jeddy@opiniondynamics.com, Katherine.Ramsey@SierraClub.org, policy@cedmc.org, RBird@BorregoSolar.com


To Service Lists for R.17-09-020 and R.19-11-009:

Attached please find the **CALIFORNIA COMMUNITY CHOICE ASSOCIATION INFORMAL COMMENTS ON THE LOCAL CAPACITY REDUCTION COMPENSATION MECHANISM**. This document is being served by electronic mail in word-searchable PDF format.

This service is being sent in multiple parts.

Thank you.

Shawn-Dai Linderman
Policy Assistant
**California Community Choice Association**
(510) 213-9774 | shawndai@cal-cca.org
To keep up with CCA news subscribe to our mailing list [here](mailto:). You can also follow CalCCA on Twitter and LinkedIn.
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

Evelyn Kahl, General Counsel
California Community Choice Association
One Concord Center
2300 Clayton Road, Suite 1150
Concord, CA  94520
(415) 254-5454
regulatory@cal-cca.org

August 3, 2020
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II. RESPONSES TO D.20-06-002 QUESTIONS ..........................................3
III. OTHER DESIGN ISSUES .................................................................9
IV. SUMMARY OF CALCCA PROPOSAL ...............................................9
CALIFORNIA COMMUNITY CHOICE ASSOCIATION
INFORMAL COMMENTS ON LCR COMPENSATION MECHANISM

The California Community Choice Association (CalCCA)\textsuperscript{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.]

---


**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. 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. |
This email constitutes Calpine’s informal comments. In addition, am attaching a partially completed version of the matrix. Hope that you are the relevant representatives of the co-leads. LMK if I should direct this email elsewhere.

Calpine believes that CalCCA's Straw Proposal #2 (as articulated on slide 13 of CalCCA's July 27th working group presentation) warrants further exploration. As Calpine understands it, under the proposal, shown resources would be compared to bid resources in CPE solicitations. In CPE solicitations, shown resources would be treated as bids (for an unbundled local attribute) at pre-specified premiums that would reflect the locations and operating characteristics of the resources. LSEs also would have the option to have their shown resources treated as bids at prices below the relevant pre-specified premiums.

The proposal provides a coherent mechanism to ensure that shown and bid resources are compared using the same criteria and that the ultimate selection of the combination of shown and bid resources to meet local RA requirements is reasonably efficient. In addition, based on the presentations and discussions at the July 27th workshop, it seems like it will be difficult to develop pre-specified premiums that accurately reflect the local RA value of different resources with sufficient granularity. The proposal minimizes the importance of the premiums because it would not require the CPE to pay the premiums for shown resources if more economic alternatives were available. In addition, it provides LSEs flexibility to make local attributes available to the CPE at prices other than the pre-specified premiums.

Calpine has two general comments on the proposal:

First, given that the CPE would be able to compare shown and bid resources in the solicitation, it is unclear why it would be necessary to establish pre-specified premiums for shown resources. Instead, if the proposal is ultimately adopted, the Commission should consider giving LSEs full flexibility to specify the prices at which shown resources will be compared to bid resources in the CPE solicitations recognizing that this structure would provide LSEs incentives to offer competitively to ensure that their resources are selected over offered resources and that the CPE would have the discretion to not “procure” shown resources and defer to CAISO backstop procurement in the absence of sufficient competition.

Second, the Commission might consider a similar option to offer unbundled local attributes into the CPE solicitations for all supply, not only shown capacity. If the CPE solicitations are structured to accommodate what are essentially bids for unbundled local attributes for shown capacity, it is unclear why that functionality should be limited to shown capacity.

Calpine recognizes that the two preceding tweaks could be inconsistent with the CPE decision but believes that they could be implemented through a PTM or new decision.

These and other concerns are reflected in the attached matrix.

Thank you for your consideration.

From: Wan, Lisa <L2WG@pge.com>
**Sent:** Thursday, July 30, 2020 3:14 PM  
**To:** Evelyn Kahl <evelyn@cal-cca.org>; 'ccsong@cleanpoweralliance.com' <ccsong@cleanpoweralliance.com>; demerson@sonomacleanpower.org; mbrandt@ebce.org; Brown, Erica <e1ba@pge.com>; Kikuyama, Rhett <R2K3@pge.com>; Wan, Lisa <L2WG@pge.com>; Formosa, Noelle (Law) <NRF6@pge.com>  
**Cc:** Nickerman, Luke <LxNg@pge.com>; erdal.kara@vistraenergy.com; csanada@caiso.com; Rybka, Greg <GMRA@pge.com>; skeehn@mbcp.org; patrick.cunningham@cpuc.ca.gov; samk@pioneercommunityenergy.ca.gov; william.rostov@sfcityatty.org; ckeys@peninsulacleanenergy.com; jennifer.chamberlin@cpowerenergymanagement.com; john.leslie@dentons.com; rachel.mcmahon@sunrun.com; david.vidaver@energy.ca.gov; linnan.caо@cpuc.ca.gov; jose.torre bueno@cc-energy.org; peter.mc ferrer@sce.com; rmiller3@sdge.com; jonathan.lakey@cpuc.ca.gov; brian@pacificea.com; christine.powell@cpuc.ca.gov; cathy.karlstad@sce.com; agregory@pilotpowergroup.com; Ashley Lewis Bernstein <Ashley.Bernstein@calpine.com>; amsmith@sdge.com; cgrinstead@cleanpoweralliance.org; msusko@ebce.org; Matthew Barmack <Matthew.Barmack@calpine.com>; ntang@sdge.com; jabari.martin@sce.com; bt heaker@mrpgenco.com; mary.lynch@constellation.com; amaani@leap.ac; wei.zhou@sce.com; jnoh@storeag ealliance.org; ltougas@cleanenergyregresearch.com; beth@cal-cca.org; asoe@sdge.com; steve.green leaf@brookfieldrenewable.com; philm@scdenergy.com; amorris@storeag ealliance.org; michael.evans@shell.com; hgao@sdge.com; bsb@eslawfirm.com; sue.mara@rtoadvisors.com; cchase@sdge.com; sduenas@storeag ealliance.org; jaimerose.gannon@cpuc.ca.gov; tyson@protec torcommunities.org; tbrunello@calstrat.com; lgarcia-rodriguez@sdge.com; klatt@energyattorney.com; mark.hesters@energy.ca.gov; carleigh@ceert.org; cbriggs@eslawfirm.com; acissna@redwoodenerg y.ca.gov; ad1@cpuc.ca.gov; malcolm.ainspan@nrg.com; gcontreras@wellhead.com; kyle.navis@cpuc.ca.gov; Griffes, Peter <PHG3@pge.com>; ska@cpuc.ca.gov; emoussa@sdge.com; eric.little@sce.com; dougbocc@flynnrcli.com  
**Subject:** [RA - LCR RCM Working Group] Matrix and Presentations

**External Sender: Use caution with links/attachments.**

All,


For the Matrix on Party Positions, please note the following:

- Please provide your organization’s position or preferences for the issues laid out in the matrix. Please fill out the light orange column and note the name of your organization.
- Please send the matrix back to the co-leads on Monday 8/3. This is the same day as when the informal comments on the workshop to co-leads are due.
- For our reference, the co-leads have included a summary of the informal comments submitted Monday 7/20. If there are any misstatements, please make any necessary edits and let us know.
- If you’d like to provide a summary of your Monday 8/3 comments in the matrix, please feel free to do so.

If you have any questions, please feel free to reach out to me (lisa.wan@pge.com) or Shagun Tougas (s.tougas@cleanenergyregresearch.com).

Thank you,
Lisa Wan
PG&E | Regulatory Affairs
Desk: 415-973-7627
Mobile: 415-238-9712
Email: lisa.wan@pge.com

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### Working Group on Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) and Treatment of Existing Contracts

#### Matrix of Parties' Positions/Preferences

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
<th>[Additional Question]</th>
<th>Calpine</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>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?</td>
<td>Should effectiveness be determined by using the:</td>
<td>Calpine believes that the mechanism should consider effectiveness related to the effectiveness factors that are included in the LCTS as well as duration/energy limits analyzed by the CAISO.</td>
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<tr>
<td></td>
<td></td>
<td>- CAISO's Effectiveness Factors</td>
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<td></td>
<td></td>
<td>- CAISO's LCTS Contribution to Peak Load Methodology</td>
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<td></td>
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<td>- CAISO's LCTS Energy Storage Limitation Study</td>
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<td></td>
<td></td>
<td>- Other</td>
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<tr>
<td>2</td>
<td>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);</td>
<td>Should effectiveness adjustments be applied to the:</td>
<td>Either an adjustment to the price premium or the MW credited could work.</td>
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<tr>
<td></td>
<td></td>
<td>- Price premium</td>
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<td></td>
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<td>- MW of shown capacity</td>
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<td></td>
<td></td>
<td>- Other</td>
<td></td>
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<td></td>
<td></td>
<td>Should different technology types receive different premiums?</td>
<td>Different technologies should receive different credits with respect to their &quot;effectiveness&quot; as defined in response to question 1.</td>
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<td>Should premiums be developed at the location level:</td>
<td>Premiums should reflect the fact that resources in different locations, including different sub-areas, have different &quot;effectiveness.&quot;</td>
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<td></td>
<td></td>
<td>- TAC area only</td>
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<td></td>
<td></td>
<td>- Local area (e.g. Bay Area)</td>
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<td></td>
<td></td>
<td>- Sub-local area (e.g. South Bay / Moss Landing)</td>
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<tr>
<td>3</td>
<td>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;</td>
<td>Should the premiums be:</td>
<td>As indicated in Calpine's informal comments, Calpine believes that CalCCA's Straw Proposal #2 warrants further exploration. Under this approach, given that the CPE would be able to compare shown and bid resources in the solicitation, it is unclear why it would be necessary to establish pre-specified premiums for shown resources. Instead, if the proposal is ultimately adopted, the Commission should consider giving LSEs full flexibility to specify the prices at which shown resources will be compared to bid resources in the CPE solicitations recognizing that this structure would provide LSEs incentives to offer competitively to ensure that their resources are selected over offered resources and that the CPE would have the discretion to not &quot;procure&quot; shown resources and defer to CAISO backstop procurement in the absence of sufficient competition.</td>
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<td>- Publicly posted</td>
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<td></td>
<td>- Confidential</td>
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<tr>
<td></td>
<td></td>
<td>- Other</td>
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<td>4</td>
<td>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;</td>
<td>Should the mechanism allow LSEs to:</td>
<td>To balance transparency and market sensitive information, how should the data be presented:</td>
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<td></td>
<td></td>
<td>- Bid and show</td>
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<td></td>
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<td>- Bid or show</td>
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<td></td>
<td>- PG&amp;E's proposal (if an LSE voluntarily shows, the LSE cannot select the option to both bid and voluntarily show the resource as part of the CPE's solicitation process)</td>
<td>Aggregated</td>
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<td>- Other</td>
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<td>5</td>
<td>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.</td>
<td>Should the premium be:</td>
<td>Should the premiums or effectiveness adjustments be:</td>
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<tr>
<td></td>
<td></td>
<td>- Fixed for the term of the commitment</td>
<td>Published by the Commission</td>
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<td></td>
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<td>- Adjusted year to year</td>
<td>Other</td>
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<tr>
<td>6</td>
<td>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?</td>
<td>In the Workshop, parties agreed that this should be addressed in a working group or through future proposals made in the RA proceeding, as suggested by the Commission (page 53-54 of D.20-02-006)</td>
<td>If something like CalCCA's Straw Proposal #2 were adopted, presumably shown resources would have the same certainty with respect to compensation as resources that are offered directly into the CPE solicitations, i.e., if the &quot;bid&quot; associated with a shown resource were selected, it would be paid its bid for the term of the commitment for which it was selected.</td>
</tr>
<tr>
<td>7</td>
<td>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.</td>
<td>What should be the cut off date for legacy treatment of existing contracts?</td>
<td>See informal comments.</td>
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<tr>
<td>8</td>
<td></td>
<td>What are the terms (length of time) for applying legacy treatment of existing contracts?</td>
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<tr>
<td>9</td>
<td></td>
<td>What should be the eligibility rules for the treatment of existing contracts?</td>
<td></td>
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</tbody>
</table>

**Note:** The above table and text represent a structured overview of the discussion points and questions related to the Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) and the treatment of existing contracts. The responses and positions indicated reflect the perspectives of various parties involved in the working group discussions.
<table>
<thead>
<tr>
<th><strong>Summary of Parties’ Informal Comments, submitted July 20, 2020</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alliance for Retail Energy Market (AReM)</strong></td>
</tr>
<tr>
<td>N/A</td>
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<td>N/A</td>
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</table>

The ability for a LSE to receive a payment from the CPE must not result in over-procurement by the CPE with the over-procurement costs spread among all LSEs. The customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.
<table>
<thead>
<tr>
<th>Pacific Gas and Electric Company (PG&amp;E)</th>
<th>Public Advocates Office (CalPA)</th>
<th>Southern California Edison Company (SCE)</th>
<th>San Diego Gas &amp; Electric Company (SDG&amp;E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local resources are not equally “effective” in meeting local area reliability needs; Should only be compensated for resources that either have been demonstrated to meet up-front eligibility requirements or have an effectiveness adjustment applied to the net qualifying capacity (NQC).</td>
<td>The effectiveness and ability of a resource to provide its local resource adequacy (RA) attributes should match or exceed the requirements of the Commission and/or CAISO that qualify specific technologies’ ability to count as local RA.</td>
<td>Local effectiveness is determined by CAISO based on the fleet of resources available and the contingencies that the fleet meets; CAISO would need to provide the information on effectiveness factors and the value of use-limited resources in meeting a local area need in its LCR studies.</td>
<td>Should be guided by the CAISO and the annual Local Capacity Technical Study.</td>
</tr>
<tr>
<td>Ideally, the proposed compensation mechanism would be calculated for each sub-local area. Should reflect the contribution of a resource type to local area reliability.</td>
<td>There should be pre-determined premiums calculated for each resource technology type.</td>
<td>The premium should reflect the actual contribution to the local RA need of a resource and market conditions; The level of granularity should consider, and very likely depend on, data availability and the robustness of the data that report historic RA prices for these areas.</td>
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<td>The Commission should post the premium and include them in both its annual RA Report and the annual Final RA Guide; This may not be feasible if a premium is created for each unique resource since it may be calculated depending on market sensitive resource information.</td>
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<td>Apply to only those existing resources signed before the issuance of central procurement decision on 3/20/2020; for new resources it could apply to contracts signed prior to the PD, therefore limitation is only for local RA contracts with existing resources up to a five-year term length.</td>
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</tbody>
</table>
Subject: RE: [RA - LCR RCM Working Group] Matrix and Presentations

Date: Monday, August 3, 2020 at 5:04:27 PM Pacific Daylight Time

From: l.tougas@cleanenergyregresearch.com

To: 'Evelyn Kahl', ccsong@cleanpoweralliance.com, demerson@sonomacleanpower.org, mbrandt@ebce.org, 'Brown, Erica', 'Kikuyama, Rhett', 'Formosa, Noelle (Law)'

CC: 'Wan, Lisa', 'Shagun Tougas'

Attachments: MATRIX_CPE-LCR-RCM_Party-Positions - CEDMC.xlsx

Hello,

See attached the Council's completed matrix. Please note that we have made some clarifications in red font to the summary of the Council's responses to the initial questions. If you have any questions, please don't hesitate to contact me.

Thank you and have a good evening.

Best regards,

Luke

Luke Tougas
Clean Energy Regulatory Research (CERR)
l.tougas@cleanenergyregresearch.com | 510.326.1931
Website | LinkedIn | Twitter

From: Wan, Lisa <L2WG@pge.com>

Sent: Thursday, July 30, 2020 3:14 PM

To: Evelyn Kahl <evelyn@cal-cca.org>; ccsong@cleanpoweralliance.com;
<ccsong@cleanpoweralliance.com>; demerson@sonomacleanpower.org; mbrandt@ebce.org; Brown, Erica <e1ba@pge.com>; Kikuyama, Rhett <R2K3@pge.com>; Wan, Lisa <L2WG@pge.com>; Formosa, Noelle (Law) <NRF6@pge.com>

Cc: Nickerman, Luke <lxNg@pge.com>; erdal.kara@vistraenergy.com; csanada@caiso.com; Rybka, Greg <GMRA@pge.com>; skeehn@mbcp.org; patrick.cunningham@cpuc.ca.gov;
samk@pioneercommunityenergy.ca.gov; william.rostov@sfcityatty.org; ckeys@peninsulacleanenergy.com;
jennifer.chamberlin@cpowerenergymanagement.com; john.leslie@dentons.com;
rachel.mcmahon@sunrun.com; david.vidaver@energy.ca.gov; linnan.cao@cpuc.ca.gov; jose.torrebueno@ccenergy.org; peter.mcferrin@sce.com; rmiller3@sde.com; jonathan.lakey@cpuc.ca.gov;
brian@pacific.a.com; christine.powell@cpuc.ca.gov; cathy.karlstad@sce.com;
agrey@pilotpowergroup.com; ashley.bernstein@calpine.com; amsmith@sde.com;
cgrinstead@cleanpoweralliance.com; msusko@ebce.org; barmackm@calpine.com; ntang@sde.com;
jabari.martin@sce.com; btheaker@mrpgenco.com; mary.lynch@constellation.com; amaani@leap.ac;
wei.zhou@sce.com; jnoh@storeagealliance.org; ltougas@cleanenergyregresearch.com; beth@cal-cca.org;
asoe@sde.com; steve.greenleaf@brookfieldrenewable.com; philm@scdenergy.com;
amorris@storeagealliance.org; michael.evans@shell.com; hgao@sde.com; bs@gmailfirm.com;
sue.mara@rtoadvisors.com; cchase@sde.com; sduenas@storeagealliance.org;
jaimrose.gannon@cpuc.ca.gov; tyson@protectourcommunities.org; tbrunello@calstrat.com; lgarcia-
rodriguez@sde.com; klatt@energyattorney.com; mark.hesters@energy.ca.gov; carleigh@ceert.org;
cbriggs@eslawfirm.com; acissna@redwoodenergy.org; ad1@cpuc.ca.gov; malcolm.ainspan@nrg.com;
gcontreras@wellhead.com; kyle.navis@cpuc.ca.gov; Griffes, Peter <PHG3@pge.com>; ska@cpuc.ca.gov;
emoussa@sdge.com; eric.little@sce.com; dougbocc@flynnrci.com

Subject: [RA - LCR RCM Working Group] Matrix and Presentations

All,

Attached, please find the presentations from the Monday 7/27 Working Group Workshop on Local Capacity Requirement Reduction Compensation Mechanism and Treatment of Existing Contracts and the Matrix on Party Positions.

For the Matrix on Party Positions, please note the following:

- Please provide your organization’s position or preferences for the issues laid out in the matrix. Please fill out the light orange column and note the name of your organization.
- Please send the matrix back to the co-leads on Monday 8/3. This is the same day as when the informal comments on the workshop to co-leads are due.
- For our reference, the co-leads have included a summary of the informal comments submitted Monday 7/20. If there are any misstatements, please make any necessary edits and let us know.
- If you’d like to provide a summary of your Monday 8/3 comments in the matrix, please feel free to do so.

If you have any questions, please feel free to reach out to me (lisa.wan@pge.com) or Shagun Tougas (s.tougas@cleanenergyregresearc.com).

Thank you,

Lisa Wan
PG&E | Regulatory Affairs
Desk: 415-973-7627
Mobile: 415-238-9712
Email: lisa.wan@pge.com
**Working Group on Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) and Treatment of Existing Contracts**

### Matrix of Parties’ Positions/Preferences

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
<th>[Additional Question]</th>
<th>California Efficiency + Demand Management Council</th>
</tr>
</thead>
</table>
| 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? | Should effectiveness be determined by using the:  
- CAISO’s Effectiveness Factors  
- CAISO’s LCTS Contribution to Peak Load Methodology  
- CAISO’s LCTS Energy Storage Limitation Study  
- Other | The Council does not support the use of any of these approaches for determining local effectiveness. The concept of resource-specific local effectiveness has not been addressed by the CPUC which should be done before applying it in this context. |
| 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); | Should effectiveness adjustments be applied to the:  
- Price premium  
- MW of shown capacity  
- Other | |
| 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; | Should different technology types receive different premiums? | N/A |
| 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; | Should premiums be developed at the location level:  
- TAC area only  
- Local area (e.g. Bay Area)  
- Sub-local area (e.g. South Bay / Moss Landing)  
- Other | Locational premiums should only be applied at the subLAP or LCA level. |
| 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. | Should the premiums be:  
- Publicly posted  
- Confidential  
- Individual  
- Other | |
| 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? | Should the mechanism allow LSEs to:  
- Bid and show  
- Bid or show  
- PG&E’s proposal (if an LSE voluntarily shows, the LSE cannot select the option to both bid and voluntarily show the resource as part of the CPE’s solicitation process)  
- Other | N/A |
<p>| 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. | In the Workshop, parties agreed that this should be addressed in a working group or through future proposals made in the RA proceeding, as suggested by the Commission (page 53-54 of D.20-02-006) | |
| 8   | Other | | N/A |
| 9   | Overall | | N/A |</p>
<table>
<thead>
<tr>
<th>Alliance for Retail Energy Market (AREM)</th>
<th>California Community Choice Association (CalCCA)</th>
<th>California Energy Storage Alliance (CESA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Incorporated not through a price reduction, but into a technology-specific modification of the megawatt (MW); California Independent System Operator (CAISO) should lead a stakeholder process to develop factors that could be used.</td>
<td>Favors an approach where the central procurement entity (CPE) request for offer (RFO) considers identifying multiple portfolios of bid and shown resources that, on one end, considers effectiveness as the binding, initial screening criteria and, on the other end, more heavily considers preferred attributes while ensuring effectiveness.</td>
</tr>
<tr>
<td>N/A</td>
<td>Price premiums would be differentiated by local areas, including the disaggregated “PG&amp;E Other” areas, unless a higher level of aggregation were required to mask the price of individual resource prices.</td>
<td>Generally supports granularity of the LCR reduction compensation mechanism and proposed the following premiums for consideration (1) closer-to-load, (2) Disadvantaged communities (DAC), (3) Greenhouse gas (GHG) emissions reduction and (4) market power mitigation; A one-size-fits-all premium may undercut the incremental value-add of certain projects.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class.</td>
</tr>
<tr>
<td>N/A</td>
<td>Load serving entity (LSE) must chose to either bid or show.</td>
<td>LSE may bid and/or show.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>Year-to-year adjustment to the local compensation mechanism should not be established and may not be needed.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>CPE RFO evaluation criteria mirror the premium factors in the local compensation mechanism, link to IRP-identified future long-term procurement needs in local or sub-local areas, adhere to the loading order and SB 1136.</td>
</tr>
<tr>
<td>N/A</td>
<td>Compensation mechanism adopted for preferred resources should be applied to existing contracts entered into by an LSE before June 11, 2020; not apply to fossil utility owned generation (UOG), which will be required to bid into the solicitation.</td>
<td>N/A</td>
</tr>
<tr>
<td>N/A</td>
<td>Use of a median referent price, which is unaffected by high outliers in a price distribution.</td>
<td>N/A</td>
</tr>
<tr>
<td>N/A</td>
<td>Recommends that resources be committed for a three-year term; Showing, like a successful bid, should be documented through a confirm.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The ability for a LSE to receive a payment from the CPE must not result in over-procurement by the CPE with the over-procurement costs spread among all LSEs.

The customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.
<table>
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<tr>
<td>The CPUC should focus at least initially on a more simplistic approach, given the time constraints involved. Cost effectiveness of local resources should not be within the scope of the mechanism. Use limitations of resources should not be considered other than in the context of ensuring that MCC Bucket limitations are not violated. Local effectiveness of individual resources has not been defined by the CPUC and might be impractical for application to DR resources due to the sometimes dynamic nature of their customer and technology composition.</td>
</tr>
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</table>

Factors on which to base a premium can be resource location, resource type (especially preferred resources), or operational characteristics or for resources located in DACs.

Should be as transparent as possible to ensure that resource providers can develop the products of greatest value. For similar reasons, each CPE’s least-cost, best-fit methodology should be made as transparent as possible.

Both qualitative and quantitative criteria should be considered: pursuant to D.19-06-002, preferred resources should be favored over fossil-fuel resources and not disadvantaged, fairly compared to existing, fully-depreciated gas resources on a cost basis; greater consideration to low- or zero-emission resources in meeting State’s environmental goals.

| N/A |
| N/A |
| N/A |

N/A
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<tr>
<th>Pacific Gas and Electric Company (PG&amp;E)</th>
<th>Public Advocates Office (CalPA)</th>
<th>Southern California Edison Company (SCE)</th>
</tr>
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<tr>
<td>Local resources are not equally &quot;effective&quot; in meeting local area reliability needs; Should only be compensated for resources that either have been demonstrated to meet up-front eligibility requirements or have an effectiveness adjustment applied to the net qualifying capacity (NQC).</td>
<td>The effectiveness and ability of a resource to provide those local resource adequacy (RA) attributes should match or exceed the requirements of the Commission and/or CAISO that qualify specific technologies' ability to count as local RA.</td>
<td>Local effectiveness is determined by CAISO based on the fleet of resources available and the contingencies that the fleet meets; CAISO would need to provide the information on effectiveness factors and the value of use-limited resources in meeting a local area need in its LCR studies.</td>
</tr>
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<td>There should be pre-determined premiums calculated for each resource technology type.</td>
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<td>San Diego Gas &amp; Electric Company (SDG&amp;E)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------</td>
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<td></td>
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<td>Should be guided by the CAISO and the annual Local Capacity Technical Study.</td>
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Subject: PG&E’s Informal Comments for the Working Group on LCR RCM and Compensation Mechanism
Date: Monday, August 3, 2020 at 5:10:46 PM Pacific Daylight Time
From: Wan, Lisa
To: Evelyn Kahl, ‘ccsong@cleanpoweralliance.com’, demerson@sonomacleanpower.org, mbrandt@ebce.org, Brown, Erica, Kikuyama, Rhett, Formosa, Noelle (Law), Shagun Tougas
Attachments: Informal_Comments_LCR-CM_Workshop_20200803.pdf

All,

Attached please find PG&E’s informal comments to the Working Group on LCR RCM and Compensation Mechanism.

Thank you,

Lisa Wan
PG&E | Regulatory Affairs
Desk: 415-973-7627
Mobile: 415-238-9712
Email: lisa.wan@pge.com
Pacific Gas and Electric Company ("PG&E") provides the following informal comments on the working group workshop on the local capacity requirement reduction compensation mechanism ("LCR-RCM") and treatment of existing contracts, held on July 27, 2020 (the "Workshop") and co-led by PG&E and the California Community Choice Association ("CalCCA") (together, the "Co-Leads").

I. INTRODUCTION

At the Workshop, the Co-Leads presented materials summarizing parties’ informal comments on items to be addressed by the working group as ordered in Decision ("D.") 20-06-002 (the “CPE Decision”) on pages 43-45 and in Ordering Paragraphs 5 and 6. The Workshop also included presentations by PG&E, CalCCA and San Diego Gas & Electric Company ("SDG&E") on recommendations and/or proposals for consideration by the working group. In these informal comments on the Workshop, PG&E focuses on the following items that were discussed during the Workshop:

- 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;
- 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); and
- 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 mechanisms into
In reviewing the proposals put forward thus far, PG&E believes that none of them clearly meets all the objectives of the LCR-RCM set forth in D.20-06-002, but that two may be workable: (1) CalCCA’s proposal to develop a premium price based on the median price of central procurement entity (“CPE”) procured resources and apply an effectiveness adjustment based on each technology’s contribution to local resource adequacy (“RA”) requirements consistent with the California Independent System Operator Corporation’s (“CAISO”) Local Capacity Technical Study (“LCTS”) and (2) CalCCA’s proposal to allow voluntarily shown resources to “bid in” local RA attributes only.

II. CORE PRINCIPLES AND/OR OBJECTIVES FOR THE LCR-RCM

As the working group continues to develop a workable solution on the LCR-RCM and treatment of existing contracts, PG&E requests that the following principles, which are based on the California Public Utilities Commission’s (“Commission”) directives within the CPE Decision, guide the development of a proposal and the working group discussions, namely that the LCR-RCM should:

1. Incent preferred resource development in local areas:¹ The motivating factor behind establishing a working group to look at the LCR-RCM issue.

2. Reflect resource effectiveness at meeting reliability requirements to prevent “leaning” by LSEs:² Every load serving entity (“LSE”) should equitably share the responsibility of ensuring local area reliability.

3. Provide ratepayer value by lowering total costs to customers without sacrificing

¹CPE Decision, p. 41 (“…we recognize that a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.”).

²CPE Decision, p. 42 (“The Commission recognizes that a financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value would more closely align the financial compensation with the actual LCR MW reduction the resource provided.”).
4. Avoid market power and/or gaming opportunities but may rather reflect a “premium” based on the additional cost of developing resources in local areas.

Avoiding market power and gaming is important to ensure the integrity of the RA program.

CalCCA and SDG&E outlined principles in developing proposals for an LCR-RCM and PG&E finds alignment among these parties with some of the core principles described above and provides the following table as a helpful matrix for assessing the proposals presented and how each scores against these principles. One exception is “provide ratepayer value,” which CalCCA characterized as an objective of the resource’s effectiveness process, but which PG&E believes is clearly outlined as a stand-alone principle in the CPE Decision.

Some stakeholders touched on these principles in informal comments. For instance, the Alliance for Retail Energy Markets (“AReM”) argued that “customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.” This aligns with the “provide ratepayer value” principle.

As mentioned above, PG&E provides the following table as a helpful matrix for assessing the proposals put forward thus far and how each scores against these principles.

---

3 CPE Decision, p. 42 (“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 in addressing LCR needs.”), p. 43 (“…ratepayers are: (1) only compensating resources to the extent they provide ratepayer value.”).

4 CPE Decision, p. 42 (“A key purpose in creating a CPE framework is to reduce costs to ratepayers by mitigating local market power.” And, p. 43: ratepayers are “only compensating LSEs for additional costs of procuring resources close to load rather than simply extending market power premiums to these LSEs.”).

5 See p. 7 of CalCCA’s workshop slides, which summarizes principles CalCCA gleaned from D.20-06-002.

6 AReM Informal Comments, p. 2.
## Matrix of Proposals and Principles

<table>
<thead>
<tr>
<th>Principles</th>
<th>Decision Reference</th>
<th>Proposals</th>
<th>SDG&amp;E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Incent preferred resource development in local areas</strong></td>
<td>p. 41</td>
<td>Unclear, provides guaranteed payment for shown resources in local areas.</td>
<td>Unclear, needs testing.</td>
</tr>
<tr>
<td><strong>Reflect resource effectiveness</strong></td>
<td>p. 42</td>
<td>Yes, scales shown resource to average effectiveness factor.</td>
<td>No, applies a shown capacity to CPE-procured capacity ratio.</td>
</tr>
<tr>
<td><strong>Provide ratepayer value</strong></td>
<td>p. 42-43</td>
<td>Unclear, uses pre-determined value that may be higher or lower than bid resources.</td>
<td>Yes, uses pre-determined value that may be higher or lower than bid resources.</td>
</tr>
<tr>
<td>Evaluated alongside bid resources</td>
<td></td>
<td>Yes, shown resources are considered alongside bid resources; CPE may reject shown or bid resources if they do not provide value.</td>
<td>Unclear, uses pre-determined value that may be higher or lower than bid resources.</td>
</tr>
<tr>
<td><strong>Avoid market power and gaming</strong></td>
<td>p. 42-43; O¶ 5.b.</td>
<td>Unclear, would need to ensure that any inflated data is not included in pre-determined price.</td>
<td>Potentially, but unclear what role pre-determined price has.</td>
</tr>
<tr>
<td>Pre-determined</td>
<td></td>
<td></td>
<td>Unclear, only avenue to mitigate market power is for the CPE to not procure.</td>
</tr>
</tbody>
</table>

### III. COMMENTS ON AN EFFECTIVENESS ADJUSTMENT

In the Workshop, SDG&E proposed an effectiveness adjustment methodology using the percentage resulting from the local capacity area or sub-local area RA requirements divided by the total amount of voluntarily shown capacity and CPE-procured capacity. For example, if the RA requirements for a local capacity area is 60 megawatts (“MW”) and 30 MWs were voluntarily shown by LSEs, and 50 MWs were procured by the CPE, the percentage would be 75 percent, or 60 MWs / 80 MWs. This results in LSEs being compensated for 22.5 MWs of the 30
MWs that were voluntarily shown. PG&E has concerns with this approach and does not believe this methodology appropriately addresses cost effectiveness concerns, including evaluating local effectiveness and use-limitations of a voluntarily shown resource’s contribution to local area reliability. In the example above, the CPE procured 50 MWs in addition to the 30 MWs of voluntarily shown resources to meet a local RA requirement of 60 MWs. Arguably, only 10 MWs of the voluntarily shown resources could be deemed as “effective” capacity; however, under SDG&E’s proposal, 22.5 MWs would be compensated at the local RA premium, resulting in customers paying for 12.5 MWs of voluntarily shown resources that may not have provided any ratepayer value or any local area reliability benefits to the system. PG&E believes this methodology is overly simplified, does not reflect a resource’s “effective” capacity, does not account for a resource’s energy limitations, and does not prevent leaning by LSEs.

PG&E supports additional examination by the working group to assess other methods to value a resource’s contribution to local area reliability, including CalCCA’s proposal to use the CAISO’s LCTS to look at the contribution of different resource types. CalCCA’s proposal to use a calculated average of the CAISO’s effectiveness factors, however, does not address how the effectiveness factors may only be used when comparing reliability needs of a single contingency. PG&E agrees with parties that developing effectiveness adjustments solely using CAISO’s effectiveness factors is highly complex and potentially infeasible. Under CalCCA’s proposal, the CPE would determine the average percentage of the CAISO’s effectiveness factors for CPE-procured resources and apply the average percentage to the MW amount of an LSE’s voluntarily shown resource. This MW-adjusted amount would be eligible for compensation at the local premium as part of the LCR-RCM.

As PG&E noted above, CAISO’s effectiveness factors from Attachment B of the CAISO’s LCTS are reflective of the single most binding/limiting constraint in a sub-local area.

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2 Southern California Edison Company Informal Comments, pp. 2-3; SDG&E Informal Comments, p. 2; CalCCA Informal Comments, p. 3.
3 CalCCA’s proposal is to use the CAISO’s effectiveness factors as defined in Attachment B of the CAISO’s LCTS and CAISO’s Operating Procedure 2210Z.
However, sub-local areas have numerous constraints and a resource’s effectiveness factor can vary by each constraint. Further, these factors could result in negative or positive impacts (e.g. a resource can be “ineffective” at relieving the loading on a constraint and can make it worse), and it is not clear how this will be considered in developing the average percentage amount or whether all constraints will be used. Given that CAISO’s effectiveness factors of a resource depend on the evaluation of the portfolio as a whole, PG&E believes that even as an effectiveness proxy, the sole use of CAISO’s effectiveness factors would not be a workable solution.

PG&E is considering whether other ways of assessing resource effectiveness may be further explored by the working group, as CAISO’s effectiveness factors are only one component that should be considered when evaluating a resource’s contribution to local area reliability.

**IV. COMMENTS ON A PRICING METHODOLOGY**

In the Workshop, SDG&E proposed that the local premium price be the difference between the weighted average price of the CPE-procured resources and the NP-15 or SP-15 market price benchmark for RA. PG&E notes that this methodology is similar to the financial crediting mechanism proposed by CalCCA in Rulemaking 17-09-020, which was rejected by the Commission. The CPE Decision stated: “[R]ather than the ex post benchmark proposed by CalCCA, the 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.” As a result, it is unclear how this differs from the mechanism that the Commission has already contemplated and rejected.

PG&E is also concerned that SDG&E’s proposal lacks an effective measure to mitigate market power concerns and could introduce gaming opportunities. For example, LSEs could bid at high prices for “effective” capacity and show cheaper, less “effective” capacity. Shown resources would then be paid more than their marginal costs. Additionally, if a high volume of resources is shown in a given local area, other resources in that local area may adjust their price
Based on the local premium so that the local premium becomes a floor for otherwise cheaper resources.

Alternatively, CalCCA proposed to use the median price as opposed to an average or weighted average price for determining the local premium price. PG&E appreciates CalCCA’s proposal and is interested to further understand CalCCA’s proposal that a CPE identify and eliminate prices that reflect market power and exclude those prices from the calculation. For example, would the CPE assess the individual bid based on its understanding of unit costs and revenue streams or would the CPE simply identify pivotal supplier units for sub-areas and exclude those bids?

V. COMMENTS ON CALCCA’S PROPOSAL (OPTION #2)

PG&E appreciates CalCCA’s efforts in putting forth a new proposal (referred to as Option #2) for the LCR-RCM and understands the proposal presented at the Workshop to have the following key elements:

- LSEs will be required to bid only the local RA attribute into the solicitation to receive compensation as part of the LCR-RCM;
- All resources will be evaluated simultaneously or alongside each other (e.g. as part of the entire pool of resources to be procured by the CPE); and
- The CPE may accept or reject shown resources at the price and quantity shown depending on the value relative to bid resources (e.g. there is no guaranteed premium for the LSE).

While PG&E does not find CalCCA’s proposal (Option #2) to clearly meet all of the objectives in the CPE Decision, PG&E believes that the proposal is potentially a workable solution. Should parties be inclined to further develop CalCCA’s proposal (Option #2), PG&E recommends that parties: (1) evaluate how the “unbundling” of RA attributes would work or impact other parts of the RA program, (2) determine any downstream impacts with CAISO if the Commission determines to “unbundle” RA for the LCR-RCM or in a future RA proceeding, and
(3) determine how to avoid double-counting of RA capacity or whether different counting rules may need to be established for system RA or local RA attributes. In addition, PG&E requests that CalCCA clarify whether its proposal (Option #2) would eliminate the “voluntarily shown” option from the CPE Decision and replace it with a “bid-in” option and, thus, effectively remove the voluntarily shown option from the CPE solicitation and evaluation process.

That said, PG&E appreciates CalCCA’s efforts in putting forth a potentially workable solution and will continue to engage in the working group process to ensure the Commission’s objectives as outlined in the CPE Decision are met.

VI. CONCLUSION

PG&E respectfully requests that these informal comments inform the Commission’s consideration of the LCR-RCM.
To all parties in R.17-09-020 and R.19-11-009:

Attached is Southern California Edison Company’s Informal Comments Regarding Working Group Workshop on Local Capacity Requirement (LCR) Reduction Compensation Mechanism and Existing Contracts August 3, 2020. This document is hereby served by electronic mail upon all parties listed in the official service lists for R.17-09-020 and R.19-11-009.

(See attached file: R1709020-SCE Informal Comments on Working Group Workshop on LCR Reduction Compensation Mechanism and Existing Contracts 8-3-20.pdf)

(See attached file: R1709020_Service List.pdf)

(See attached file: R1911009_Service List.pdf)

Regards,

Legal Administration
Southern California Edison Company
Telephone: (626) 302-6950
Email: Legal_Admin@sce.com
Southern California Edison Company’s Informal Comments Regarding Working Group Workshop on Local Capacity Requirement (LCR) Reduction Compensation Mechanism and Existing Contracts  
August 3, 2020

Southern California Edison Company (SCE) appreciates the opportunity to submit informal comments on the July 27, 2020 working group workshop regarding the LCR reduction compensation mechanism and treatment of existing resource adequacy (RA) contracts. SCE thanks the co-leads for facilitating the workshop and parties for presenting their proposals. SCE also thanks all parties for their engagement and constructive discussion during the workshop.

A. Comments on California Community Choice Association (CalCCA) Proposals

CalCCA proposed two options for establishing a LCR reduction compensation mechanism: CalCCA Proposal #1 and CalCCA Proposal #2. SCE understands that under CalCCA Proposal #1, a shown resource will be treated as “must take” by the central procurement entity (CPE) and will be paid at a pre-determined price (i.e., the local RA premium) for its effective net qualifying capacity (NQC). The effective NQC will be calculated based on the NQC of the resource and its relative effectiveness factor, i.e., the resource effectiveness factor compared to the average effectiveness factor of CPE-procured resources. Under CalCCA Proposal #2, a shown resource will “bid” its local attribute to the CPE at a price up to the pre-determined local RA premium and its bid will be considered alongside bids in the CPE solicitation. For both proposals, the pre-determined price is calculated as the difference between the Energy Division Power Charge Indifference Adjustment (PCIA) price for system RA and the Energy Division PCIA price for local RA in Year 1 or the most recent reported CPE local RA price for subsequent years. The calculation can use the median price or an average price after removing market-power-inflated prices. CalCCA proposes to use the last two quarters of the price information to derive the pre-determined price.

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The proposal to use only the last two quarters’ information does not result in adequate price samples. The Energy Division annual RA report contains information for the entire year. The price information for the entire year should be used to calculate the premium.

SCE believes that both CalCCA Proposal #1 and CalCCA Proposal #2, presented during the workshop, have merits that should be further explored. Further exploration is needed to develop the details and address questions and potential issues with both proposals and allow for possible consensus among the parties. To this end, SCE thanks the co-leads for the updated schedule providing an additional opportunity to comment on the CalCCA proposals and any other potential proposals, and looks forward to better understanding the proposals and providing its comments throughout the remainder of the working group process.

### B. Comments on Other Proposals and Issues

Several parties propose that a load-serving entity (LSE) should be allowed to bid or show, but not both.\(^2\) As commented previously, SCE agrees that the potential for gaming bids based upon known minimum premium values and the resultant efficiency of the procurement process must be examined.\(^3\) Allowing LSEs to both bid and show will likely raise the potential for gaming. At this point, SCE finds the proposal “to bid or show, but not both” generally reasonable. In particular, SCE understands that, under this proposal, an LSE could bid a local resource, or could show the resource and get paid through the pre-determined premium when applicable; however, the LSE will not be allowed to bid the resource with a flag to indicate that it will show the resource and get paid through the pre-determined premium if the resource is not selected by the CPE.

As commented by several parties, SCE continues to find it is reasonable to have a cut-off date for existing contracts to be eligible for a local RA compensation premium, if applicable, and the cut-off date should be around the date when the Proposed Decision or the Final Decision was

\(^2\) CalCCA July 27 Workshop Presentation at 14; Pacific Gas and Electric Company (PG&E) Informal Comments at 4.
\(^3\) SCE Informal Comments at 4.
issued, i.e., either March 26, 2020 or June 11, 2020. SCE is not opposed to PG&E’s proposal that the cut-off date should be the date of issuance of D.19-02-022, i.e., March 4, 2019. Further, the payment of an LCR reduction compensation mechanism for existing resources, if applicable, should be for up to a five-year term length.

C. Conclusion

SCE looks forward to further discussion and parties’ consideration on the issues outlined above and other related issues.

---

4 PG&E Informal Comments at 5.
Subject: FW: [RA - LCR RCM Working Group] Matrix and Presentations

Date: Monday, August 3, 2020 at 5:01:12 PM Pacific Daylight Time

From: Wan, Lisa

To: Shagun Tougas, Evelyn Kahl

CC: Formosa, Noelle (Law)

Attachments: MATRIX_CPE-LCR-RCM_Party-Positions +SDG&E.xlsx

FYI

---

From: Chase, Tina <CChase@sdge.com>
Sent: Monday, August 03, 2020 10:07 AM
To: Wan, Lisa <L2WG@pge.com>; evelyn@cal-cca.org; CC Song <csong@cleanpoweralliance.org>; Deb Emerson <demerson@sonomacleanpower.org>; mbrandt@ebce.org; Brown, Erica <e1ba@pge.com>; Kikuyama, Rhett <R2K3@pge.com>; Formosa, Noelle (Law) <NRF6@pge.com>

Subject: RE: [RA - LCR RCM Working Group] Matrix and Presentations

*****CAUTION: This email was sent from an EXTERNAL source. Think before clicking links or opening attachments.*****

Hi all, attached please find the matrix with the updated SDG&E column. Thanks -Tina

---

From: Wan, Lisa <L2WG@pge.com>
Sent: Thursday, July 30, 2020 3:14 PM
To: Evelyn Kahl <evelyn@cal-cca.org>; 'csong@cleanpoweralliance.com' <csong@cleanpoweralliance.com>; demerson@sonomacleanpower.org; mbrandt@ebce.org; Brown, Erica <e1ba@pge.com>; Kikuyama, Rhett <R2K3@pge.com>; Wan, Lisa <L2WG@pge.com>; Formosa, Noelle (Law) <NRF6@pge.com>

Cc: Nickerman, Luke <LxNg@pge.com>; erdal.kara@vistraenergy.com; csanada@caiso.com; Rybka, Greg <GMRA@pge.com>; skeehn@mbcp.org; patrick.cunningham@cpuc.ca.gov; samk@pioneercommunityenergy.ca.gov; william.rostov@sfcityyyy.org; ckeys@peninsulacleanenergy.com; jennifer.chamberlin@cpowerenergymanagement.com; john.leslie@dентons.com; rachel.mcmahon@sunrun.com; david.vidaver@energy.ca.gov; linnan.cao@cpuc.ca.gov; jose.torrebueno@cc-energy.org; peter.mcferrin@sce.com; Miller, Ryan - Mktg Affil-E&FP <RMiller3@sdge.com>; jonathan.lakey@cpuc.ca.gov; brian@pacificaa.com; christine.powell@cpuc.ca.gov; cathy.karstad@sce.com; agregory@pilotpowergroup.com; Ashley Lewis Bernstein <Ashley.Bernstein@calpine.com>; Smith, Aimee <AMSmith@sdge.com>; cgrinstead@cleanpoweralliance.org; msusko@ebce.org; barmacm@calpine.com; Tang, Nuo - Mktg Affil-E&FP <NTang@sdge.com>; jabari.martin@sce.com; btheaker@mrmppenco.com; mary.lynch@constellation.com; amaani@leap.ac; wei.zhou@sce.com; jnoh@storeageliance.org; l.tougas@cleanenergyregresearch.com; beth@cal-cca.org; Soe, Alan Z <ASoe@sdge.com>; steve.greenleaf@brookfieldrenewable.com; philm@scdenergy.com; amorris@storeageliance.org; michael.evans@shell.com; Gao, Helen Z <HGao@sdge.com>; bsb@eslawfirm.com; sue.mara@rtoadvisors.com; Chase, Tina <CChase@sdge.com>; sduenas@storeageliance.org; jaimeroose.gannon@cpuc.ca.gov; tyson@protectourcommunities.org; tbrunello@calstrat.com; Garcia-Rodriguez, Lizzette <LGarcia-Rodriguez@sdge.com>; klatt@energyattorney.com; mark.hesters@energy.ca.gov; carleigh@ceert.org; cbriggs@eslawfirm.com; acissna@redwoodenergy.org; ad1@cpuc.ca.gov; malcolm.ainspan@nrg.com; gcontreras@wellhead.com; kyle.navis@cpuc.ca.gov; Griffes, Peter <PHG3@pge.com>; ska@cpuc.ca.gov; Moussa, Effat A <EMoussa@sdge.com>; eric.little@sce.com; dougbocc@flynrrci.com

Subject: [EXTERNAL] [RA - LCR RCM Working Group] Matrix and Presentations
All,

Attached, please find the presentations from the Monday 7/27 Working Group Workshop on Local Capacity Requirement Reduction Compensation Mechanism and Treatment of Existing Contracts and the Matrix on Party Positions.

For the Matrix on Party Positions, please note the following:

● Please provide your organization’s position or preferences for the issues laid out in the matrix. Please fill out the light orange column and note the name of your organization.
● Please send the matrix back to the co-leads on Monday 8/3. This is the same day as when the informal comments on the workshop to co-leads are due.
● For our reference, the co-leads have included a summary of the informal comments submitted Monday 7/20. If there are any misstatements, please make any necessary edits and let us know.
● If you’d like to provide a summary of your Monday 8/3 comments in the matrix, please feel free to do so.

If you have any questions, please feel free to reach out to me (lisa.wan@pge.com) or Shagun Tougas (s.tougas@cleanenergyregresearch.com).

Thank you,

Lisa Wan
PG&E | Regulatory Affairs
Desk: 415-973-7627
Mobile: 415-238-9712
Email: lisa.wan@pge.com

This email originated outside of Sempra Energy. Be cautious of attachments, web links, or requests for information.
<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
<th>[Additional Question]</th>
<th>[NAME OF PARTY]</th>
</tr>
</thead>
</table>
| 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? | Should effectiveness be determined by using the:  
- CAISO's Effectiveness Factors  
- CAISO's LCTS Contribution to Peak Load Methodology  
- CAISO's LCTS Energy Storage Limitation Study  
- Other | |
| 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); | Should effectiveness adjustments be applied to the:  
- Price premium  
- MW of shown capacity  
- Other | |
| 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; | Should the premiums be:  
- Publicly posted  
- Confidential  
- Other | |
| 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; | Should the mechanism allow LSEs to:  
- Bid and show  
- Bid or show  
- PG&E's proposal (if an LSE voluntarily shows, the LSE cannot select the option to both bid and voluntarily show the resource as part of the CPE's solicitation process)  
- Other | |
| 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. | Should the premium be:  
- Fixed for the term of the commitment  
- Adjusted year to year  
- Other | |
| 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? | In the Workshop, parties agreed that this should be addressed in a working group or through future proposals made in the RA proceeding, as suggested by the Commission (page 53-54 of D.20-02-006) | |
| 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. | What should be the cut off date for legacy treatment of existing contracts?  
What are the terms (length of time) for applying legacy treatment of existing contracts?  
What should be the eligibility rules for the treatment of existing contracts? | |
<p>| 8   | | Other | |
| 9   | | Overall | |</p>
<table>
<thead>
<tr>
<th>Alliance for Retail Energy Market (AReM)</th>
<th>California Community Choice Association (CalCCA)</th>
<th>California Energy Storage Alliance (CESA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Incorporated not through a price reduction, but into a technology-specific modification of the megawatt (MW); California Independent System Operator (CAISO) should lead a stakeholder process to develop factors that could be used.</td>
<td>Favors an approach where the central procurement entity (CPE) request for offer (RFO) considers identifying multiple portfolios of bid and shown resources that, on one end, considers effectiveness as the binding, initial screening criteria and, on the other end, more heavily considers preferred attributes while ensuring effectiveness.</td>
</tr>
<tr>
<td>N/A</td>
<td>Price premiums would be differentiated by local areas, including the disaggregated “PG&amp;E Other” areas, unless a higher level of aggregation were required to mask the price of individual resource prices.</td>
<td>Generally supports granularity of the LCR reduction compensation mechanism and proposed the following premiums for consideration (1) closer-to-load, (2) Disadvantaged communities (DAC), (3) Greenhouse gas (GHG) emissions reduction and (4) market power mitigation; A one-size-fits-all premium may undercut the incremental value-add of certain projects.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class.</td>
</tr>
<tr>
<td>N/A</td>
<td>Load serving entity (LSE) must chose to either bid or show.</td>
<td>LSE may bid and/or show.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>Year-to-year adjustment to the local compensation mechanism should not be established and may not be needed.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>CPE RFO evaluation criteria mirror the premium factors in the local compensation mechanism, link to IRP-identified future long-term procurement needs in local or sub-local areas, adhere to the loading order and SB 1136.</td>
</tr>
<tr>
<td>Compensation mechanism adopted for preferred resources should be applied to existing contracts entered into by an LSE before June 11, 2020; not apply to fossil utility owned generation (UOG), which will be required to bid into the solicitation.</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Use of a median referent price, which is unaffected by high outliers in a price distribution.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The ability for a LSE to receive a payment from the CPE must not result in over-procurement by the CPE with the over-procurement costs spread among all LSEs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California Efficiency + Demand Management Council (Council)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------</td>
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</tr>
<tr>
<td>Cost effectiveness of local resources should not be within the scope of the mechanism.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factors on which to base a premium can be resource location, resource type (especially preferred resources), or operational characteristics or for resources located in DACs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Should be as transparent as possible to ensure that resource providers can develop the products of greatest value.</td>
<td></td>
<td></td>
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<tr>
<td>N/A</td>
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<td>N/A</td>
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<tr>
<td>N/A</td>
<td></td>
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<tr>
<td>Both qualitative and quantitative criteria should be considered; preferred resources - favored over fossil-fuel resources and not disadvantaged, fairly compared to existing, fully-depreciated gas resources on a cost basis; greater consideration to low- or zero-emission resources in meeting State’s environmental goals.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pacific Gas and Electric Company (PG&amp;E)</td>
<td>Public Advocates Office (CalPA)</td>
<td>Southern California Edison Company (SCE)</td>
</tr>
<tr>
<td>----------------------------------------</td>
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<td>-----------------------------------------</td>
</tr>
<tr>
<td>Local resources are not equally “effective” in meeting local area reliability needs; Should only be compensated for resources that either have been demonstrated to meet up-front eligibility requirements or have an effectiveness adjustment applied to the net qualifying capacity (NQC).</td>
<td>The effectiveness and ability of a resource to provide those local resource adequacy (RA) attributes should match or exceed the requirements of the Commission and/or CAISO that qualify specific technologies’ ability to count as local RA.</td>
<td>Local effectiveness is determined by CAISO based on the fleet of resources available and the contingencies that the fleet meets; CAISO would need to provide the information on effectiveness factors and the value of use-limited resources in meeting a local area need in its LCR studies.</td>
</tr>
<tr>
<td>Ideally, the proposed compensation mechanism would be calculated for each sub-local area; Should reflect the contribution of a resource type to local area reliability.</td>
<td>There should be pre-determined premiums calculated for each resource technology type.</td>
<td>The premium should reflect the actual contribution to the local RA need of a resource and market conditions; The level of granularity should consider, and very likely depend on, data availability and the robustness of the data that report historic RA prices for these areas.</td>
</tr>
<tr>
<td>Potential options include publishing aggregated data upfront and more granular data after a sufficient period of time has passed or publishing rankings (e.g., highest value area to lowest) or tiers with ranges (e.g., top five local premiums include these areas and are between $5 and $7).</td>
<td>The Commission should post the premium and include them in both its annual RA Report and the annual Final RA Guide; This may not be feasible if a premium is created for each unique resource since it may be calculated depending on market sensitive resource information.</td>
<td>The transparency of the premiums would depend heavily on the data used to determine the premiums.</td>
</tr>
<tr>
<td>LSE may 1) voluntarily show a resource for local premium but may not bid or 2) bid and voluntarily show the resource for no local premium.</td>
<td>N/A</td>
<td>Due to complexity, recommends this be discussed in workshops evaluating gaming risk.</td>
</tr>
<tr>
<td>Any effectiveness adjustment to local premiums should reflect the assumptions and findings of the most recent CAISO Local Capacity Technical Study Report.</td>
<td>Premium would increase or decrease as NQC is adjusted year to year.</td>
<td>Depends on details of the mechanism on how the effectiveness of resources is considered in deriving a premium.</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>Recommends to be addressed in the area of CPE implementation as it relates to the bid selection process and criteria.</td>
</tr>
<tr>
<td>Legacy treatment of LSE’s local for existing contracts should be applied only to contracts executed, or owned resources that were acquired, prior to issuance of D.19-02-022(3/4/2019); not to local resources procured outside of the LSE’s transmission area charge (TAC) area; do not support being applied for the full term of an existing contract.</td>
<td>N/A</td>
<td>Apply to only those existing resources signed before the issuance of central procurement decision on 3/26/2020; for new resources it could apply to contracts signed prior to the PD, therefore limitation is only for local RA contracts with existing resources - up to a five-year term length.</td>
</tr>
</tbody>
</table>
San Diego Gas & Electric Company (SDG&E)

Should be guided by the CAISO and the annual Local Capacity Technical Study. However, SDG&E offers a simpler solution based on total CPE procured MWs and Shown relative to the LCR.

Proposes single premium for all resource types. Premium can be local area specific or broken down into sub-areas if sufficient data is available. Believes the complexity of developing individual premiums for the various types of resources in either sub-areas or local areas makes this task infeasible.

Utilize CPE procured costs compared to PCIA System Market Priced Benchmarks.

Compensation Mechanism is only applicable for resources that either Show or Bid and Show if not selected.

Compensation Mechanism adjusts annually based on the capacity that CPE procured and Shown, the updated LCR, the CPE procurement costs and the PCIA System RA MPB.

N/A

Do not propose a separate rule for existing contracts, but not opposed to a one-time election exceeding the rolling three-year Local RA program.

Provided additional details of the commitments for Shown resources as years roll forward. Shown local RA capacity is committed for a period of up to three years; No process to decommit a resource except for certain reasons, such as resource retirements or force majeure.

SDG&E believes its proposal offers a simple approach to meeting the needs of creating a Local Capacity Reduction Compensation Mechanism using transparent and annually refreshed data. SDG&E believes that while a more granular methodology may provide additional precision or "value" to specific resource types and various areas, the potential lack of available data may cause such a methodology to be difficult to implement.
Subject: R.17-09-020 and R.19-11-009 RA OIR: Wellhead Informal Comments on LCR Reduction Mechanism workshop

Date: Monday, August 3, 2020 at 5:02:39 PM Pacific Daylight Time

From: Greg Contreras

To: mm2@cpuc.ca.gov, Diamond@EnergyHub.net, Klrvin@Sidley.com, BBlair@ThompsonCoburn.com, Amanda.Frazier@VistraEnergy.com, DGetts@SouthWesternPower.com, shenricksen@ORMAT.COM, P.Shepard@dgc-us.com, Klatt@EnergyAttorney.com, Cathy.Karlstad@sce.com, Ty@TosdalAPC.com, John.Leslie@Dentons.com, AMSmith@SempraUtilities.com, MMC DANIELS@CPV.com, ryan.baron@bbklaw.com, ryan.baron@bbklaw.com, ryan.baron@bbklaw.com, Mona.Tierney-Lloyd@Enel.com, JWiedman@PeninsulaCleanEnergy.com, Sue.Mara@RTOadvisors.com, Hilary.Staver@SVCleanEnergy.org, Suzy.Hong@SFcityAtty.org, TLong@turn.org, JKantor@KeyesFox.com, Colin.Meehan@FirstSolar.com, MAI cantar@Buchalter.com, NRF6@pge.com, NSheriff@Buchalter.com, John@OhmConnect.com, Nicholas@AdvMicrogrid.com, BCragg@GoodinMacBride.com, JArmstrong@GoodinMacBride.com, MVespa@Earthjustice.org, VidhyaPrabhakaran@dwt.com, PatrickFerguson@dwt.com, SSMyers@att.net, Debra.Lloyd@CityofPaloAlto.org, SAorara@LSpower.com, JW einstein@JW einsteinLaw.com, JAC@CPowerEnergyManagement.com, Sean.Beatty@nrz.com, Policy@CEDMC.org, MSpecht@ucsus a.org, Mark.Byron@UCO P.edu, MBrandt@ebce.org, WalkerWright@engie.com, cesa_regulatory@storeagealliance.org, GMorris@emf.net, NRAd er@Calwea.org, SLazer@cbecal.org, NMA lcolm@MCEcleanE nergy.org, JulieMcLaughlin@cogentrix.com, Jeanne.Sole@SanJoseCa.gov, DEmerson@SonomaCleanPower.org, JPinjuv@caiso.com, RKurlinski@caiso.com, Danielle@RenewableEnergyStrat.com, Paul Cummins, iLes@Braunlegal.com, Peffer@BraunLegal.com, John@JMckinseylaw.com, Blaising@BraunLegal.com, Braun@BraunLegal.com, eddyconsulting@gmail.com, Virinder.Singh@edf-re.com, DLMarker@bpa.gov, LTrolese@PublicGeneratingPool.com, YLu@SanDiego.gov, YLu1@sdge.com, Barbara@BarkovichAndYap.com, beth@cal-cca.org, brian@ohmconnect.com, cbentley@gridwellconsulting.com, RegRCPUCCases@pge.com, liddell@energyattorney.com, Regulatory@ebce.org, Elise.ersoy@energy.ca.gov, eklinker@cityofpasadena.net, IKearney@WEAWlaw.com, JS teffens@ci.banning.ca.us, JMcCawley@SempraUtilities.com, Justin.Regnier@cpuc.ca.gov, Kavya@UtilityDive.com, Kelsey.Piro@pge.com, K2C0@pge.com, Lauren.Miller@SFcityAtty.org, AppRhg@cpuc.ca.gov, LT3@cpuc.ca.gov, LValero@anaheim.net, Liz.gill@energy.ca.gov, Ixng@pge.com, delsolgrid@gmail.com, nbarba@frontierenergy.com, nburki@anaheim.net, NShaughnessy@BGCPartners.com, Paul@BarkovichAndYap.com, phg3@pge.com, PPearson@MBCommunityPower.org, rshelton@thompsoncoburn.com, ROBP@pge.com, sgn@eslawfirm.com, Golding@CommunityChoicePartners.com, Sarita_Sarvate@yahoo.com, Sharon.Yang@LibertyUtilities.com, stanenhaus@ebce.org, Steven@EPA.com, Steven.Rymsha@Sunrun.com, TahiyaSultan@dwt.com, MRW@MRWassoco m.com, Regulatory@cal-cca.org, CPUCR1709020RA@teainc.org, Regulatory@mceCleanEnergy.org, team@cameron-daniel.com, sbarata@opiniondynamics.com, thealey@sidley.com, RegAffairs@FormEnergy.com, Ed.Zabrocki@MorganStanley.com, JFarbstein@ces-ltd.com, BKM@dwp.com, MMcNaull@ThompsonCoburn.com, MRPM@dwp.com, ALuna@Earthjustice.org, MRPM@dwp.com, CPUCdockets@EQ-Research.com, jgreco@mrpgenco.com, MKubow@mrpgenco.com, JimRoss@r-c-s-inc.com, John.Ritch@GexaEnergy.com, RKing@GoodCompanyAssociates.com, cjmenez@acespower.com, pthomsen@ormat.com, BTHeaker@mrpgenco.com, CSong@CleanPowerAlliance.org, CStephens@CleanPowerAlliance.org,
Dear Parties to R.17-09-020 and R.19-11-009,

Attached are Wellhead’s informal comments on the LCR Reduction Mechanism Workshop.

Gregory Contreras
Wellhead Electric Company
650 Bercut Dr. Suite C
Sacramento, CA 95811
Office: (916) 447-5171
Cell: (530) 312-1378

Wellhead Electric Company, Inc. (“Wellhead”) appreciates the opportunity to submit these informal comments on LCR reduction compensation Mechanism (the “Mechanism”) workshop held July 27, 2020.

Wellhead would like to take this opportunity to seek support from parties to clarify that the Commission’s exclusion of fossil fuel resources from the Mechanism was specifically for fossil fuel only resources and not hybridized resources including gas-storage resources (“Hybrids”).

The working group should request clarification from the Commission stating that hybridized gas-storage resources are eligible for the Mechanism. The Decision states that “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas”1. As directed by Public Utilities Code 3802, the Commission should use the Mechanism to incentivize the hybridization of existing gas resources. Many parties may already assume that Hybrids are eligible, but nonetheless to avoid confusion an express statement to that effect should be made.

As discussed in prior comments in the IRP proceeding, hybridizing a sub-set of the gas-fired fleet is optimal because, amongst other things, it results in the following:

1. An immediate reduction in an GHG emissions.
2. An immediate reduction in the number of unit starts leading to lower NOx emissions in Disadvantaged Communities.

Hybridization furthers the State’s clean energy goals while ensuring a high level of reliability. For this reason, and to comply with Public Utilities Code 380, Hybrids should be eligible for the Mechanism.

---

2 Section 380(b)(1) of the PUC code states in pertinent part that the Commission should “Facilitate development of...hybrid capacity and retention of existing...hybrid capacity that is economic and needed.”
**Subject:** [R.17-09-020 and R.19-11-009] Informal Comments on WG WS on LCR Compensation Mechanism and Treatment of Existing Contracts  
**Date:** Tuesday, August 4, 2020 at 4:27:02 PM Pacific Daylight Time  
**From:** Shawn-Dai Linderman  
**To:** R2K3@pge.com, SCU1@pge.com, SREA@pge.com, sdri@pge.com, Ek-Info@Buchalter.com, FJackson.Stoddard@MorganLewis.com, monica.schwebs@morganlewis.com, Irafil@buchalter.com, LTougas@CleanEnergygridresearch.com, Maria@OhmConnect.com, NicholasC@AdvMicrogrid.com, Shagun Tougas, AnnaFero@dwt.com, TBrunello@Calstrat.com, Buck.Endemann@KLGates.com, jmciintyre@goodinmacbride.com, KatieJorrie@dwt.com, MSomogyi@GoodinMacBride.com, nsikand@goodinmacbride.com, Tara.Kaushik@HKlaw.com, DWTcpucDockets@dwt.com, Allie@Reimage-Power.com, steven@moss.net, james@voltus.co, mplante@voltus.co, charles.middlekauff@pge.com, SSMyers@att.net, RegRelcpucCases@pge.com, Debra.Lloyd@CityofPaloAlto.org, fwahl@tesla.com  

To R.17-09-020 and R.19-11-009 Service Lists:

Attached for your review are the informal comments the co-leads (CalCCA and PG&E) received on the July 27 Working Group Workshop on Local Capacity Requirement (LCR) Reduction Compensation Mechanism (RCM) and Treatment of Existing Contracts.

Informal reply comments on the workshop are due on August 17. Please send your reply comments to the co-leads listed below and the service lists.

Below is the updated upcoming schedule recently distributed for your convenience.

<table>
<thead>
<tr>
<th>Event</th>
<th>Due Date</th>
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<tr>
<td>Parties Provide Informal Reply Comments on Workshop to Co-Leads</td>
<td>August 17, 2020</td>
</tr>
<tr>
<td>Co-Leads to email the draft Working Group Report to Working Group participants for review</td>
<td>August 19, 2020</td>
</tr>
<tr>
<td>Working Group participants to email their comments on the draft Working Group Report to the Co-Leads</td>
<td>August 26, 2020</td>
</tr>
<tr>
<td>Co-Leads File Working Group Report</td>
<td>September 1, 2020</td>
</tr>
</tbody>
</table>

Co-leads:
CalCCA:
Evelyn Kahl – evelyn@cal-cca.org
CC Song – ccsong@cleanpoweralliance.com
Deb Emerson – demerson@sonomacleanpower.org
Melissa Brandt – mbrandt@ebce.org
Shagun Tougas – s.tougas@CleanEnergyRegResearch.com

PG&E:
Erica Brown – Erica.Brown@pge.com
Rhett Kikuyama – Rhett.Kikuyama@pge.com
Lisa Wan – Lisa.Wan@pge.com
Noelle Formosa – Noelle.formosa@pge.com

Please contact Lisa Wan at lisa.wan@pge.com and Shagun Tougas
at s.tougas@CleanEnergyRegResearch.com with any questions.

Thank you.

Shawn-Dai Linderman

Policy Assistant
California Community Choice Association
(510) 213-9774 | shawndai@cal-cca.org
To keep up with CCA news subscribe to our mailing list here.
You can also follow CalCCA on Twitter and LinkedIn.
APPENDIX E

AUGUST 17, 2020 INFORMAL REPLY COMMENTS
Subject: AReM's Informal Reply Comments on LCR Reduction Compensation Mechanism
Date: Monday, August 17, 2020 at 3:43:53 PM Pacific Daylight Time
From: Sue Mara
To: Karl Meuesen, knv@cpuc.ca.gov, KPenicke@sandiego.com, KPerez@caiso.com, LTougas@CleanEnergyResearch.com, Wan, Lisa, Lauren.Miller@SFCityAtty.org, LCARR@caiso.com, LegalAdmin@sce.com, LFisher@PublicGeneratingPool.com, Lfreeman@sidley.com, Liddell@EnergyAttorney.com, Lisa.Cherkas@MorganStanley.com, Liz.gill@energy.ca.gov, liz@CEERT.org, LJPN@pge.com, LM@dwgp.com, LRafii@Buchalter.com, LT3@cpuc.ca.gov, LTrolese@PublicGeneratingPool.com, Luisa.Ekings@SanJoseCa.gov, LValero@anaheim.net, Nickerman, Luke, Marshall, Lynn@Energy, MALcantar@Buchalter.com, Ainspan, Malcolm, Malinda@ProtectOurCommunities.org, Marc.Monboquet@Enel.com, 'Marcie Milner, Margaret.Miller@Avangrid.com, Maria@OhmConnect.com, Mark Byron, marketdev@leap.energy, Martha.Helak@smud.org, matthew.everett@sce.com, MBrandt@ebce.org, MCade@Buchalter.com, mcollins@nextant.com, md9@cpuc.ca.gov, mdeen@ppcpx.org, MeganMMyers@yahoo.com, Melicia.Charles@Sunrun.com, mfe6@cpuc.ca.gov, Michael.Evans@shell.com, Miguel.Cerrutti@Energy.ca.gov, mike.benn@powerex.com, MikeMoore315@Yahoo.com, Michelle Kito, MKubow@mrpenco.com, MLanger@CleanPowerAlliance.org, mm2@cpuc.ca.gov, mm5@cpuc.ca.gov, MMcDaniels@CPV.com, Chan, Maggie, MMcNaul@ThompsonCoburn.com, Wilson, Maria Vanko (Law), Mona Tierney-Lloyd, monica.schwebs@morganlewis.com, MPan@Anaheim.net, mplante@volusco, mmpaige@caiso.com, MRP@dwgp.com, MRW@MRWassoc.com, ms9@cpuc.ca.gov, MSomogyi@GoodInMacBride.com, MSpech@UCsusa.org, MThomas@Buchalter.com, Molly Sterkel, Mvespa@Earthjustice.org, nbbarba@frontierenergy.com, nburki@anaheim.net, nd2@cpuc.ca.gov, ng3@cpuc.ca.gov, NicholasC@AdvMicrogrid.com, N Keefer@CleanPowerAlliance.org, Nathaniel Malcolm, NMiksis@FlynnRL.com, Noelani.Derrickson@FirstSolar.com, nquan@gswater.com, nr2@cpuc.ca.gov, NRader@Calwea.org, NRreardon@SonomaCleanPower.org, Formosa, Noelle (Law), NSaracino@WEAWLaw.com, NShaughnessy@BGCpartners.com, Nora Sheriff, nsikand@goodinmacbride.com, Tang, Nuol - Mktg Affil-E&F, NWang@CleanPowerAlliance.org, PShepard@dg-c-us.com, Cunningham, Patrick, PatrickFerguson@dwt.com, paul.douglas10@gmail.com, Paul@BarkovichAndYap.com, PCummins@Wellhead.com, David Peffer, Griffes, Peter, Phillip Muller, Policy@CEDMC.org, Poonus Agrawal, PPearson@MBCommunityPower.org, pthomsen@ormat.com, pushkarwagle@flynnrl.com, pva@cpuc.ca.gov, py2@cpuc.ca.gov, r1911009@olivineinc.com, Kikuyama, Rhett, Rachel.McMahon@SunRun.com, RBird@BorregoSolar.com, rc5@cpuc.ca.gov, RegAffairs@FormEnergy.com, RegExpUCPCases@pge.com, Regulatory@BraunLegal.com, regulatory@cal-cca.org, Regulatory@ebce.org, Regulatory@mceCleanEnergy.org, Regulatory@PilotPowerGroup.com, RGerlach@BorregoSolar.com, RKing@GoodCompanyAssociates.com, RKoss@AdamsBroadwell.com, Ryan Kurlinski, RL@esLawFirm.com, rmccann@umich.edu, rmcferrin@weawlaw.com, Robin@ZGlobal.biz, Bakoussena, Renata, RSankaran@mmgrp.com, rshelton@thompsoncoburn.com, ryan.baron@bbklaw.com, STougas@CleanEnergyResearch.com, Sam.Shabacker@BloomEnergy.com, Sarah.Qureshi@NextEraEnergy.com, Sarita_Sarvate@yahoo.com, SARora@LSpower.com, sb6@cpuc.ca.gov, sbarat@opiniondynamics.com, sbelson@cedmc.org, sgs@cpuc.ca.gov, Uriza, Sarina, sdoherty@peninsulacleanenergy.com, Scott Ranzall, Sean.Beatty@nrg.com, sgn@eslawfirm.com, sgreenleaf@ces-ltd.com, Sharon.Yang@LibertyUtilities.com, shenrickson@ORMAT.com, skiehn@mbcp.org, SKozal@Buchalter.com, SLazere@cbecal.org, SMN@dwgp.com, SPauker@KeyesFox.com, Ellis, Savi, Sara Myers,
To Co-Leads of Working Group on LCR Reduction Compensation Mechanism and Treatment of Existing Contracts:

As requested in your e-mail of August 4, 2020, attached are the informal reply comments of the Alliance for Retail Energy Markets (AReM) regarding the Local Capacity Requirement (LCR) Reduction Compensation Mechanism.

These comments have also been sent to the service lists for R.17-09-020 and R.19-11-009, as you requested.

Because of the size of the combined service lists, these comments have been sent in two transmissions.

Please contact me with any questions.

Regards,

Sue Mara
On Behalf of AReM

cc: Service Lists for R.17-09-020 and R.19-11-009

Sue Mara
RTOAdvisors, L.L.C.
164 Springdale Way
Redwood City, CA 94062
sue.mara@rtoadvisors.com
(415) 902-4108
INFORMAL REPLY OF THE
ALLIANCE FOR RETAIL ENERGY MARKETS ON
LCR REDUCTION COMPENSATION MECHANISM
(R.19-11-009)

As requested by e-mail on August 4, 2020 by the Co-Leads of the Working Group directed in Ordering Paragraph 5 of Decision (“D.”) 20-06-002 implementing the Central Procurement Entity (“CPE”), the Alliance for Retail Energy Markets (“AREM”) submits this informal reply to comments submitted August 3, 2020 regarding the Local Capacity Requirements (“LCR”) Reduction Compensation Mechanism.

1. Bids Outside Of The Auction Process

Calpine states: [G]iven that the CPE would be able to compare shown and bid resources in the solicitation, it is unclear why it would be necessary to establish pre-specified premiums for shown resources.” AREM concurs with Calpine that bids outside of the auction process should not be permitted.

AREM further concurs with Calpine’s proposal to give load-serving entities (“LSEs”) “full flexibility to specify the prices at which shown resources will be compared to bid resources” in the CPE’s auction to provide LSEs “incentives to offer competitively to ensure that their resources are selected over offered resources.” AREM recommends that the Co-Leads incorporate Calpine’s recommendations into Straw Proposal #2.

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1 AREM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California’s direct access market. This filing represents the position of AREM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.
2. **Use of Benchmarks**

ARoS is concerned that any backwards-looking benchmark is based on stale data with the “staleness” exacerbated by the length of the backward look. Thus, ARoS opposes SCE’s suggestion (page 2) to use an entire year of RA pricing as a benchmark.

In addition, ARoS is concerned about the ability of any benchmark to provide an apples-to-apples comparison relative to CPE needs. If a single benchmark is used, it is unlikely to take into consideration different locations, contract terms, or temporal aspects. For example, third quarter RA is the most expensive. Thus, the CalCCA proposal, which would use third and fourth quarter data for a first quarter auction, would not be reflective of the price for that time period, even if it is only a premium calculation.

3. **Risks of Market Power and Gaming**

PG&E’s matrix (page 4) demonstrates that all options for a compensation mechanism have risks for “market power and gaming.” ARoS has the same concerns. Accordingly, ARoS questions if the limited potential benefits warrant moving forward with any compensation mechanism.

*Submitted on behalf of ARoS by:*

Sue Mara  
RTOAdvisors, L.L.C  
164 Springdale Way  
Redwood City, CA 94062  
(415) 902-4108  
sue.mara@rtoadvisors.com

August 17, 2020
To Service Lists for R.17-09-020 and R.19-11-009:

Attached please find the CALIFORNIA COMMUNITY CHOICE ASSOCIATION INFORMAL COMMENTS ON THE LOCAL CAPACITY REDUCTION COMPENSATION MECHANISM dated August 17, 2020. This document is being served by electronic mail in word-searchable PDF/a format.

If you have any difficulty accessing the attachment(s), please let me know.

NOTE: The recipient portion of this e-mail does not reflect all the addressees being served. The service list has been divided into separate addressee groups to avoid rejection by e-mail servers.

Regards,

Shawn-Dai Linderman

Policy Assistant
California Community Choice Association
(510) 213-9774 | shawndai@cal-cca.org
To keep up with CCA news subscribe to our mailing list here. You can also follow CalCCA on Twitter and LinkedIn.
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

Evelyn Kahl, General Counsel
California Community Choice Association
One Concord Center
2300 Clayton Road, Suite 1150
Concord, CA  94520
(415) 254-5454
regulatory@cal-cca.org

August 17, 2020
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CALIFORNIA COMMUNITY CHOICE ASSOCIATION
INFORMAL REPLY COMMENTS ON LCR
REDUCTION COMPENSATION MECHANISM

I. INTRODUCTION

The California Community Choice Association (CalCCA) submits these informal reply comments in response to discussions with parties following August 3 informal workshop comments. CalCCA restates its preference for “Option 2,” submitted in CalCCA’s initial proposal on July 20. It further seeks to clarify certain aspects of the proposal’s mechanics through responses to the specific questions posed in D.20-06-002.

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?

CalCCA proposes that the CPE assess the effectiveness of shown resources in its comparison of the showing “alongside bid resources.” The Commission directed the CPE to consider effectiveness, among other criteria, in its bid selection process. Under CalCCA’s proposal, the CPE would apply these effectiveness criteria in the same manner to shown resources as it does for bid resources. The CPE would then accept or reject the shown resource. Consistent with the typical solicitation process, the CPE would not have the opportunity to discount the MW or modify the price for effectiveness; the decision is binary – accept or reject. If the CPE accepts the resource, it will pay the LSE a local RA premium for the full shown Net Qualifying Capacity (NQC) at the pre-determined price (or lower shown price). If, instead, the CPE rejects the bid, the LSE would receive no local RA premium compensation.

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)?

---


2 D.20-06-002, Ordering Paragraph 14 at 95.
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.

The pre-determined price would be made public in advance of the showing date. As CalCCA pointed out in its August 3 comments, 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.

An LSE could show its resource at the pre-determined price or voluntarily at a lower price to ensure a successful showing. In effect, the pre-determined price operates as a ceiling to prevent any exercise of market power through the showing process.

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 at the pre-determined price (or voluntarily at a lower price) *before the*
solicitation would invite gaming. An LSE could simply do both, and later revoke its showing if it gets a higher price in the bid solicitation process. Moreover, this creates unnecessary complications for the CPE, who should know the universe of shown resources before selecting bids to ensure the portfolio is optimized. Finally, the “show” then “bid” approach would create a conflict for the CPE. It would be contrary to ratepayer interests for a CPE to 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.

Allowing an LSE to show at zero after its bid is rejected in the solicitation creates similar concerns. If the CPE knows that it can procure a bid resource at zero simply by rejecting the bid, why would the CPE accept the bid? Again, to do so would only increase ratepayer costs.

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.

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.**

In short, there is no need under CalCCA’s proposal to develop an annual effectiveness adjustment for shown resources. The CPE will not unilaterally adjust 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 the premium going forward as effectiveness changes.

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, consistent with the existing load order.
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. Since preferred resources are already addressed through the ongoing premium framework, this option would apply only to already-contracted fossil resources.

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.” [¶ 6.]

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 the local RA attributes of its preferred resource 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

Term of Showing. 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.

**Documenting the Transaction.** 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.

**Refinements for Administrative Ease.** PG&E proposes that an LSE show all RA attributes in its showing to the CPE, suggesting that it would be simpler for the CPE to assess the value of bundled RA attributes than to value local RA only. In return, the LSE would receive payment of the pre-determined price (or voluntarily shown lower price) for the local RA attribute; it would maintain the system and flex value and reductions in its system and flex RA requirements. Accounting for the attributes in this way allows the submission of a resource on a single, rather than two, RA supply plans, simplifying the accounting.
### IV. SUMMARY OF CALCCA PROPOSAL

<table>
<thead>
<tr>
<th>Shown Resources Compared Alongside Bid Resources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CPE Obligation</strong></td>
<td>CPE may accept or reject the showing if more cost-effective resources are available</td>
</tr>
<tr>
<td><strong>Effectiveness</strong></td>
<td>CPE applies effectiveness criteria to shown resources in the same way the criteria are applied to bid resources</td>
</tr>
<tr>
<td><strong>Annual Price Update</strong></td>
<td>No annual adjustment for effectiveness</td>
</tr>
<tr>
<td><strong>Pre-determined Price</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>Calculation of Payment</strong></td>
<td>If selected, LSE will be paid the pre-determined price (or the LSE’s lower shown price) for the local RA premium</td>
</tr>
<tr>
<td><strong>Premium Granularity</strong></td>
<td>Local area or sub-area unless aggregation up is required to mask individual resource prices; no technology differentiation in pre-determined price</td>
</tr>
<tr>
<td><strong>Showing Term</strong></td>
<td>LSE may show a resource for whatever term the CPE permits for its solicitations, with the term commencing within the current three-year compliance period</td>
</tr>
<tr>
<td><strong>Bid/Show Election</strong></td>
<td>LSE may show or bid its resource, not both</td>
</tr>
<tr>
<td><strong>Existing Contracts</strong></td>
<td>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 its local RA attributes and receive the local premium for the lesser of the remaining contract term and the end of the 2025 RA compliance year. Existing owned fossil resources do not qualify for a local showing</td>
</tr>
</tbody>
</table>
To Service Lists for R.17-09-020 and R.19-11-009:

Attached, please find Pacific Gas and Electric Company’s Informal Comments on the Local Capacity Requirement Reduction Compensation Mechanism (LCR-RCM), in PDF format. Please note: this filing was previously sent only to the LCR-RCM Working Group co-leads. This filing corrects that erroneous exclusion of the service lists by resending the informal comments to both service lists and the LCR-RCM Working Group co-leads.

If you have questions or technical difficulties with the attachment, please contact Lisa Wan (Lisa.Wan@pge.com).

Regards,

Michael Leung
Pacific Gas & Electric
Case Coordinator
77 Beale St | Rm 2340J
San Francisco, CA 94105
415-973-2766 | M7L7@PGE.com
Informal Reply Comments of Pacific Gas and Electric Company on the Working Group Workshop on the Local Capacity Requirement Reduction Compensation Mechanism and Treatment of Existing Contracts - Due August 17, 2020

Pacific Gas and Electric Company ("PG&E") provides the following informal reply comments on the working group for the local capacity requirement reduction compensation mechanism ("LCR-RCM") and treatment of existing contracts, co-led by PG&E and the California Community Choice Association ("CalCCA") (together, the “Co-Leads”) and replies to informal comments submitted by CalCCA, Calpine Corporation ("Calpine"), Southern California Edison Company ("SCE"), and San Diego Gas & Electric Company ("SDG&E") on August 3, 2020.

I. INTRODUCTION

At the LCR-RCM workshop held on July 27, 2020, CalCCA put forth an Option 2 proposal ("CalCCA Proposal") for consideration by the working group and provided further details on the Option 2 proposal through informal comments.¹ In these informal reply comments, PG&E focuses its reply comments on the CalCCA Proposal and provides additional considerations for the working group in developing a workable solution for the LCR-RCM and parameters suggested by SCE and SDG&E on the treatment of existing contracts.

II. COMMENTS ON THE CALCCA PROPOSAL

PG&E understands the CalCCA Proposal to include the following key elements: (1) the voluntarily shown option from Decision ("D.") 20-06-002 would be replaced with a “bid-in” option and, thus, would effectively remove the voluntarily shown option from the central procurement entity ("CPE") solicitation and evaluation process, (2) load serving entities ("LSE") would be required to bid only the local resource adequacy ("RA") attribute into the CPE solicitation to receive compensation under the LCR-RCM, (3) all “bid-in” resources will be evaluated simultaneously or alongside each other (e.g. as part of the entire pool of resources to

¹ CalCCA proposed two options for establishing the LCR-RCM: CalCCA Proposal #1 and CalCCA Proposal #2.
be procured by the CPE), and (4) the CPE may accept or reject the LCR-RCM eligible resources at the price and quantity shown depending on the value relative to other “bid-in” resources (e.g. there is no guaranteed premium for the LSE for LCR-RCM eligible resources).

While PG&E does not find CalCCA’s Proposal to clearly meet all of the objectives in D.20-06-002, PG&E believes that the proposal is the only workable solution that has been put forth by the working group that clearly meets the objective of allowing LSEs to retain the system and flexible RA attributes and receive compensation for the local RA attribute under the hybrid procurement framework. In these informal reply comments, PG&E focuses on some of the advantages and potential solutions to specific shortcomings of the CalCCA Proposal that should be considered by the California Public Utilities Commission (“Commission”).

III. THE VOLUNTARILY SHOWN OPTION SHOULD CONTINUE TO BE AVAILABLE BUT WOULD NOT BE ELIGIBLE FOR THE LCR-RCM AND THE COMMISSION SHOULD CONSIDER REVISITING IOU BIDDING REQUIREMENTS IN RESPONSE TO THIS PROPOSAL

As PG&E stated in its informal comments to the working group, local resources are not equally “effective” in meeting local area reliability needs. That said, PG&E finds the process of the CalCCA Proposal for: (1) an LSE to bid only the local RA product (“Local-Only Bid”) into the CPE solicitation and (2) to allow the CPE to evaluate the Local-Only Bid alongside the “bundled” system/local/flexible RA products of other resources as a workable solution to address some of the challenges associated with developing an effectiveness adjustment that would be applied to the premium price and/or the “voluntarily shown” capacity (also referred to as “must-take” capacity). Under the CalCCA Proposal, no effectiveness adjustment would need to be developed because the CPE would be allowed to accept or reject the LCR-RCM eligible resources at the price and quantity shown by appropriately valuing the “effectiveness” of the resource’s potential energy-limitations relative to the entire pool of resources in meeting local area reliability needs as part of the overall evaluation and selection criteria process. PG&E

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2 The calculation can use the median price or an average price after removing market-power-inflated prices.
agrees with Calpine that this process provides LSEs with an incentive to offer competitively to the CPE to ensure that their LCR-RCM eligible resources are selected over other “bid-in” resources and that the CPE would have the discretion to not “procure” voluntarily shown resources and defer backstop procurement to the California Independent System Operator Corporation (“CAISO”) in the absence of sufficient competition.

While PG&E generally finds the CalCCA Proposal reasonable, PG&E believes that (i) all LSEs, including IOUs, should be able to avail themselves of the LCR-RCM in the same manner, and (ii) an LSE should continue to be afforded the voluntarily shown option should the LSE want to retain the system/flexible RA products for use towards its LSE-specific system and flexible RA requirements, however, the voluntarily shown option would not be eligible for compensation under the LCR-RCM.

PG&E’s concern related to item (i) in the paragraph above is that the investor-owned utilities (“IOUs”) have clear bidding requirements for participation in the CPE solicitation. D.20-06-002 states that the IOUs are to bid into the CPE solicitation at the levelized fixed costs, which refers to “the annual revenue requirement for utility-owned resources or the PPA price for contracted resources.” It is not clear how the IOUs would meet the bidding requirements for the Local-Only Bid should the IOU want to retain the system/flexible RA products for its specific system and flexible RA requirements. Accordingly, PG&E recommends that the Commission establish a separate track in the RA proceeding or identify another venue to evaluate the bidding requirements for the IOUs to participate in the Local-Only Bid option as part of CalCCA’s proposal and potentially to bid bundled RA products to the CPE to ensure that the IOUs as LSEs have the same options as other LSEs for managing their portfolios. Further, with respect to item (ii) in the paragraph above, PG&E recommends that the CalCCA Proposal be slightly modified so that the voluntarily shown option continues to be available for an LSE but the “voluntarily shown” resource would not be eligible for compensation under the LCR-RCM.
IV. ADDITIONAL CONSIDERATION IS NEEDED TO MAINTAIN THE BUNDLED RA PRODUCTS

PG&E generally agrees with Calpine that the CalCCA Proposal provides a workable solution for the CPE to evaluate all resources using “the same criteria and that the ultimate selection of the combination of ['voluntarily'] shown and bid[-in] resources to meet local RA requirements is reasonably efficient” but that the proposal may not be consistent with D.20-06-002. PG&E notes that D.20-06-002 states: “[L]ocal MWs are bundled with system MWs (and sometimes flexible MWs), for each local MW procured by the CPE there would be one MW of system capacity that is also procured (and potentially one MW of flexible capacity that is also bundled).”

Given that the CPE will be procuring an LCR-RCM eligible resource for its local RA product only, PG&E reiterates its recommendation that the working group evaluate how the “ unbundling” of RA products would work or impact other parts of the RA program, specifically how the RA showings at the CAISO and Commission could be completed to maintain the bundled RA products of the resource to be consistent with D.20-06-002 and meet the objective of allowing LSEs to retain the system and flexible RA products under the hybrid procurement framework. PG&E is exploring ways to effectively implement the CalCCA Proposal in RA showings at the respective regulatory agencies with minimal impact to existing processes in the RA timeline.

V. TREATMENT OF EXISTING CONTRACTS

Within informal comments to the working group, PG&E supported legacy treatment of (1) existing resources that were procured or contracted for and (2) existing resources owned or acquired by the LSE to meet its local RA requirements prior to the consideration of a centralized procurement framework for local RA.\(^2\) The legacy treatment would allow a resource to be

\(^2\) PG&E notes that legacy treatment of existing contracts should not be afforded to contracts for local resources that were procured outside of that LSE’s transmission access charge (“TAC”) area (e.g. a northern California LSE that procured a resource within a southern California LSE’s TAC) as those resources were not procured by the LSE to meet local RA requirements but were likely procured to meet the LSE’s system RA requirements.
eligible for the LCR-RCM, namely for non-preferred resources. However, PG&E believes it is critical to both: (1) define a specific date by which a local resource should be deemed to be “existing” for purposes of legacy treatment and (2) to limit the term the legacy treatment would be applied. Such parameters would support California’s state policy goals for decarbonization of the grid.

As commented by SCE and SDG&E, the specific date (“Legacy Treatment Date”) by which a local resource would be deemed to be existing for purposes of legacy treatment shall be March 26, 2020 or June 11, 2020, respectively. PG&E continues to support legacy treatment to be applied to local RA contracts executed, or owned resources that were acquired, prior to the date of issuance of D.19-02-022, March 4, 2019 as this date effectively represents the date that the Commission affirmed its intent to adopt a centralized procurement framework for local RA resources and the possibility that LSEs may no longer have a procurement obligation for local RA.

PG&E opposes CalCCA’s recommendation that legacy treatment should not be given to utility-owned generation. Consistent with D.20-06-002, PG&E believes the IOUs should be able to maximize ratepayer benefit for bundled service customers, as other LSEs do, and thus should have the same options that other LSEs are afforded under a potential legacy treatment of resources based on the Legacy Treatment Date.

Further, PG&E agrees with SCE that legacy treatment should be no longer than 5 years for local RA contracts executed or owned resources that were acquired prior to the Legacy Treatment Date to be eligible for compensation under the LCR-RCM.

VI. CONCLUSION

PG&E respectfully requests that these informal reply comments inform the Commission’s consideration of the LCR-RCM.

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4 March 26, 2020 is the issuance date of the Proposed Decision and June 11, 2020 is the adoption date of the Final Decision on CPE structure of local RA.

To all parties in R.17-09-020 and R.19-11-009:

Attached is Southern California Edison Company’s Informal Reply Comments Regarding Working Group Workshop on Local Capacity Requirement (LCR) Reduction Compensation Mechanism and Existing Contracts August 17, 2020. This document is hereby served by electronic mail upon all parties listed in the official service lists for R.17-09-020 and R.19-11-009.

(See attached file: R1709020-SCE Informal Reply Comments on Working Group Workshop on LCR Reduction Compensation Mechanism and Existing Contracts.pdf)

(See attached file: R1709020_Service List.pdf)

(See attached file: R1911009_Service List.pdf)

Regards,

Legal Administration
Southern California Edison Company
Telephone: (626) 302-6950
Email: Legal_Admin@sce.com
Southern California Edison Company’s Informal Reply Comments Regarding Working Group Workshop on Local Capacity Requirement (LCR) Reduction Compensation Mechanism and Existing Contracts
August 17, 2020

Southern California Edison Company (SCE) appreciates the opportunity to submit informal reply comments on the July 27, 2020 working group workshop regarding the LCR reduction compensation mechanism and treatment of existing resource adequacy (RA) contracts. SCE thanks the co-leads for facilitating the workshop and parties for presenting their proposals and opening comments. SCE also thanks all parties for their engagement and constructive discussion during the workshop.

SCE continues to evaluate the proposal put forth by California Community Choice Association (CalCCA) on August 3, 2020 (the CalCCA proposal). SCE understands that the August 3, 2020 proposal is essentially the same as CalCCA Straw Proposal #2 presented during the July 27, 2020 Workshop. SCE also understands that CalCCA is no longer pursuing its Straw Proposal #1, i.e., the “must take” option with a pre-determined premium price for showing resources because CalCCA Straw Proposal #1 was not included in the latest proposal by CalCCA. SCE also sees problems with CalCCA Straw Proposal #1. For example, this option could lead to inefficient outcomes if there are other resources that bid at lower prices, or are more economic, in meeting a local area need (or RA requirements with system and/or flexible attributes) than the “must-take” shown resources. In such a situation, the end result could be “must-take” shown resources are selected and paid for by customers at the pre-determined premium, while more economic resources are not selected, which unnecessarily increases costs to customers.

In contrast, there are merits in the CalCCA proposal presented in its informal comments (i.e., the original CalCCA Straw Proposal #2) and that proposal should be further explored.

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1 CalCCA Informal Comments on the Local Capacity Reduction Compensation Mechanism, August 3, 2020 (CalCCA Informal Comments).
There are a few clarifications that should be made to the proposal as discussed below. SCE may provide additional comments as the working group process evolves.

First, it should be clarified that for a local resource that is shown by a load-serving entity (LSE) to the central procurement entity (CPE) by bidding its local attribute up to the pre-determined premium, if the resource is selected by the CPE during the solicitation, then the LSE should be paid its offer price for the shown resource. If the resource is shown with an offer below the pre-determined premium, then the LSE should be paid the shown offer price, not the pre-determined premium.

Second, the option of showing a local resource without direct compensation, one of the original options described in Decision (D) 20-06-002, should be retained. Under this option, an LSE would still be able to show its local resources to the CPE and have certainty that the shown resources will count towards meeting local requirements and lower the target for the CPE to procure through solicitations, but in that case the LSE would not receive any offer price for the local resources. While presumably the CalCCA proposal does not preclude an LSE from showing a local resource by bidding the local attribute at $0/MWh, which could arguably achieve the same certainty achieved under the original showing option, it is important that the CalCCA proposal explicitly clarify that the original showing option described in the decision will be retained. In D.20-06-002, the Commission stated when the distribution utility is acting as the CPE, it must bid its own resources at their levelized fixed costs, and that a distribution utility should have the same options as other LSEs in deciding whether to bid or show its resources into the CPE’s solicitation process. It is unclear how the restrictions on the distribution utilities

\[\text{1}\]
\[\text{2}\]
\[\text{3}\]
\[\text{4}\]

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\[1\] Currently, the CalCCA proposal states: “If selected, LSE will be paid the pre-determined price for the shown resource.” CalCCA Informal Comments at 10.

\[2\] See D.20-06-002 at Ordering Paragraph 11 (“A distribution utility that is acting in its capacity as a central procurement entity (CPE) shall bid its own resources, that are not already allocated to all benefiting customers, into the solicitation process at their levelized fixed costs. A distribution utility that is not acting in its capacity as the CPE is not required to bid its resources into another CPE’s solicitation at their levelized fixed costs.”); Ordering Paragraph 9 (“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.”).
bidding their own resources at their levelized fixed costs would apply in a situation where the “show” option includes an offer price for the local attributes. To avoid any confusion and complications, the CalCCA proposal should explicitly clarify that the original showing option as described in the decision (i.e., to show with no offer price or premium) will be retained. Further, the original showing option should be available to all LSEs, as intended under the decision.

SCE appreciates the opportunity to comment and looks forward to further discussion and parties’ consideration of the issues outlined above.
APPENDIX F

AUGUST 26, 2020 INFORMAL COMMENTS ON DRAFT REPORT
To Co-Leads of Working Group on LCR Reduction Compensation Mechanism and Treatment of Existing Contracts:

As requested in your e-mail of August 21, 2020, attached are the comments of the Alliance for Retail Energy Markets (AReM) on the Draft Report.

These comments have also been sent to the service lists for R.17-09-020 and R.19-11-009, as you requested.

Because of the size of the combined service lists, these comments have been sent in two transmissions.

Please contact me with any questions.

Regards,

Sue Mara
On Behalf of AReM

Sue Mara
RTOAdvisors, L.L.C.
164 Springdale Way
Redwood City, CA 94062
sue.mara@rtoadvisors.com
(415) 902-4108
ATTACHMENT 1 TO
CALIFORNIA COMMUNITY CHOICE ASSOCIATION AND PACIFIC GAS AND ELECTRIC COMPANY’S (U 39 E) TRACK 3.A WORKING GROUP REPORT ON CONSENSUS AND NON-CONSENSUS ITEMS REGARDING DEVELOPMENT OF LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM AND PROPOSAL ON TREATMENT OF EXISTING CONTRACTS

WORKING GROUP REPORT
[TABLE OF CONTENTS TO BE INSERTED]
I. Background

A. Procedural Background and Scope

Decision (D.) 20-06-002 adopts implementation details for the central procurement of multi-year local resource adequacy (RA) to begin for the 2023 compliance year in the Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) distribution service areas, including identifying PG&E and SCE as the central procurement entities (CPE) for their respective distribution service areas and adopting a hybrid central procurement framework.\(^1\) The framework places full local RA procurement responsibility on behalf of all load serving entities (LSE) on the CPE, and LSEs no longer receive individual local requirements.\(^2\) LSEs that have procured local resources may “(1) show the resource to reduce the central procurement entity’s (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.”\(^3\) Under the “show” option, the LSE does not receive one-for-one credit for its local resources.\(^4\)

In adopting the hybrid central procurement framework, the California Public Utilities Commission (Commission) found that, even without a financial crediting mechanism, the framework does not disincentivize procurement of local resources because LSEs procure local

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\(^1\) D.20-06-002 at 1, Ordering Paragraphs 2-4.
\(^2\) Id. at 22-23, Ordering Paragraph 3.
\(^3\) Id. at 23, Ordering Paragraph 4.
\(^4\) Id. at 23.
resources for many reasons beyond the local RA value. The Commission recognized, however, that “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” To that end, the Commission committed to developing an “LCR reduction compensation mechanism, a financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value” (LCR RCM), if details can be assessed and developed. The Commission defined “LCR reduction compensation mechanism” (LCR RCM) as a “financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value.” To develop such a mechanism, the Commission directed a working group (WG) co-led by CalCCA and either PG&E or SCE. The Commission also included within the scope of the WG issues related to treatment of existing contracts, including potential application of the LCR RCM to these contracts. The Commission further required the co-leads to file a WG report on consensus and non-consensus items (Report) in this proceeding by September 1, 2020. In addition, the assigned Commissioner in this proceeding issued the Assigned Commissioner’s Amended Track 3.A and 3.B Scoping Memo and Ruling, dated July 7, 2020 (Amended Scoping Memo), designating evaluation of an LCR RCM as an issue in Track 3.A and requiring WG reports and proposals from parties to be filed on September 1, 2020.

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5 Id. at 40-41, 72.
6 Id. at 42, 72.
7 Id., at 43.
8 Id., at 42.
9 Id. at Ordering Paragraph 5.
10 Id. at 46, 75 and Ordering Paragraph 6.
In both D.20-06-002 and the Amended Scoping Memo, the Commission identified four specific issues to be addressed by the Report:11

a. 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);

b. How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;

c. 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; and

d. 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.

In addition, the Commission directed in D.20-06-002 that the Report “address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources.”12 D.20-06-002 also requires the WG to (i) “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”13 and (ii) consider how the CPE will 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.”14 The Report must also address consensus and non-consensus items regarding treatment of existing contracts.15

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11 Id. at Ordering Paragraph 5.
12 Id. at Ordering Paragraph 5. The Amended Scoping Memo includes a similar requirement. Amended Scoping Memo at 3.
13 Id. at Ordering Paragraph 6.
14 Id. at pp. 44-45. The four issues identified above (a.-d.) and the three issues identified in this paragraph (i.e. in the first sentence and romanettes (i) and (ii) of the second sentence) are referred to herein as the “7 Issues.” The 7 Issues are also outlined in the email attached as Exhibit A.
15 Ibid.
Using this guidance, CalCCA and PG&E, serving as WG co-leads, sent an email to the service list on July 6, 2020, soliciting initial input from stakeholders through informal comments submitted on July 20, 2020, and seeking participation by other stakeholders with an interest in presenting at a WG workshop on the identified issues set for July 27, 2020. Eight parties submitted informal comments on the 7 Issues on July 20, 2020 ahead of the July 27, 2020 WG workshop. These informal comments are attached as Exhibit B to this Report. Three parties (PG&E, CalCCA, and San Diego Gas & Electric Company (SDG&E)) expressed interest in presenting at the WG workshop. The co-leads facilitated the WG workshop by WebEx on July 27, 2020, beginning at 10:00 a.m. The co-leads jointly presented a review of the 7 Issues identified in D.20-06-002 and initial informal comments on the 7 Issues. Additionally, PG&E made a presentation as a participant in the WG to address pending issues. CalCCA also presented as a WG participant, offering two proposals. The only other party presenting a proposal was SDG&E. These presentations are attached as Exhibit C. WG participants submitted informal comments and replies regarding the WG workshop on August 3, 2020, attached as Exhibit D, and on August 17, 2020, attached as Exhibit E, respectively. A draft of the Report was circulated to WG participants on [August 21, 2020], with informal comments on the draft Report submitted on [August 26, 2020] and attached here as Exhibit F.

The workshop and parties’ informal comments have helped inform this Report.

B. Topics Expressly Excluded from Scope

The Commission expressly identified certain topics as out-of-scope. They include:

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16 The email to the service list laying out the WG schedule is attached as Exhibit A.

17 D.20-06-002 at 43 (“The Commission is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts).”)

Attachment 1 - 6
1. One-for-one credit mechanism for local RA that does not account for relative effectiveness of shown resources relative to bid resources;\textsuperscript{18}

2. Ex-post price premium based on the average price paid by the CPE for resources in the local area for which a resource is shown;\textsuperscript{19}

3. Credit mechanism for fossil fuel resources (other than potentially for existing contracts);\textsuperscript{20} and

4. An LCR RCM mechanism for the SDG&E Transmission Access Charge (TAC) area, where a CPE will not be designated. \textsuperscript{21}

Stakeholders generally adhered to this guidance in offering proposals presented through the WG process and described in this Report.

C. Schedule of Completed Activities

The co-leads scheduled and completed the following WG activities:

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 6, 2020</td>
<td>Co-leads circulated notice to the service lists of WG co-leads and WG schedule, including workshop, and request for informal comments on 7 Issues outlined in D.20-06-002 on pages 43-45 and in Ordering Paragraphs 5 and 6.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 17, 2020</td>
<td>Co-leads circulated notice of workshop date and call-in information to the service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 20, 2020</td>
<td>Parties submitted informal comments to the service lists in response to the co-leads’ request on 7 Issues outlined in D.20-06-002 and notified co-leads of intent to present at workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 24, 2020</td>
<td>Co-leads circulated notice of agenda and presentation materials for the virtual workshop to service lists.</td>
<td>Complete</td>
</tr>
</tbody>
</table>

\textsuperscript{18} Id. at 41.
\textsuperscript{19} Id. at 42.
\textsuperscript{20} Id. at 41.
\textsuperscript{21} Id. at Conclusion of Law 6.
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 27, 2020</td>
<td>Co-leads hosted a virtual workshop on WebEx on LCR RCM and the treatment of existing contracts.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 30, 2020</td>
<td>Co-leads again circulated presentations from virtual workshop to workshop participants, in addition to a matrix for parties to utilize in developing informal comments on the workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 31, 2020</td>
<td>Co-leads circulated updated schedule for WG to the service lists, including dates for informal reply comments on workshop, issuance of a draft Report, and informal comments on the draft Report.</td>
<td>Complete</td>
</tr>
<tr>
<td>August 3, 2020</td>
<td>Parties submitted informal comments on the workshop to co-leads, which were circulated to the service lists on August 4, 2020.</td>
<td>Complete</td>
</tr>
<tr>
<td>August 17, 2020</td>
<td>Parties submitted informal reply comments on the August 3 informal comments to the service lists (PG&amp;E’s informal reply comments were sent to the co-leads on August 17, 2020, and to the service lists on August 19, 2020).</td>
<td>Complete</td>
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<tr>
<td>August 20, 2020</td>
<td>Co-leads circulated an updated schedule for the WG to the service lists</td>
<td>Complete</td>
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<tr>
<td>August 21, 2020</td>
<td>Co-leads served a draft Report to the service lists for comment.</td>
<td>Complete</td>
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<tr>
<td>August 26, 2020</td>
<td>Parties submitted informal comments on the draft Report to the service lists.</td>
<td>[Complete]</td>
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<tr>
<td>September 1, 2020</td>
<td>Co-leads filed and served Report.</td>
<td>[Complete]</td>
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II. Guiding Principles and Objectives

The co-leads presented their views and interpretations on guiding principles and objectives in the July 27, 2020, workshop presentations.

A. Guidance from D.20-06-002
Drawing from D.20-06-002, the co-leads identified the following explicit guidance provided by the Commission, with the corresponding page number or ordering paragraph (OP) in brackets:

**Effectiveness:**

1. The LCR RCM cannot provide a “one for one” premium as CalCCA proposed without considering effectiveness. [p. 41]
2. The LCR RCM must address “local effectiveness” and “use limitations” of the shown resource to align the financial compensation with the actual LCR MW reduction the resource provided. [p. 42, OP 5]
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.” [OP 5.d.]

**Least-Cost, Best-Fit:**

a. “Because resources procured in the CPE solicitation would impact local compensation values and the least cost best fit solution, local resources shown by LSE’s 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]

b. “[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]

c. “[E]nsures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value…” [p. 43]

**Premium Determination and Market Power Issues:**

1. The LCR 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]

2. “[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]

3. 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]

4. “To the extent that market power inflates local area capacity prices, an ex post benchmark would exacerbate this problem by providing inflated prices to local resources shown by LSEs” [p. 42]
5. 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.” [OP 5.b]

Preferred Resource Development in Local Areas

1. “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” [p. 41]

B. PG&E Proposed Principles

Based on the guidance in D.20-06-002, PG&E outlined the following four recommended principles for the LCR RCM in its workshop presentation included in Exhibit C:

- The LCR RCM should:
  - Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;
  - Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;
  - Result in lower total costs to customers without sacrificing local area reliability; and
  - Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

WG participants also provided recommendations and comments on guiding principles.

The Alliance for Retail Energy Markets (AReM) proposed the following principles in the evaluation of the need and structure for any such compensation mechanism:

- No CPE Over-procurement - The ability for an LSE to receive an LCR RCM payment from the CPE must not result in over-procurement by the CPE with those costs spread among all LSEs;

- Cost Causation – Customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; costs should not be spread to other LSEs or their customers;
• Premiums Paid for Shown Resources Must Be Aligned with the Auction – LSEs with resource types that are worth a premium to the CPE should be eligible for compensation up to that premium, not more. i.e., if the CPE auction awards a higher RA price to energy storage, any LSE-shown resource that is energy storage should be eligible for the LCR RCM premium that does not exceed the premium paid for such resources in the auction; and

• Payment Length for Show Resources Must Be Aligned with the Local RA Requirement – The number of years an LSE is eligible for an LCR RCM payment should not be longer than up to three years – the term of the Local RA requirement.

California Energy Storage Alliance (CESA), in addition to responses to the specific 7 Issues presented, also suggested that the WG should:

• consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective local RA requirements, and

• clarify and discuss the implications of the CPE buying all RA attributes if selected.

III. Description of Proposals

A. CalCCA Proposals

1. CalCCA Option #1

CalCCA’s initial proposal, presented in its July 20, 2020, informal comments, advanced a CPE “must take” model. The model evolved as a result of the workshop and Parties’ comments, however, into a refined “Option #1” proposal presented in CalCCA’s July 27, 2020, comments. CalCCA does not recommend adoption of this approach but prefers its “Option #2” described below.

Under the must-take model, the CPE would be bound to take any local RA attributes from preferred or energy storage resources shown by an LSE. The price would be determined using the following formula:

Year 1: Use the median price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both system and local RA; subtract system RA price from local RA and multiply by effective megawatt (MW)
Subsequent Years: Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW.

This formulation removes the risk of market power influence by relying on the median CPE bid price rather than an average bid price. The median price is also unlikely to suggest pricing to future bidders, which an average price would do.

The number of MW shown by the LSE would be adjusted for effectiveness, using one of two methods. The first method would rely on published California Independent System Operator Corporation (CAISO) effectiveness factors, scaling a resource’s effectiveness to the average effectiveness procured by the CPE in that specific local area. Because these factors do not fairly represent the value of resources, due to their focus on a limited subset of constraints, CalCCA did not favor this approach. The second method would rely on a yet-to-be determined methodology using data regarding peak contribution of particular technologies in specific local areas and data underlying the CAISO’s identified storage need in its annual Local Capacity Technical Study. CalCCA pointed out, however, that developing these technology-specific methodologies would be time consuming and would, at best, provide only rough justice in determining the showing value.

CalCCA does not support adoption of Option #1 due to the complexity of developing reasonable effectiveness calculations. In addition, it is difficult to square a CPE “must-take” model with the directive in D.20-06-002 that shown resources must be “evaluated alongside bid resources.”

2. CalCCA Option #2

CalCCA advances its Option #2 as the preferred methodology for the LCR RCM. Unlike Option #1, the CPE would not be bound to accept all shown resources but could reject them after
considering their value “alongside bid resources.” The “pre-determined price” calculation would be the same as Option #1:

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

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

The only difference is that an LSE could choose to show its resources to the CPE for local credit at a price lower than the pre-determined price if desired.

The primary benefit of this approach, however, is administrative simplicity. Option #2 does not require further work to develop highly technical, technology-specific effectiveness values. Instead, it relies on the guidelines the CPE will use to evaluate bid resources. In other words, the CPE would apply the same methodology or considerations to bid and shown local RA resources in comparing their value.

Beyond these fundamental features, CalCCA addressed term and documentation of showings. Resources committed through a showing would have a three-year commitment where the term start date could be any year within the three-year forward compliance period. The showing (like bid) would be documented through a confirm under the Edison Electric Institute (EEI) Master Agreement.

3. **CalCCA Proposal on Treatment of Existing Contracts**

In essence, since preferred and storage resources are covered by the showing option, the legacy treatment for existing contracts identified by D.20-06-002 LCR RCM would only apply to existing fossil contracts. The Commission did not extend this same authority for an investor owned utility (IOU) to show fossil utility owned generation (UOG). As stated in D.20-06-002,
existing fossil UOG would be required to bid into the CPE solicitation, and bid UOG would receive Cost Allocation Mechanism (CAM) treatment.\textsuperscript{22}

CalCCA proposes that existing fossil contracts receive legacy treatment for five years from the implementation of the CPE. Legacy contracts will include only resources that are currently online and were contracted by an LSE on or before June 11, 2020 (the date D.20-06-002 was issued).

<table>
<thead>
<tr>
<th><strong>Summary of CalCCA Option #2 LCR RCM Recommendation</strong></th>
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<td><strong>CPE Obligation</strong></td>
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<td><strong>Effectiveness</strong></td>
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<td><strong>Annual Price Update</strong></td>
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<td><strong>Pre-determined Price</strong></td>
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<td><strong>Calculation of Payment</strong></td>
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<td><strong>Premium Granularity</strong></td>
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<td><strong>Showing Term</strong></td>
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<td><strong>Bid/Show Election</strong></td>
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<td><strong>Existing Contracts</strong></td>
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\textsuperscript{22} D.20-06-002 at 48.
lesser of the remaining contract term and the end of the 2025 RA compliance year. Existing UOG “resources” do not qualify for a local showing.

B. SDG&E Proposal

SDG&E developed a proposal, included it in their July 20, 2020 comments, and presented the proposal at the July 27, 2020 workshop. SDG&E’s proposal addressed local premium, effectiveness factors, duration, and cost-allocation.

On the local premium, SDG&E proposed that the CPE utilize the relevant Power Cost Indifference Adjustment (PCIA) System RA Market Price Benchmark (MPB) for its area, either NP-15 or SP-15 for the compliance year. SDG&E noted that the System RA MPB is typically available in November prior to the compliance year. SDG&E suggested consideration of the weighted average price of Local resources that were contracted by the CPE for the compliance year. This means that the CPE must identify the specific cost related to RA capacity procured if it procured other attributes, such as Flexible RA or energy tolling, which is necessary to ensure an apples-to-apples comparison. SDG&E also explored using the PCIA Local MPB, however it was unclear how the CPE procurement of Local resources would impact the PCIA Local MPB calculation. Therefore, SDG&E recommended using prices relevant to CPE procurement.

SDG&E also maintained that both values could be made publicly available in November after the CPE has finished its procurement along with the publication of the annual PCIA MPBs.

On effectiveness, SDG&E argued that effectiveness factors should be guided by the CAISO and the annual Local Capacity Technical Study (LCTS). SDG&E proposed that the effectiveness factors for all shown resources be calculated based on the percentage resulting from the local or sub-area LCR divided by the total amount of capacity shown and CPE procured capacity. SDG&E provided the example that if the LCR is 100 MWs and 40 MWs were shown
by LSEs, and 80 MWs were procured by the CPE, the percentage would be 100 MW / 120 MW, or 83.33 percent. LSEs that showed the total of 40 MWs would receive a credit of approximately 33.33 MWs.

In terms of duration, SDG&E proposed that the resources would be shown annually on a three-year rolling basis.

For cost-allocation, SDG&E proposed that the premium associated with the shown local RA capacity would reduce the costs allocated to the LSE by the CPE for the procurement.

C. PG&E Presentation and Proposals

While PG&E did not present a full proposal at the July 27, 2020 workshop, PG&E’s presentation included proposed guiding principles for the LCR RCM, detailed above in Section II and repeated here for convenience:

- The LCR RCM should:
  - Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;
  - Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;
  - Result in lower total costs to customers without sacrificing local area reliability; and
  - Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

PG&E’s presentation explained that PG&E had not identified a mechanism for developing a price that clearly met these proposed guiding principles. In attempting to establish an appropriate local price, PG&E considered two options: cost-based and market-based. PG&E discussed how each of these prices could be derived and outlined the drawbacks of each option.
PG&E also proposed that the LCR RCM premium should be as granular as possible in order to send the correct market signals.

PG&E further explained its view that any “workable” solution must be paired with a transparent and appropriate effectiveness adjustment and demonstration of reduction in total costs to customers. PG&E’s presentation provided information regarding the complexity and potential infeasibility of developing effectiveness adjustments using CAISO effectiveness factors, as well as other measures of effectiveness that could be explored.

PG&E concluded its presentation by stating that the LCR RCM should not result in an increase in total costs to customers. In other words, resources paid through this mechanism must be lower cost than its alternative, and the mechanism must not be game-able.

In addition, PG&E utilized the July 20, 2020, informal comments to provide its proposals with respect to treatment of existing contracts and existing owned resources. First, PG&E proposed that legacy treatment of existing contracts not be afforded to contracts for local resources that were procured outside of an LSE’s transmission access charge (TAC) area (e.g. a northern California LSE that procured a resource within a southern California LSE’s TAC), as those resources were not procured by the LSE to meet local RA requirements, but were likely procured to meet the LSE’s system RA requirements. PG&E also proposed that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired, prior to the date of issuance of D.19-02-022, March 4, 2019 (i.e. when the Commission affirmed its intent to adopt a centralized procurement framework for local RA resources and the possibility that LSEs may no longer have a procurement obligation for local RA). PG&E also proposed that legacy treatment not be applied for the full term of an existing contract or the life of an existing owned resource.
IV. Consensus and Non-Consensus Items

A. Matrix of party positions

As part of the WG process, the co-leads developed a matrix of party positions that covers key questions, including effectiveness, granularity, transparency, bidding issues, annual adjustments, the evaluation process, and shows where there is consensus and non-consensus among parties. The matrix was distributed to workshop participants on July 30, 2020, and parties provided edits to the matrix as part of informal comments submitted on August 3, 2020. The matrix has been updated to incorporate edits submitted on August 3, 2020, and is included in this Report as Exhibit G.

B. Summary of Consensus and Non-Consensus Items for the 7 Issues

1. Cost-effectiveness

While some parties stated that the mechanism should not provide compensation if the resource does not provide value (CalPA) or does not reduce costs (PG&E), other parties argued that cost-effectiveness should not be in scope (CEDMC). Others raised feasibility of the mechanism if CAISO would need to provide information on effectiveness (SCE, SDG&E). Others argued that the CPE should produce multiple portfolios, akin to the transmission alternative portfolios the CAISO creates in the Transmission Planning Process, as a means to address cost-effectiveness (CESA).

With respect to how the mechanism should address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources, six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the topic should be within the scope of the mechanism and one party (CEDMC) stated that it should be outside of the scope of the mechanism.
PG&E and CESA expressed that a resource should demonstrate its effectiveness to receive compensation. CESA looks to have the assessment incorporate non-quantitative criteria, whereas PG&E looks to have only quantitative criteria used.

Six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the effectiveness adjustments could be determined by the CAISO through various mechanisms. The specific actions suggested by the parties varied, ranging from: adjustments to NQC values (PG&E), determination of effectiveness factors (SCE), using the Local Capacity Technical Study (SDG&E), and developing a stakeholder process for determining the appropriate mechanism (CalCCA).

CalCCA’s final proposal (Option #2) left the question to the CPE. The CPE is required to take effectiveness into account in selecting bids from its solicitations. Since CalCCA’s proposal (Option #2) contemplates a comparison of shown preferred resources alongside bid resources, CalCCA submits that the CPE should apply the same criteria – whatever they may be – to both bid and shown resources.

2. **Premium granularity**

There was a broad spectrum of perspectives on premium granularity. Some parties argued that the premium should be dependent on the data available; for example, it could be sub-area, local area, or TAC-wide area (SCE). Others argued for premiums for each resource technology type (CalPA) or by resource type, location, or operational characteristics (CEDMC), or based on location, including disadvantaged communities (DACs), GHG emissions reduction, and market power mitigation (CESA).

With respect to how granular the premium should be, three parties stated that the price premiums should be differentiated by local areas or sub-local areas (CalCCA, PG&E, and SDG&E) and one party stated that it should be differentiated by the TAC-wide area (SCE) unless
a higher level of aggregation was required to mask the price of individual resource prices. SDG&E stated that the complexity of developing individual premiums for the various types of resources makes the task infeasible.

One party stated that a series of premiums should be stacked to arrive at the final premium for a resource (e.g., closer-to-load, within a DAC, GHG emission reduction, and offers market power mitigation) (CESA). An additional party referenced a premium for a resource being located within a DAC (CEDMC).

3. Transparency of premium

Parties broadly supported as much transparency as possible, while still protecting market-sensitive information. Parties presented numerous ideas on how and when data should be presented. For instance, PG&E advocated for aggregating data upfront and making more detailed data available after sufficient time had passed. CalPA argued for posting the premiums to the service list and CESA argued that premiums should be made available by resource class. SDG&E argued that advance knowledge of the premium is not necessary since LSEs could still show the resource if the offer is not selected by the CPE.

CalCCA observed that its proposal would allow for full transparency of the predetermined price. Neither source of data required for the calculation -- the median bid price from the last CPE solicitation and the aggregated RA prices reported to Energy Division -- presents concerns regarding market sensitivity. The Energy Division prices are made public annually, and the median CPE price would reveal very little about the stratification of bids actually accepted by the CPE.

4. Bidding issues
On the issue of whether the mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation, both PG&E and CalCCA argued that the LSE would need to choose between voluntarily showing (for mechanism eligibility) and bidding / showing as part of the solicitation process. CESA argued that the LSE should not be precluded from also bidding and showing. SCE recommended that this topic be further discussed in workshops to address issues of gaming risk.

CalCCA also proposes a price formula for the pre-determined price. The “pre-determined price” calculation would be calculated as follows:

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

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

An LSE could choose to show its preferred or energy storage resources to the CPE for local credit at a price lower than the pre-determined price if desired.

5. **Annual adjustments to local compensation**

Parties had differing views on how frequently the mechanism should be adjusted. PG&E advocated that the premium should be updated annually to reflect the most recent CAISO Local Capacity Technical Study Report. CESA argued that an annual adjustment would not be necessary. Others argued that annual adjustments would ultimately depend on the details of the mechanism (SCE).

Because CalCCA proposes comparison of the shown resource alongside bid resources, as D.20-06-002 requires, CalCCA proposes no annual adjustment to the compensation. Bid
resources are not adjusted annually for effectiveness but are paid as bid. In the same way, shown resources should be paid for the term of the showing at the pre-determined price (or below).

6. Bid evaluation process

On the question of how the CPE should incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred resources, there were several disparate ideas. SCE argued that the question should be addressed in CPE implementation as it relates to the bid selection process and bid selection criteria and how the CPE will fairly implement the least-cost-best-fit procurement criteria. CEDMC argued that both qualitative and quantitative criteria be considered, and preferred resources should be favored over fossil-fueled resources. CESA argued that the criteria should link to integrated-resource-plan-identified future long-term procurement needs in local or sub-local areas and adhere to the loading order and SB 1136 statutory requirements to the greatest extent possible.

7. Treatment of existing contracts

There were several proposals relating to the treatment of existing contracts that spanned a cutoff date for qualification, the period over which a contract should qualify, and whether UOG should qualify.

On the issue of a cutoff date, PG&E and SCE advocated that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired prior to the date of issuance of D.19-02-022, March 4, 2019. CalCCA argued that the mechanism should be applied to existing contracts entered into by an LSE on or before June 11, 2020.

On the issue of the period over which a contract should qualify, SCE argued that it should be for up to a five-year term length. PG&E also stated that legacy treatment should not apply for the full term of the existing contract or owned resource. CalCCA recommends that the term be consistent with the terms sought for bid resources.
Lastly, on the issue of UOG, CalCCA argued that UOG should not be eligible, while PG&E advocated for eligibility for UOG.

V. Consensus and Non-Consensus Around Full LCR RCM Proposals

A. CalCCA’s Proposal (Option #2)

CalCCA offered a complete proposal (Option #2) for the LCR RCM, summarized in their comments as follows:

<table>
<thead>
<tr>
<th>Shown Resources Compared Alongside Bid Resources</th>
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<tr>
<td>CPE Obligation</td>
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<td>Existing Contracts</td>
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Several parties expressed interest in this proposal, although there was not broad consensus reached from all parties involved in the WG. Both Calpine Corporation and AReM submitted informal comments questioning the concept of permitting bids outside of the auction process and suggesting that there should be “full flexibility to specify the prices at which shown resources will be compared to bid resources” in the CPE’s auction to provide LSEs “incentives to offer competitively to ensure that their resources are selected over offered resources.” AReM observed that all options for a compensation mechanism have risks for market power and gaming and questioned “if the limited potential benefits warrant moving forward with any compensation mechanism.”

PG&E submitted comments in reply to CalCCA’s proposal (Option #2) stating that PG&E did not find that the proposal clearly meets all of the objectives in D.20-06-002; however, PG&E believes it is reasonable and the only workable solution that has been put forth by the WG that clearly meets the objective of allowing LSEs to retain the system and flexible RA attributes and receive compensation for the local RA attribute under the hybrid procurement framework. If the Commission is willing to consider this proposal, PG&E believes that (i) all LSEs, including IOUs, should be able to avail themselves of the LCR RCM in the same manner (which requires the Commission to revisit IOU bidding requirements in D.20-06-002 in a new track of the RA proceeding or identify another venue to evaluate the bidding requirements for IOUs to participate in the LCR RCM proposed by CalCCA in Option #2), and (ii) LSEs should continue to be afforded the “voluntarily shown” option, without compensation under the LCR RCM, should LSEs want to retain the system/flexible RA products for use toward its LSE-specific system and flexible RA requirements.

SCE also submitted comments in reply to CalCCA’s proposal (Option #2) stating that there are merits to the proposal, and it should be further explored. SCE recommended a few
clarifications to the proposal, including (i) if a shown resource is selected by the CPE during the solicitation, then the LSE should be paid its offer price for the shown resource, not the pre-determined premium, and (ii) the option of showing a local resource without direct compensation should be retained and made available to all LSEs.

B. SDG&E’s Proposal

As described in Section III.B, SDG&E also provided a full proposal on the LCR RCM. PG&E submitted comments on SDG&E’s proposal expressing concerns that the proposed methodology does not appropriately addresses cost effectiveness concerns. PG&E believes that it may overestimate voluntarily shown resources, which may result in customers paying for resources that do not provide any ratepayer value or any local area reliability benefits to the system. Additionally, PG&E has concerns with SDG&E’s proposal on local premium price, as this methodology is similar to the financial crediting mechanism proposed by CalCCA in Rulemaking 17-09-020 that was rejected by the Commission and specifically excluded from the scope of consideration in this Track.

Exhibits

Exhibit A: July 6, 2020 Service Email
Exhibit B: July 20, 2020 Informal Comments
Exhibit C: July 27, 2020 WG Workshop Presentations
Exhibit D: August 3, 2020 Informal Comments
Exhibit E: August 17, 2020 Informal Reply Comments
Exhibit F: August 26, 2020 Informal Comments on Draft Report
Exhibit G: Final Matrix of Party Positions

Date: Wednesday, August 26, 2020 at 4:04:57 PM Pacific Daylight Time

From: Jin Noh (CESA)

To: evelyn@cal-cca.org, ccsong@cleanpoweralliance.com, 'DEmerson@SonomaCleanPower.org', 'MBrandt@ebce.org', s.tougas@CleanEnergyRegResearch.com, Erica.Brown@pge.com, Rhett.Kikuyama@pge.com, Lisa.Wan@pge.com, Noelle.Formosa@pge.com


To the Working Group Co-Leads and parties of R.19-11-009:

As requested, please find attached minor proposed revisions from CESA on the Co-Leads Working Group Report on LCR RCM and Treatment of Existing Contracts. Per the instructions, this is being served to the service lists of R.17-09-020 and R.19-11-009.

Jin Noh
Senior Policy Manager
California Energy Storage Alliance

E: jnoh@storagealliance.org
O: 510-665-7811 x 109
M: 703-507-8809

Connect with CESA - LinkedIn | Twitter (@StorageAlliance)
ATTACHMENT 1 TO
CALIFORNIA COMMUNITY CHOICE ASSOCIATION AND PACIFIC GAS AND
ELECTRIC COMPANY’S (U 39 E) TRACK 3.A WORKING GROUP REPORT ON
CONSENSUS AND NON-CONSENSUS ITEMS REGARDING DEVELOPMENT OF
LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM
AND PROPOSAL ON TREATMENT OF EXISTING CONTRACTS

WORKING GROUP REPORT
I. Background

A. Procedural Background and Scope

Decision (D.) 20-06-002 adopts implementation details for the central procurement of multi-year local resource adequacy (RA) to begin for the 2023 compliance year in the Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) distribution service areas, including identifying PG&E and SCE as the central procurement entities (CPE) for their respective distribution service areas and adopting a hybrid central procurement framework.\(^1\) The framework places full local RA procurement responsibility on behalf of all load serving entities (LSE) on the CPE, and LSEs no longer receive individual local requirements.\(^2\) LSEs that have procured local resources may “(1) show the resource to reduce the central procurement entity’s (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.”\(^3\) Under the “show” option, the LSE does not receive one-for-one credit for its local resources.\(^4\)

In adopting the hybrid central procurement framework, the California Public Utilities Commission (Commission) found that, even without a financial crediting mechanism, the framework does not disincentivize procurement of local resources because LSEs procure local

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\(^1\) D.20-06-002 at 1, Ordering Paragraphs 2-4.
\(^2\) Id. at 22-23, Ordering Paragraph 3.
\(^3\) Id. at 23, Ordering Paragraph 4.
\(^4\) Id. at 23.
resources for many reasons beyond the local RA value.\textsuperscript{5} The Commission recognized, however, that “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.”\textsuperscript{6} To that end, the Commission committed to developing a “financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value” (LCR RCM), if details can be assessed and developed.\textsuperscript{7} To develop such a mechanism, the Commission directed a working group (WG) co-led by CalCCA and either PG&E or SCE.\textsuperscript{8} The Commission also included within the scope of the WG issues related to treatment of existing contracts, including potential application of the LCR RCM to these contracts.\textsuperscript{9} The Commission further required the co-leads to file a WG report on consensus and non-consensus items (Report) in this proceeding by September 1, 2020. In addition, the assigned Commissioner in this proceeding issued the \textit{Assigned Commissioner’s Amended Track 3.A and 3.B Scoping Memo and Ruling}, dated July 7, 2020 (Amended Scoping Memo), designating evaluation of an LCR RCM as an issue in Track 3.A and requiring WG reports and proposals from parties to be filed on September 1, 2020.

In both D.20-06-002 and the Amended Scoping Memo, the Commission identified four specific issues to be addressed by the Report:\textsuperscript{10}

\begin{enumerate}
  \item How granular the premium should be (\textit{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);
  \item How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;
\end{enumerate}

\textsuperscript{5} \textit{Id.} at 40-41, 72.
\textsuperscript{6} \textit{Id.} at 42, 72.
\textsuperscript{7} \textit{Id.}, at 43.
\textsuperscript{8} \textit{Id.} at Ordering Paragraph 5.
\textsuperscript{9} \textit{Id.} at 46, 75 and Ordering Paragraph 6.
\textsuperscript{10} \textit{Id.} at Ordering Paragraph 5.
c. 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; and

d. 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.

In addition, the Commission directed in D.20-06-002 that the Report “address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources.” D.20-06-002 also requires the WG to (i) “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” and (ii) consider how the CPE will 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.” The Report must also address consensus and non-consensus items regarding treatment of existing contracts.

Using this guidance, CalCCA and PG&E, serving as WG co-leads, sent an email to the service list on July 6, 2020, soliciting initial input from stakeholders through informal comments submitted on July 20, 2020, and seeking participation by other stakeholders with an interest in presenting at a WG workshop on the identified issues set for July 27, 2020. Eight parties submitted informal comments on the 7 Issues on July 20, 2020 ahead of the July 27, 2020 WG

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11 Id. at Ordering Paragraph 5. The Amended Scoping Memo includes a similar requirement.

12 Amended Scoping Memo at 3.

13 Id. at Ordering Paragraph 6.

14 Id. at pp. 44–45. The four issues identified above (a.–d.) and the three issues identified in this paragraph (i.e. in the first sentence and romanettes (i) and (ii) of the second sentence) are referred to herein as the “7 Issues.” The 7 Issues are also outlined in the email attached as Exhibit A.

15 Ibid.
workshop. These informal comments are attached as Exhibit B to this Report. Three parties (PG&E, CalCCA, and San Diego Gas & Electric Company (SDG&E)) expressed interest in presenting at the WG workshop. The co-leads facilitated the WG workshop by WebEx on July 27, 2020, beginning at 10:00 a.m. The co-leads jointly presented a review of the 7 Issues identified in D.20-06-002 and initial informal comments on the 7 Issues. Additionally, PG&E made a presentation as a participant in the WG to address pending issues. CalCCA also presented as a WG participant, offering two proposals. The only other party presenting a proposal was SDG&E. These presentations are attached as Exhibit C. WG participants submitted informal comments and replies regarding the WG workshop on August 3, 2020, attached as Exhibit D, and on August 17, 2020, attached as Exhibit E, respectively. A draft of the Report was circulated to WG participants on [August 21, 2020], with informal comments on the draft Report submitted on [August 26, 2020] and attached here as Exhibit F.

The workshop and parties’ informal comments have helped inform this Report.

B. Topics Expressly Excluded from Scope

The Commission expressly identified certain topics as out-of-scope.\(^\text{16}\) They include:

1. One-for-one credit mechanism for local RA that does not account for relative effectiveness of shown resources relative to bid resources;\(^\text{17}\)

2. Ex-post price premium based on the average price paid by the CPE for resources in the local area for which a resource is shown;\(^\text{18}\)

3. Credit mechanism for fossil fuel resources (other than potentially for existing contracts);\(^\text{19}\) and

\(^{16}\) D.20-06-002 at 43 (“The Commission is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts.”).\(^{17}\) Id. at 41.\(^{18}\) Id. at 42.\(^{19}\) Id. at 41.
4. An LCR RCM mechanism for the SDG&E Transmission Access Charge (TAC) area, where a CPE will not be designated. 20

Stakeholders generally adhered to this guidance in offering proposals presented through the WG process and described in this Report.

C. Schedule of Completed Activities

The co-leads scheduled and completed the following WG activities:

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 6, 2020</td>
<td>Co-leads circulated notice to the service lists of WG co-leads and WG schedule, including workshop, and request for informal comments on 7 Issues outlined in D.20-06-002 on pages 43-45 and in Ordering Paragraphs 5 and 6.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 17, 2020</td>
<td>Co-leads circulated notice of workshop date and call-in information to the service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 20, 2020</td>
<td>Parties submitted informal comments to the service lists in response to the co-leads’ request on 7 Issues outlined in D.20-06-002 and notified co-leads of intent to present at workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 24, 2020</td>
<td>Co-leads circulated notice of agenda and presentation materials for the virtual workshop to service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 27, 2020</td>
<td>Co-leads hosted a virtual workshop on WebEx on LCR RCM and the treatment of existing contracts.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 30, 2020</td>
<td>Co-leads again circulated presentations from virtual workshop to workshop participants, in addition to a matrix for parties to utilize in developing informal comments on the workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 31, 2020</td>
<td>Co-leads circulated updated schedule for WG to the service lists, including dates for informal reply comments on workshop, issuance of a draft Report, and informal comments on the draft Report.</td>
<td>Complete</td>
</tr>
</tbody>
</table>

20 Id. at Conclusion of Law 6.
August 3, 2020 | Parties submitted informal comments on the workshop to co-leads, which were circulated to the service lists on August 4, 2020. | Complete

August 17, 2020 | Parties submitted informal reply comments on the August 3 informal comments to the service lists (PG&E’s informal reply comments were sent to the co-leads on August 17, 2020, and to the service lists on August 19, 2020). | Complete

August 20, 2020 | Co-leads circulated an updated schedule for the WG to the service lists | Complete

August 21, 2020 | Co-leads served a draft Report to the service lists for comment. | Complete

August 26, 2020 | Parties submitted informal comments on the draft Report to the service lists. | [Complete]

September 1, 2020 | Co-leads filed and served Report. | [Complete]

II. Guiding Principles and Objectives

The co-leads presented their views and interpretations on guiding principles and objectives in the July 27, 2020, workshop presentations.

A. Guidance from D.20-06-002

Drawing from D.20-06-002, the co-leads identified the following explicit guidance provided by the Commission, with the corresponding page number or ordering paragraph (OP) in brackets:

Effectiveness:

1. The LCR RCM cannot provide a “one for one” premium as CalCCA proposed without considering effectiveness. [p. 41]
2. The LCR RCM must address “local effectiveness” and “use limitations” of the shown resource to align the financial compensation with the actual LCR MW reduction the resource provided. [p. 42, OP 5]
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.” [OP 5.d.]

**Least-Cost, Best-Fit:**

a. “Because resources procured in the CPE solicitation would impact local compensation values and the least cost best fit solution, local resources shown by LSE’s 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]

b. “[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]

c. “[E]nsures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value…” [p. 43]

**Premium Determination and Market Power Issues:**

1. The LCR 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]

2. “[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]

3. 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]

4. “To the extent that market power inflates local area capacity prices, an ex post benchmark would exacerbate this problem by providing inflated prices to local resources shown by LSEs” [p. 42]

5. 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.” [OP 5.b]

**Preferred Resource Development in Local Areas**

1. “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” [p. 41]

**B. PG&E Proposed Principles**

Based on the guidance in D.20-06-002, PG&E outlined the following four recommended principles for the LCR RCM in its workshop presentation included in Exhibit C:

- The LCR RCM should:
• Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;

• Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;

• Result in lower total costs to customers without sacrificing local area reliability; and

• Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

WG participants also provided recommendations and comments on guiding principles.

The Alliance for Retail Energy Markets (AReM) proposed the following principles in the evaluation of the need and structure for any such compensation mechanism:

• No CPE Over-procurement - The ability for an LSE to receive an LCR RCM payment from the CPE must not result in over-procurement by the CPE with those costs spread among all LSEs;

• Cost Causation – Customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; costs should not be spread to other LSEs or their customers;

• Premiums Paid for Shown Resources Must Be Aligned with the Auction – LSEs with resources worth a premium to the CPE should be eligible for compensation up to that premium not more; and

• Payment Length for Show Resources Must Be Aligned with the Local RA Requirement – The number of years an LSE is eligible for an LCR RCM payment should not be longer than up to three years – the term of the Local RA requirement.

California Energy Storage Alliance (CESA), in addition to responses to the specific 7 Issues presented, also suggested that the WG should:

• consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective local RA requirements, and

• clarify and discuss the implications of the CPE buying all RA attributes if selected.
III. Description of Proposals

A. CalCCA Proposals

1. CalCCA Option #1

CalCCA’s initial proposal, presented in its July 20, 2020, informal comments, advanced a CPE “must take” model. The model evolved as a result of the workshop and Parties’ comments, however, into a refined “Option #1” proposal presented in CalCCA’s July 27, 2020, comments. CalCCA does not recommend adoption of this approach but prefers its “Option #2” described below.

Under the must-take model, the CPE would be bound to take any local RA attributes from preferred or energy storage resources shown by an LSE. The price would be determined using the following formula:

**Year 1:** Use the median price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both system and local RA; subtract system RA price from local RA and multiply by effective megawatt (MW)

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

This formulation removes the risk of market power influence by relying on the median CPE bid price rather than an average bid price. The median price is also unlikely to suggest pricing to future bidders, which an average price would do.

The number of MW shown by the LSE would be adjusted for effectiveness, using one of two methods. The first method would rely on published California Independent System Operator Corporation (CAISO) effectiveness factors, scaling a resource’s effectiveness to the average effectiveness procured by the CPE in that specific local area. Because these factors do not fairly represent the value of resources, due to their focus on a limited subset of constraints, CalCCA
did not favor this approach. The second method would rely on a yet-to-be determined methodology using data regarding peak contribution of particular technologies in specific local areas and data underlying the CAISO’s identified storage need in its annual Local Capacity Technical Study. CalCCA pointed out, however, that developing these technology-specific methodologies would be time consuming and would, at best, provide only rough justice in determining the showing value.

CalCCA does not support adoption of Option #1 due to the complexity of developing reasonable effectiveness calculations. In addition, it is difficult to square a CPE “must-take” model with the directive in D.20-06-002 that shown resources must be “evaluated alongside bid resources.”

2. CalCCA Option #2

CalCCA advances its Option #2 as the preferred methodology for the LCR RCM. Unlike Option #1, the CPE would not be bound to accept all shown resources but could reject them after considering their value “alongside bid resources.” The “pre-determined price” calculation would be the same as Option #1:

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

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

The only difference is that an LSE could choose to show its resources to the CPE for local credit at a price lower than the pre-determined price if desired.

The primary benefit of this approach, however, is administrative simplicity. Option #2 does not require further work to develop highly technical, technology-specific effectiveness
values. Instead, it relies on the guidelines the CPE will use to evaluate bid resources. In other words, the CPE would apply the same methodology or considerations to bid and shown local RA resources in comparing their value.

Beyond these fundamental features, CalCCA addressed term and documentation of showings. Resources committed through a showing would have a three-year commitment where the term start date could be any year within the three-year forward compliance period. The showing (like bid) would be documented through a confirm under the Edison Electric Institute (EEI) Master Agreement.

3. CalCCA Proposal on Treatment of Existing Contracts

In essence, since preferred and storage resources are covered by the showing option, the legacy treatment for existing contracts identified by D.20-06-002 LCR RCM would only apply to existing fossil contracts. The Commission did not extend this same authority for an investor owned utility (IOU) to show fossil utility owned generation (UOG). As stated in D.20-06-002, existing fossil UOG would be required to bid into the CPE solicitation, and bid UOG would receive Cost Allocation Mechanism (CAM) treatment.²¹

CalCCA proposes that existing fossil contracts receive legacy treatment for five years from the implementation of the CPE. Legacy contracts will include only resources that are currently online and were contracted by an LSE on or before June 11, 2020 (the date D.20-06-002 was issued).

<table>
<thead>
<tr>
<th>Summary of CalCCA Option #2 LCR RCM Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPE Obligation</td>
</tr>
</tbody>
</table>

²¹ D.20-06-002 at 48.
<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>CPE applies effectiveness criteria to shown resources in the same way the criteria are applied to bid resources.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Price Update</td>
<td>If selected, LSE will be paid the showing price (pre-determined price or below) without annual adjustment for effectiveness, like bid resources.</td>
</tr>
<tr>
<td>Pre-determined Price</td>
<td>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 (see §b. above.</td>
</tr>
<tr>
<td>Calculation of Payment</td>
<td>If selected, LSE will be paid the pre-determined price (or lower if the LSE showed at a lower price) for the shown resource.</td>
</tr>
<tr>
<td>Premium Granularity</td>
<td>Price is differentiated by local area or sub-area, unless aggregation up is required to mask individual resource prices; not technology-specific prices.</td>
</tr>
<tr>
<td>Showing Term</td>
<td>LSE may show a resource for a term of up to three years, with the term commencing within the current three-year compliance period.</td>
</tr>
<tr>
<td>Bid/Show Election</td>
<td>LSE may show or bid its resource, not both.</td>
</tr>
<tr>
<td>Existing Contracts</td>
<td>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 UOG “resources” do not qualify for a local showing.</td>
</tr>
</tbody>
</table>

**B. SDG&E Proposal**

SDG&E developed a proposal, included it in their July 20, 2020 comments, and presented the proposal at the July 27, 2020 workshop. SDG&E’s proposal addressed local premium, effectiveness factors, duration, and cost-allocation.

On the local premium, SDG&E proposed that the CPE utilize the relevant Power Cost Indifference Adjustment (PCIA) System RA Market Price Benchmark (MPB) for its area, either NP-15 or SP-15 for the compliance year. SDG&E noted that the System RA MPB is typically available in November prior to the compliance year. SDG&E suggested consideration of the
weighted average price of Local resources that were contracted by the CPE for the compliance year. This means that the CPE must identify the specific cost related to RA capacity procured if it procured other attributes, such as Flexible RA or energy tolling, which is necessary to ensure an apples-to-apples comparison. SDG&E also explored using the PCIA Local MPB, however it was unclear how the CPE procurement of Local resources would impact the PCIA Local MPB calculation. Therefore, SDG&E recommended using prices relevant to CPE procurement.

SDG&E also maintained that both values could be made publicly available in November after the CPE has finished its procurement along with the publication of the annual PCIA MPBs.

On effectiveness, SDG&E argued that effectiveness factors should be guided by the CAISO and the annual Local Capacity Technical Study (LCTS). SDG&E proposed that the effectiveness factors for all shown resources be calculated based on the percentage resulting from the local or sub-area LCR divided by the total amount of capacity shown and CPE procured capacity. SDG&E provided the example that if the LCR is 100 MWs and 40 MWs were shown by LSEs, and 80 MWs were procured by the CPE, the percentage would be 100 MW / 120 MW, or 83.33 percent. LSEs that showed the total of 40 MWs would receive a credit of approximately 33.33 MWs.

In terms of duration, SDG&E proposed that the resources would be shown annually on a three-year rolling basis.

For cost-allocation, SDG&E proposed that the premium associated with the shown local RA capacity would reduce the costs allocated to the LSE by the CPE for the procurement.

C. PG&E Presentation and Proposals

While PG&E did not present a full proposal at the July 27, 2020 workshop, PG&E’s presentation included proposed guiding principles for the LCR RCM, detailed above in Section II and repeated here for convenience:
- The LCR RCM should:
  - Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;
  - Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;
  - Result in lower total costs to customers without sacrificing local area reliability; and
  - Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

PG&E’s presentation explained that PG&E had not identified a mechanism for developing a price that clearly met these proposed guiding principles. In attempting to establish an appropriate local price, PG&E considered two options: cost-based and market-based. PG&E discussed how each of these prices could be derived and outlined the drawbacks of each option. PG&E also proposed that the LCR RCM premium should be as granular as possible in order to send the correct market signals.

PG&E further explained its view that any “workable” solution must be paired with a transparent and appropriate effectiveness adjustment and demonstration of reduction in total costs to customers. PG&E’s presentation provided information regarding the complexity and potential infeasibility of developing effectiveness adjustments using CAISO effectiveness factors, as well as other measures of effectiveness that could be explored.

PG&E concluded its presentation by stating that the LCR RCM should not result in an increase in total costs to customers. In other words, resources paid through this mechanism must be lower cost than its alternative, and the mechanism must not be game-able.

In addition, PG&E utilized the July 20, 2020, informal comments to provide its proposals with respect to treatment of existing contracts and existing owned resources. First, PG&E
proposed that legacy treatment of existing contracts not be afforded to contracts for local resources that were procured outside of an LSE’s transmission access charge (TAC) area (e.g. a northern California LSE that procured a resource within a southern California LSE’s TAC), as those resources were not procured by the LSE to meet local RA requirements, but were likely procured to meet the LSE’s system RA requirements. PG&E also proposed that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired, prior to the date of issuance of D.19-02-022, March 4, 2019 (i.e. when the Commission affirmed its intent to adopt a centralized procurement framework for local RA resources and the possibility that LSEs may no longer have a procurement obligation for local RA). PG&E also proposed that legacy treatment not be applied for the full term of an existing contract or the life of an existing owned resource.

IV. Consensus and Non-Consensus Items

A. Matrix of party positions

As part of the WG process, the co-leads developed a matrix of party positions that covers key questions, including effectiveness, granularity, transparency, bidding issues, annual adjustments, the evaluation process, and shows where there is consensus and non-consensus among parties. The matrix was distributed to workshop participants on July 30, 2020, and parties provided edits to the matrix as part of informal comments submitted on August 3, 2020. The matrix has been updated to incorporate edits submitted on August 3, 2020, and is included in this Report as Exhibit G.

B. Summary of Consensus and Non-Consensus Items for the 7 Issues

1. Cost-effectiveness
While some parties stated that the mechanism should not provide compensation if the resource does not provide value (CalPA) or does not reduce costs (PG&E), other parties argued that cost-effectiveness should not be in scope (CEDMC). Others raised feasibility of the mechanism if CAISO would need to provide information on effectiveness (SCE, SDG&E). Others argued that the CPE should produce multiple portfolios, akin to the transmission alternative portfolios the CAISO creates in the Transmission Planning Process, as a means to address cost-effectiveness (CESA).

With respect to how the mechanism should address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources, six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the topic should be within the scope of the mechanism and one party (CEDMC) stated that it should be outside of the scope of the mechanism.

PG&E and CESA expressed that a resource should demonstrate its effectiveness to receive compensation. CESA looks to have the assessment incorporate non-quantitative criteria, whereas PG&E looks to have only quantitative criteria used.

Six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the effectiveness adjustments could be determined by the CAISO through various mechanisms. The specific actions suggested by the parties varied, ranging from: adjustments to NQC values (PG&E), determination of effectiveness factors (SCE), using the Local Capacity Technical Study (SDG&E), and developing a stakeholder process for determining the appropriate mechanism (CalCCA).

CalCCA’s final proposal (Option #2) left the question to the CPE. The CPE is required to take effectiveness into account in selecting bids from its solicitations. Since CalCCA’s
proposal (Option #2) contemplates a comparison of shown preferred resources alongside bid resources, CalCCA submits that the CPE should apply the same criteria – whatever they may be – to both bid and shown resources.

2. **Premium granularity**

There was a broad spectrum of perspectives on premium granularity. Some parties argued that the premium should be dependent on the data available; for example, it could be sub-area, local area, or TAC-wide area (SCE). Others argued for premiums for each resource technology type (CalPA) or by resource type, location, or operational characteristics (CEDMC), or based on location, including disadvantaged communities (DACs), GHG emissions reduction, and market power mitigation (CESA).

With respect to how granular the premium should be, three parties stated that the price premiums should be differentiated by local areas or sub-local areas (CalCCA, PG&E, and SDG&E) and one party stated that it should be differentiated by the TAC-wide area (SCE) unless a higher level of aggregation was required to mask the price of individual resource prices. SDG&E stated that the complexity of developing individual premiums for the various types of resources makes the task infeasible.

One party stated that a series of premiums should be stacked to arrive at the final premium for a resource (e.g., closer-to-load, within a DAC, GHG emission reduction, and offers market power mitigation) (CESA). An additional party referenced a premium for a resource being located within a DAC (CEDMC).

3. **Transparency of premium**

Parties broadly supported as much transparency as possible, while still protecting market-sensitive information. Parties presented numerous ideas on how and when data should be
presented. For instance, PG&E advocated for aggregating data upfront and making more
detailed data available after sufficient time had passed. CalPA argued for posting the premiums
to the service list and CESA argued that premiums should be made available by resource class.
SDG&E argued that advance knowledge of the premium is not necessary since LSEs could still
show the resource if the offer is not selected by the CPE.

CalCCA observed that its proposal would allow for full transparency of the
predetermined price. Neither source of data required for the calculation -- the median bid price
from the last CPE solicitation and the aggregated RA prices reported to Energy Division --
presents concerns regarding market sensitivity. The Energy Division prices are made public
annually, and the median CPE price would reveal very little about the stratification of bids
actually accepted by the CPE.

4. Bidding issues

On the issue of whether the mechanism would preclude the option for an LSE to both bid
and show a resource in the solicitation, both PG&E and CalCCA argued that the LSE would
need to choose between voluntarily showing (for mechanism eligibility) and bidding / showing
as part of the solicitation process. CESA argued that the LSE should not be precluded from also
bidding and showing. SCE recommended that this topic be further discussed in workshops to
address issues of gaming risk.

CalCCA also proposes a price formula for the pre-determined price. The “pre-
determined price” calculation would be calculated as follows:

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

**Subsequent Years:** Use the median price from the last four quarters of Energy Division
PCIA responses for system RA and the most recent reported CPE solicitation results
(prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

An LSE could choose to show its preferred or energy storage resources to the CPE for local credit at a price lower than the pre-determined price if desired.

5. Annual adjustments to local compensation

Parties had differing views on how frequently the mechanism should be adjusted. PG&E advocated that the premium should be updated annually to reflect the most recent CAISO Local Capacity Technical Study Report. CESA argued that an annual adjustment would not be necessary. Others argued that annual adjustments would ultimately depend on the details of the mechanism (SCE).

Because CalCCA proposes comparison of the shown resource alongside bid resources, as D.20-06-002 requires, CalCCA proposes no annual adjustment to the compensation. Bid resources are not adjusted annually for effectiveness but are paid as bid. In the same way, shown resources should be paid for the term of the showing at the pre-determined price (or below).

6. Bid evaluation process

On the question of how the CPE should incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred resources, there were several disparate ideas. SCE argued that the question should be addressed in CPE implementation as it relates to the bid selection process and bid selection criteria and how the CPE will fairly implement the least-cost-best-fit procurement criteria. CEDMC argued that both qualitative and quantitative criteria be considered, and preferred resources should be favored over fossil-fueled resources. CESA argued that the criteria should link to integrated-resource-plan-identified future long-term procurement needs in local or sub-local areas and adhere to the loading order and SB 1136 statutory requirements to facilitate the development of preferred, energy storage, and hybrid resources to the greatest extent possible.
7. Treatment of existing contracts

There were several proposals relating to the treatment of existing contracts that spanned a cutoff date for qualification, the period over which a contract should qualify, and whether UOG should qualify.

On the issue of a cutoff date, PG&E and SCE advocated that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired prior to the date of issuance of D.19-02-022, March 4, 2019. CalCCA argued that the mechanism should be applied to existing contracts entered into by an LSE on or before June 11, 2020.

On the issue of the period over which a contract should qualify, SCE argued that it should be for up to a five-year term length. PG&E also stated that legacy treatment should not apply for the full term of the existing contract or owned resource. CalCCA recommends that the term be consistent with the terms sought for bid resources.

Lastly, on the issue of UOG, CalCCA argued that UOG should not be eligible, while PG&E advocated for eligibility for UOG.

V. Consensus and Non-Consensus Around Full LCR RCM Proposals

A. CalCCA’s Proposal (Option #2)

CalCCA offered a complete proposal (Option #2) for the LCR RCM, summarized in their comments as follows:
Shown Resources Compared Alongside Bid Resources

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPE Obligation</td>
<td>CPE may accept or reject the showing if more cost-effective resources are available.</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>CPE applies effectiveness criteria to shown resources in the same way the criteria are applied to bid resources.</td>
</tr>
<tr>
<td>Annual Price Update</td>
<td>No annual adjustment for effectiveness.</td>
</tr>
<tr>
<td>Pre-determined Price</td>
<td>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.</td>
</tr>
<tr>
<td>Calculation of Payment</td>
<td>If selected, LSE will be paid the pre-determined price (or the LSE’s lower shown price) for the local RA premium.</td>
</tr>
<tr>
<td>Premium Granularity</td>
<td>Local area or sub-area unless aggregation up is required to mask individual resource prices; no technology differentiation in pre-determined price.</td>
</tr>
<tr>
<td>Showing Term</td>
<td>LSE may show a resource for whatever term the CPE permits for its solicitations, with the term commencing within the current three-year compliance period.</td>
</tr>
<tr>
<td>Bid/Show Election</td>
<td>LSE may show or bid its resource, not both.</td>
</tr>
<tr>
<td>Existing Contracts</td>
<td>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 its local RA attributes and receive the local premium for the lesser of the remaining contract term and the end of the 2025 RA compliance year. Existing owned fossil resources do not qualify for a local showing.</td>
</tr>
</tbody>
</table>

Several parties expressed interest in this proposal, although there was not broad consensus reached from all parties involved in the WG. Both Calpine Corporation and AReM submitted informal comments questioning the concept of permitting bids outside of the auction process and suggesting that there should be “full flexibility to specify the prices at which shown resources will be compared to bid resources” in the CPE’s auction to provide LSEs “incentives to offer competitively to ensure that their resources are selected over offered resources.” AReM observed that all options for a compensation mechanism have risks for market power and gaming.
and questioned “if the limited potential benefits warrant moving forward with any compensation mechanism.”

PG&E submitted comments in reply to CalCCA’s proposal (Option #2) stating that PG&E did not find that the proposal clearly meets all of the objectives in D.20-06-002; however, PG&E believes it is reasonable and the only workable solution that has been put forth by the WG that clearly meets the objective of allowing LSEs to retain the system and flexible RA attributes and receive compensation for the local RA attribute under the hybrid procurement framework. If the Commission is willing to consider this proposal, PG&E believes that (i) all LSEs, including IOUs, should be able to avail themselves of the LCR RCM in the same manner (which requires the Commission to revisit IOU bidding requirements in D.20-06-002 in a new track of the RA proceeding or identify another venue to evaluate the bidding requirements for IOUs to participate in the LCR RCM proposed by CalCCA in Option #2), and (ii) LSEs should continue to be afforded the “voluntarily shown” option, without compensation under the LCR RCM, should LSEs want to retain the system/flexible RA products for use toward its LSE-specific system and flexible RA requirements.

SCE also submitted comments in reply to CalCCA’s proposal (Option #2) stating that there are merits to the proposal, and it should be further explored. SCE recommended a few clarifications to the proposal, including (i) if a shown resource is selected by the CPE during the solicitation, then the LSE should be paid its offer price for the shown resource, not the pre-determined premium, and (ii) the option of showing a local resource without direct compensation should be retained and made available to all LSEs.

B. SDG&E’s Proposal
As described in Section III.B, SDG&E also provided a full proposal on the LCR RCM. PG&E submitted comments on SDG&E’s proposal expressing concerns that the proposed methodology does not appropriately addresses cost effectiveness concerns. PG&E believes that it may overestimate voluntarily shown resources, which may result in customers paying for resources that do not provide any ratepayer value or any local area reliability benefits to the system. Additionally, PG&E has concerns with SDG&E’s proposal on local premium price, as this methodology is similar to the financial crediting mechanism proposed by CalCCA in Rulemaking 17-09-020 that was rejected by the Commission and specifically excluded from the scope of consideration in this Track.

**Exhibits**

Exhibit A: July 6, 2020 Service Email
Exhibit B: July 20, 2020 Informal Comments
Exhibit C: July 27, 2020 WG Workshop Presentations
Exhibit D: August 3, 2020 Informal Comments
Exhibit E: August 17, 2020 Informal Reply Comments
Exhibit F: August 26, 2020 Informal Comments on Draft Report
Exhibit G: Final Matrix of Party Positions
To the Working Group Co-Leads and all parties in R.17-09-020 and R.19-11-009:

As requested in your e-mail of August 21, 2020, attached is Southern California Edison Company's Proposed Revisions to (DRAFT) Co-Leads Working Group Report on LCR RCM and Treatment of Existing Contracts. This document is hereby served by electronic mail upon all parties listed in the official service lists for R.17-09-020 and R.19-11-009.

(See attached file: SCE Proposed Revisions to (DRAFT) Co-Leads Working Group Report on LCR RCM and Treatment of Existing Contracts.docx)

(See attached file: R1709020_Servist List.pdf)

(See attached file: R1911009_Service List.pdf)

Regards,

Legal Administration
Southern California Edison Company
Telephone: (626) 302-6950
Email: Legal_Admin@sce.com
ATTACHMENT 1 TO
CALIFORNIA COMMUNITY CHOICE ASSOCIATION AND PACIFIC GAS AND
ELECTRIC COMPANY’S (U 39 E) TRACK 3.A WORKING GROUP REPORT ON
CONSENSUS AND NON-CONSENSUS ITEMS REGARDING DEVELOPMENT OF
LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM
AND PROPOSAL ON TREATMENT OF EXISTING CONTRACTS

WORKING GROUP REPORT
I. Background
   A. Procedural Background and Scope

Decision (D.) 20-06-002 adopts implementation details for the central procurement of multi-year local resource adequacy (RA) to begin for the 2023 compliance year in the Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) distribution service areas, including identifying PG&E and SCE as the central procurement entities (CPE) for their respective distribution service areas and adopting a hybrid central procurement framework. The framework places full local RA procurement responsibility on behalf of all load serving entities (LSE) on the CPE, and LSEs no longer receive individual local requirements. LSEs that have procured local resources may “(1) show the resource to reduce the central procurement entity’s (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.” Under the “show” option, the LSE does not receive one-for-one credit for its local resources.

In adopting the hybrid central procurement framework, the California Public Utilities Commission (Commission) found that, even without a financial crediting mechanism, the framework does not disincentivize procurement of local resources because LSEs procure local

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1 D.20-06-002 at 1, Ordering Paragraphs 2-4.
2 Id. at 22-23, Ordering Paragraph 3.
3 Id. at 23, Ordering Paragraph 4.
4 Id. at 23.
resources for many reasons beyond the local RA value. The Commission recognized, however, that “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” To that end, the Commission committed to developing a “financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value” (LCR RCM), if details can be assessed and developed. To develop such a mechanism, the Commission directed a working group (WG) co-led by CalCCA and either PG&E or SCE. The Commission also included within the scope of the WG issues related to treatment of existing contracts, including potential application of the LCR RCM to these contracts. The Commission further required the co-leads to file a WG report on consensus and non-consensus items (Report) in this proceeding by September 1, 2020. In addition, the assigned Commissioner in this proceeding issued the Assigned Commissioner’s Amended Track 3.A and 3.B Scoping Memo and Ruling, dated July 7, 2020 (Amended Scoping Memo), designating evaluation of an LCR RCM as an issue in Track 3.A and requiring WG reports and proposals from parties to be filed on September 1, 2020.

In both D.20-06-002 and the Amended Scoping Memo, the Commission identified four specific issues to be addressed by the Report:

a. 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);

b. How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;

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5 Id. at 40-41, 72.
6 Id. at 42, 72.
7 Id., at 43.
8 Id. at Ordering Paragraph 5.
9 Id. at 46, 75 and Ordering Paragraph 6.
10 Id. at Ordering Paragraph 5.
c. 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; and

d. 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.

In addition, the Commission directed in D.20-06-002 that the Report “address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources.”\footnote{Id. at Ordering Paragraph 5. The Amended Scoping Memo includes a similar requirement. Amended Scoping Memo at 3.} D.20-06-002 also requires the WG to (i) “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”\footnote{Id. at Ordering Paragraph 6.} and (ii) consider how the CPE will 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.”\footnote{Id. at pp. 44-45. The four issues identified above (a.-d.) and the three issues identified in this paragraph (i.e. in the first sentence and romanettes (i) and (ii) of the second sentence) are referred to herein as the “7 Issues.” The 7 Issues are also outlined in the email attached as Exhibit A.} The Report must also address consensus and non-consensus items regarding treatment of existing contracts.\footnote{Ibid.}

Using this guidance, CalCCA and PG&E, serving as WG co-leads, sent an email to the service list on July 6, 2020, soliciting initial input from stakeholders through informal comments submitted on July 20, 2020, and seeking participation by other stakeholders with an interest in presenting at a WG workshop on the identified issues set for July 27, 2020.\footnote{The email to the service list laying out the WG schedule is attached as Exhibit A.} Eight parties submitted informal comments on the 7 Issues on July 20, 2020 ahead of the July 27, 2020 WG
workshop. These informal comments are attached as Exhibit B to this Report. Three parties (PG&E, CalCCA, and San Diego Gas & Electric Company (SDG&E)) expressed interest in presenting at the WG workshop. The co-leads facilitated the WG workshop by WebEx on July 27, 2020, beginning at 10:00 a.m. The co-leads jointly presented a review of the 7 Issues identified in D.20-06-002 and initial informal comments on the 7 Issues. Additionally, PG&E made a presentation as a participant in the WG to address pending issues. CalCCA also presented as a WG participant, offering two proposals. The only other party presenting a proposal was SDG&E. These presentations are attached as Exhibit C. WG participants submitted informal comments and replies regarding the WG workshop on August 3, 2020, attached as Exhibit D, and on August 17, 2020, attached as Exhibit E, respectively. A draft of the Report was circulated to WG participants on [August 21, 2020], with informal comments on the draft Report submitted on [August 26, 2020] and attached here as Exhibit F.

The workshop and parties’ informal comments have helped inform this Report.

**B. Topics Expressly Excluded from Scope**

The Commission expressly identified certain topics as out-of-scope.\(^{16}\) They include:

1. One-for-one credit mechanism for local RA that does not account for relative effectiveness of shown resources relative to bid resources;\(^{17}\)

2. Ex-post price premium based on the average price paid by the CPE for resources in the local area for which a resource is shown;\(^{18}\)

3. Credit mechanism for fossil fuel resources (other than potentially for existing contracts);\(^{19}\)

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\(^{16}\) D.20-06-002 at 43 (“The Commission is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts).”).

\(^{17}\) Id. at 41.

\(^{18}\) Id. at 42.

\(^{19}\) Id. at 41.
4. An LCR RCM mechanism for the SDG&E Transmission Access Charge (TAC) area, where a CPE will not be designated. 20

Stakeholders generally adhered to this guidance in offering proposals presented through the WG process and described in this Report.

C. Schedule of Completed Activities

The co-leads scheduled and completed the following WG activities:

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 6, 2020</td>
<td>Co-leads circulated notice to the service lists of WG co-leads and WG schedule, including workshop, and request for informal comments on 7 Issues outlined in D.20-06-002 on pages 43-45 and in Ordering Paragraphs 5 and 6.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 17, 2020</td>
<td>Co-leads circulated notice of workshop date and call-in information to the service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 20, 2020</td>
<td>Parties submitted informal comments to the service lists in response to the co-leads' request on 7 Issues outlined in D.20-06-002 and notified co-leads of intent to present at workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 24, 2020</td>
<td>Co-leads circulated notice of agenda and presentation materials for the virtual workshop to service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 27, 2020</td>
<td>Co-leads hosted a virtual workshop on WebEx on LCR RCM and the treatment of existing contracts.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 30, 2020</td>
<td>Co-leads again circulated presentations from virtual workshop to workshop participants, in addition to a matrix for parties to utilize in developing informal comments on the workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 31, 2020</td>
<td>Co-leads circulated updated schedule for WG to the service lists, including dates for informal reply comments on workshop, issuance of a draft Report, and informal comments on the draft Report.</td>
<td>Complete</td>
</tr>
</tbody>
</table>

20 Id. at Conclusion of Law 6.
August 3, 2020  Parties submitted informal comments on the workshop to co-leads, which were circulated to the service lists on August 4, 2020.  Complete

August 17, 2020  Parties submitted informal reply comments on the August 3 informal comments to the service lists (PG&E’s informal reply comments were sent to the co-leads on August 17, 2020, and to the service lists on August 19, 2020).  Complete

August 20, 2020  Co-leads circulated an updated schedule for the WG to the service lists  Complete

August 21, 2020  Co-leads served a draft Report to the service lists for comment.  Complete

August 26, 2020  Parties submitted informal comments on the draft Report to the service lists.  [Complete]

September 1, 2020  Co-leads filed and served Report.  [Complete]

II. Guiding Principles and Objectives

The co-leads presented their views and interpretations on guiding principles and objectives in the July 27, 2020, workshop presentations.

A. Guidance from D.20-06-002

Drawing from D.20-06-002, the co-leads identified the following explicit guidance provided by the Commission, with the corresponding page number or ordering paragraph (OP) in brackets:

Effectiveness:

1. The LCR RCM cannot provide a “one for one” premium as CalCCA proposed without considering effectiveness. [p. 41]
2. The LCR RCM must address “local effectiveness” and “use limitations” of the shown resource to align the financial compensation with the actual LCR MW reduction the resource provided. [p. 42, OP 5]
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.” [OP 5.d.]

Least-Cost, Best-Fit:

a. “Because resources procured in the CPE solicitation would impact local compensation values and the least cost best fit solution, local resources shown by LSE’s 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]

b. “[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]

c. “[E]nsures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value…” [p. 43]

Premium Determination and Market Power Issues:

1. The LCR 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]

2. “[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]

3. 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]

4. “To the extent that market power inflates local area capacity prices, an ex post benchmark would exacerbate this problem by providing inflated prices to local resources shown by LSEs” [p. 42]

5. 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.” [OP 5.b]

Preferred Resource Development in Local Areas

1. “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” [p. 41]

B. PG&E Proposed Principles

Based on the guidance in D.20-06-002, PG&E outlined the following four recommended principles for the LCR RCM in its workshop presentation included in Exhibit C:

- The LCR RCM should:
Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;

Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;

Result in lower total costs to customers without sacrificing local area reliability; and

Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

WG participants also provided recommendations and comments on guiding principles.

The Alliance for Retail Energy Markets (AReM) proposed the following principles in the evaluation of the need and structure for any such compensation mechanism:

- No CPE Over-procurement - The ability for an LSE to receive an LCR RCM payment from the CPE must not result in over-procurement by the CPE with those costs spread among all LSEs;

- Cost Causation – Customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; costs should not be spread to other LSEs or their customers;

- Premiums Paid for Shown Resources Must Be Aligned with the Auction – LSEs with resources worth a premium to the CPE should be eligible for compensation up to that premium not more; and

- Payment Length for Show Resources Must Be Aligned with the Local RA Requirement – The number of years an LSE is eligible for an LCR RCM payment should not be longer than up to three years – the term of the Local RA requirement.

California Energy Storage Alliance (CESA), in addition to responses to the specific 7 Issues presented, also suggested that the WG should:

- consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective local RA requirements, and

- clarify and discuss the implications of the CPE buying all RA attributes if selected.
III. Description of Proposals

A. CalCCA Proposals

1. CalCCA Option #1

CalCCA’s initial proposal, presented in its July 20, 2020, informal comments, advanced a CPE “must take” model. The model evolved as a result of the workshop and Parties’ comments, however, into a refined “Option #1” proposal presented in CalCCA’s July 27, 2020, comments. CalCCA does not recommend adoption of this approach but prefers its “Option #2” described below.

Under the must-take model, the CPE would be bound to take any local RA attributes from preferred or energy storage resources shown by an LSE. The price would be determined using the following formula:

- **Year 1:** Use the median price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both system and local RA; subtract system RA price from local RA and multiply by effective megawatt (MW)

- **Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

This formulation removes the risk of market power influence by relying on the median CPE bid price rather than an average bid price. The median price is also unlikely to suggest pricing to future bidders, which an average price would do.

The number of MW shown by the LSE would be adjusted for effectiveness, using one of two methods. The first method would rely on published California Independent System Operator Corporation (CAISO) effectiveness factors, scaling a resource’s effectiveness to the average effectiveness procured by the CPE in that specific local area. Because these factors do not fairly represent the value of resources, due to their focus on a limited subset of constraints, CalCCA
did not favor this approach. The second method would rely on a yet-to-be determined methodology using data regarding peak contribution of particular technologies in specific local areas and data underlying the CAISO’s identified storage need in its annual Local Capacity Technical Study. CalCCA pointed out, however, that developing these technology-specific methodologies would be time consuming and would, at best, provide only rough justice in determining the showing value.

CalCCA does not support adoption of Option #1 due to the complexity of developing reasonable effectiveness calculations. In addition, it is difficult to square a CPE “must-take” model with the directive in D.20-06-002 that shown resources must be “evaluated alongside bid resources.”

2. CalCCA Option #2

CalCCA advances its Option #2 as the preferred methodology for the LCR RCM. Unlike Option #1, the CPE would not be bound to accept all shown resources but could reject them after considering their value “alongside bid resources.” The “pre-determined price” calculation would be the same as Option #1:

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

**Subsequent Years:** Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

The only difference is that an LSE could choose to show its resources to the CPE for local credit at a price lower than the pre-determined price if desired.

The primary benefit of this approach, however, is administrative simplicity. Option #2 does not require further work to develop highly technical, technology-specific effectiveness
values. Instead, it relies on the guidelines the CPE will use to evaluate bid resources. In other words, the CPE would apply the same methodology or considerations to bid and shown local RA resources in comparing their value.

Beyond these fundamental features, CalCCA addressed term and documentation of showings. Resources committed through a showing would have a three-year commitment where the term start date could be any year within the three-year forward compliance period. The showing (like bid) would be documented through a confirm under the Edison Electric Institute (EEI) Master Agreement.

3. CalCCA Proposal on Treatment of Existing Contracts

In essence, since preferred and storage resources are covered by the showing option, the legacy treatment for existing contracts identified by D.20-06-002 LCR RCM would only apply to existing fossil contracts. The Commission did not extend this same authority for an investor owned utility (IOU) to show fossil utility owned generation (UOG). As stated in D.20-06-002, existing fossil UOG would be required to bid into the CPE solicitation, and bid UOG would receive Cost Allocation Mechanism (CAM) treatment.21

CalCCA proposes that existing fossil contracts receive legacy treatment for five years from the implementation of the CPE. Legacy contracts will include only resources that are currently online and were contracted by an LSE on or before June 11, 2020 (the date D.20-06-002 was issued).

<table>
<thead>
<tr>
<th>Summary of CalCCA Option #2 LCR RCM Recommendation</th>
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21 D.20-06-002 at 48.
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<td>Price is differentiated by local area or sub-area, unless aggregation up is required to mask individual resource prices; not technology-specific prices.</td>
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<td>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 UOG “resources” do not qualify for a local showing.</td>
</tr>
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**B. SDG&E Proposal**

SDG&E developed a proposal, included it in their July 20, 2020 comments, and presented the proposal at the July 27, 2020 workshop. SDG&E’s proposal addressed local premium, effectiveness factors, duration, and cost-allocation.

On the local premium, SDG&E proposed that the CPE utilize the relevant Power Cost Indifference Adjustment (PCIA) System RA Market Price Benchmark (MPB) for its area, either NP-15 or SP-15 for the compliance year. SDG&E noted that the System RA MPB is typically available in November prior to the compliance year. SDG&E suggested consideration of the
weighted average price of Local resources that were contracted by the CPE for the compliance year. This means that the CPE must identify the specific cost related to RA capacity procured if it procured other attributes, such as Flexible RA or energy tolling, which is necessary to ensure an apples-to-apples comparison. SDG&E also explored using the PCIA Local MPB, however it was unclear how the CPE procurement of Local resources would impact the PCIA Local MPB calculation. Therefore, SDG&E recommended using prices relevant to CPE procurement. SDG&E also maintained that both values could be made publicly available in November after the CPE has finished its procurement along with the publication of the annual PCIA MPBs.

On effectiveness, SDG&E argued that effectiveness factors should be guided by the CAISO and the annual Local Capacity Technical Study (LCTS). SDG&E proposed that the effectiveness factors for all shown resources be calculated based on the percentage resulting from the local or sub-area LCR divided by the total amount of capacity shown and CPE procured capacity. SDG&E provided the example that if the LCR is 100 MWs and 40 MWs were shown by LSEs, and 80 MWs were procured by the CPE, the percentage would be 100 MW / 120 MW, or 83.33 percent. LSEs that showed the total of 40 MWs would receive a credit of approximately 33.33 MWs.

In terms of duration, SDG&E proposed that the resources would be shown annually on a three-year rolling basis.

For cost-allocation, SDG&E proposed that the premium associated with the shown local RA capacity would reduce the costs allocated to the LSE by the CPE for the procurement.

**C. PG&E Presentation and Proposals**

While PG&E did not present a full proposal at the July 27, 2020 workshop, PG&E’s presentation included proposed guiding principles for the LCR RCM, detailed above in Section II and repeated here for convenience:
The LCR RCM should:

- Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;
- Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;
- Result in lower total costs to customers without sacrificing local area reliability; and
- Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

PG&E’s presentation explained that PG&E had not identified a mechanism for developing a price that clearly met these proposed guiding principles. In attempting to establish an appropriate local price, PG&E considered two options: cost-based and market-based. PG&E discussed how each of these prices could be derived and outlined the drawbacks of each option. PG&E also proposed that the LCR RCM premium should be as granular as possible in order to send the correct market signals.

PG&E further explained its view that any “workable” solution must be paired with a transparent and appropriate effectiveness adjustment and demonstration of reduction in total costs to customers. PG&E’s presentation provided information regarding the complexity and potential infeasibility of developing effectiveness adjustments using CAISO effectiveness factors, as well as other measures of effectiveness that could be explored.

PG&E concluded its presentation by stating that the LCR RCM should not result in an increase in total costs to customers. In other words, resources paid through this mechanism must be lower cost than its alternative, and the mechanism must not be game-able.

In addition, PG&E utilized the July 20, 2020, informal comments to provide its proposals with respect to treatment of existing contracts and existing owned resources. First, PG&E
proposed that legacy treatment of existing contracts not be afforded to contracts for local resources that were procured outside of an LSE’s transmission access charge (TAC) area (e.g. a northern California LSE that procured a resource within a southern California LSE’s TAC), as those resources were not procured by the LSE to meet local RA requirements, but were likely procured to meet the LSE’s system RA requirements. PG&E also proposed that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired, prior to the date of issuance of D.19-02-022, March 4, 2019 (i.e. when the Commission affirmed its intent to adopt a centralized procurement framework for local RA resources and the possibility that LSEs may no longer have a procurement obligation for local RA). PG&E also proposed that legacy treatment not be applied for the full term of an existing contract or the life of an existing owned resource.

IV. Consensus and Non-Consensus Items

A. Matrix of party positions

As part of the WG process, the co-leads developed a matrix of party positions that covers key questions, including effectiveness, granularity, transparency, bidding issues, annual adjustments, the evaluation process, and shows where there is consensus and non-consensus among parties. The matrix was distributed to workshop participants on July 30, 2020, and parties provided edits to the matrix as part of informal comments submitted on August 3, 2020. The matrix has been updated to incorporate edits submitted on August 3, 2020, and is included in this Report as Exhibit G.

B. Summary of Consensus and Non-Consensus Items for the 7 Issues

1. Cost-effectiveness
While some parties stated that the mechanism should not provide compensation if the resource does not provide value (CalPA) or does not reduce costs (PG&E), other parties argued that cost-effectiveness should not be in scope (CEDMC). Others raised feasibility of the mechanism if CAISO would need to provide information on effectiveness (SCE, SDG&E). Others argued that the CPE should produce multiple portfolios, akin to the transmission alternative portfolios the CAISO creates in the Transmission Planning Process, as a means to address cost-effectiveness (CESA).

With respect to how the mechanism should address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources, six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the topic should be within the scope of the mechanism and one party (CEDMC) stated that it should be outside of the scope of the mechanism.

PG&E and CESA expressed that a resource should demonstrate its effectiveness to receive compensation. CESA looks to have the assessment incorporate non-quantitative criteria, whereas PG&E looks to have only quantitative criteria used.

Six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the effectiveness adjustments could be determined by the CAISO through various mechanisms. The specific actions suggested by the parties varied, ranging from: adjustments to NQC values (PG&E), determination of effectiveness factors based on the portfolio options of the CPE (SCE), using the Local Capacity Technical Study (SDG&E), and developing a stakeholder process for determining the appropriate mechanism (CalCCA).

CalCCA’s final proposal (Option #2) left the question to the CPE. The CPE is required to take effectiveness into account in selecting bids from its solicitations. Since CalCCA’s
proposal (Option #2) contemplates a comparison of shown preferred resources alongside bid resources, CalCCA submits that the CPE should apply the same criteria – whatever they may be – to both bid and shown resources.

2. Premium granularity

There was a broad spectrum of perspectives on premium granularity. Some parties argued that the premium should be dependent on the data available; for example, it could be sub-area, local area, or TAC-wide area (SCE). Others argued for premiums for each resource technology type (CalPA) or by resource type, location, or operational characteristics (CEDMC), or based on location, including disadvantaged communities (DACs), GHG emissions reduction, and market power mitigation (CESA).

With respect to how granular the premium should be, three parties stated that the price premiums should be differentiated by local areas or sub-local areas (CalCCA, PG&E, and SDG&E) and one party stated that it should be differentiated by the TAC-wide area (SCE). [Note: Although SCE mentioned this as a possible option, it was not proposing differentiation by the TAC wide area.] unless a higher level of aggregation was required to mask the price of individual resource prices. SDG&E stated that the complexity of developing individual premiums for the various types of resources makes the task infeasible.

One party stated that a series of premiums should be stacked to arrive at the final premium for a resource (e.g., closer-to-load, within a DAC, GHG emission reduction, and offers market power mitigation) (CESA). An additional party referenced a premium for a resource being located within a DAC (CEDMC).

3. Transparency of premium
Parties broadly supported as much transparency as possible, while still protecting market-sensitive information. Parties presented numerous ideas on how and when data should be presented. For instance, PG&E advocated for aggregating data upfront and making more detailed data available after sufficient time had passed. CalPA argued for posting the premiums to the service list and CESA argued that premiums should be made available by resource class. SDG&E argued that advance knowledge of the premium is not necessary since LSEs could still show the resource if the offer is not selected by the CPE.

CalCCA observed that its proposal would allow for full transparency of the predetermined price. Neither source of data required for the calculation -- the median bid price from the last CPE solicitation and the aggregated RA prices reported to Energy Division -- presents concerns regarding market sensitivity. The Energy Division prices are made public annually, and the median CPE price would reveal very little about the stratification of bids actually accepted by the CPE.

4. Bidding issues

On the issue of whether the mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation, both PG&E and CalCCA argued that the LSE would need to choose between voluntarily showing (for mechanism eligibility) and bidding / showing as part of the solicitation process. CESA argued that the LSE should not be precluded from also bidding and showing. SCE recommended that this topic be further discussed in workshops to address issues of gaming risk.

CalCCA also proposes a price formula for the pre-determined price. The “pre-determined price” calculation would be calculated as follows:
Year 1: Use the median price from the last four quarters of Energy Division PCIA responses for both system and local RA; subtract system RA price from local RA and multiply by effective MW

Subsequent Years: Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

An LSE could choose to show its preferred or energy storage resources to the CPE for local credit at a price lower than the pre-determined price if desired.

5. Annual adjustments to local compensation

Parties had differing views on how frequently the mechanism should be adjusted. PG&E advocated that the premium should be updated annually to reflect the most recent CAISO Local Capacity Technical Study Report. CESA argued that an annual adjustment would not be necessary. Others argued that annual adjustments would ultimately depend on the details of the mechanism (SCE).

Because CalCCA proposes comparison of the shown resource alongside bid resources, as D.20-06-002 requires, CalCCA proposes no annual adjustment to the compensation. Bid resources are not adjusted annually for effectiveness but are paid as bid. In the same way, shown resources should be paid for the term of the showing at the pre-determined price (or below).

6. Bid evaluation process

On the question of how the CPE should incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred resources, there were several disparate ideas. SCE argued that the question should be addressed in CPE implementation as it relates to the bid selection process and bid selection criteria and how the CPE will fairly implement the least-cost-best-fit procurement criteria. CEDMC argued that both qualitative and quantitative criteria be considered, and preferred resources should be favored over fossil-fueled resources. CESA argued that the criteria should link to integrated-
resource-plan-identified future long-term procurement needs in local or sub-local areas and adhere to the loading order and SB 1136 statutory requirements to the greatest extent possible.

7. **Treatment of existing contracts**

There were several proposals relating to the treatment of existing contracts that spanned a cutoff date for qualification, the period over which a contract should qualify, and whether UOG should qualify.

On the issue of a cutoff date, PG&E and SCE advocated that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired prior to the date of issuance of D.19-02-022, March 4, 2019. CalCCA argued that the mechanism should be applied to existing contracts entered into by an LSE on or before June 11, 2020. SCE stated that the cut-off date should be around the date when the Proposed Decision or the Final Decision was issued, i.e., either March 26, 2020 or June 11, 2020; while SCE is not opposed to PG&E’s proposed March 4, 2019 cut-off date.

On the issue of the period over which a contract should qualify, SCE argued that it should be for up to a five-year term length. PG&E also stated that legacy treatment should not apply for the full term of the existing contract or owned resource. CalCCA recommends that the term be consistent with the terms sought for bid resources.

Lastly, on the issue of UOG, CalCCA argued that UOG should not be eligible, while PG&E advocated for eligibility for UOG.

V. **Consensus and Non-Consensus Around Full LCR RCM Proposals**

A. **CalCCA’s Proposal (Option #2)**

CalCCA offered a complete proposal (Option #2) for the LCR RCM, summarized in their comments as follows:
<table>
<thead>
<tr>
<th><strong>Shown Resources Compared Alongside Bid Resources</strong></th>
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<tr>
<td><strong>CPE Obligation</strong></td>
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<td><strong>Effectiveness</strong></td>
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<td><strong>Annual Price Update</strong></td>
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<td><strong>Pre-determined Price</strong></td>
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<td><strong>Calculation of Payment</strong></td>
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<td><strong>Premium Granularity</strong></td>
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<td><strong>Showing Term</strong></td>
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<td><strong>Bid/Show Election</strong></td>
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<tr>
<td><strong>Existing Contracts</strong></td>
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Several parties expressed interest in this proposal, although there was not broad consensus reached from all parties involved in the WG. Both Calpine Corporation and AReM submitted informal comments questioning the concept of permitting bids outside of the auction process and suggesting that there should be “full flexibility to specify the prices at which shown resources will be compared to bid resources” in the CPE’s auction to provide LSEs “incentives to offer competitively to ensure that their resources are selected over offered resources.” AReM observed that all options for a compensation mechanism have risks for market power and gaming.
and questioned “if the limited potential benefits warrant moving forward with any compensation mechanism.”

PG&E submitted comments in reply to CalCCA’s proposal (Option #2) stating that PG&E did not find that the proposal clearly meets all of the objectives in D.20-06-002; however, PG&E believes it is reasonable and the only workable solution that has been put forth by the WG that clearly meets the objective of allowing LSEs to retain the system and flexible RA attributes and receive compensation for the local RA attribute under the hybrid procurement framework. If the Commission is willing to consider this proposal, PG&E believes that (i) all LSEs, including IOUs, should be able to avail themselves of the LCR RCM in the same manner (which requires the Commission to revisit IOU bidding requirements in D.20-06-002 in a new track of the RA proceeding or identify another venue to evaluate the bidding requirements for IOUs to participate in the LCR RCM proposed by CalCCA in Option #2), and (ii) LSEs should continue to be afforded the “voluntarily shown” option, without compensation under the LCR RCM, should LSEs want to retain the system/flexible RA products for use toward its LSE-specific system and flexible RA requirements.

SCE also submitted comments in reply to CalCCA’s proposal (Option #2) stating that there are merits to the proposal, and it should be further explored. SCE recommended a few clarifications to the proposal, including (i) if a shown resource is selected by the CPE during the solicitation, then the LSE should be paid its offer price for the shown resource, not the pre-determined premium, and (ii) the option of showing a local resource without direct compensation should be retained and made available to all LSEs.

B. SDG&E’s Proposal
As described in Section III.B, SDG&E also provided a full proposal on the LCR RCM. PG&E submitted comments on SDG&E’s proposal expressing concerns that the proposed methodology does not appropriately addresses cost effectiveness concerns. PG&E believes that it may overestimate voluntarily shown resources, which may result in customers paying for resources that do not provide any ratepayer value or any local area reliability benefits to the system. Additionally, PG&E has concerns with SDG&E’s proposal on local premium price, as this methodology is similar to the financial crediting mechanism proposed by CalCCA in Rulemaking 17-09-020 that was rejected by the Commission and specifically excluded from the scope of consideration in this Track.

**Exhibits**

Exhibit A: July 6, 2020 Service Email
Exhibit B: July 20, 2020 Informal Comments
Exhibit C: July 27, 2020 WG Workshop Presentations
Exhibit D: August 3, 2020 Informal Comments
Exhibit E: August 17, 2020 Informal Reply Comments
Exhibit F: August 26, 2020 Informal Comments on Draft Report
Exhibit G: Final Matrix of Party Positions
As requested by the co-chairs of the RA Track 3.A Working Group on Local Capacity Requirement (LCR) Reduction Compensation Mechanism (RCM) and Treatment of Existing Contracts, attached please find SDG&E’s proposed revisions to the Draft Working Group Report.

Note: This service will be sent in multiple parts due to Microsoft restrictions that limit the number of recipients for each individual email.

Thank you.

Darleen Evans
On Behalf of Aimee M. Smith
San Diego Gas & Electric Company
ATTACHMENT 1 TO
CALIFORNIA COMMUNITY CHOICE ASSOCIATION AND PACIFIC GAS AND ELECTRIC COMPANY’S (U 39 E) TRACK 3.A WORKING GROUP REPORT ON CONSENSUS AND NON-CONSENSUS ITEMS REGARDING DEVELOPMENT OF LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM AND PROPOSAL ON TREATMENT OF EXISTING CONTRACTS

WORKING GROUP REPORT
[TABLE OF CONTENTS TO BE INSERTED]
Working Group Report on Consensus and Non-Consensus Items Regarding Development of Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) and Proposal on Treatment of Existing Contracts

I. Background
A. Procedural Background and Scope

Decision (D.) 20-06-002 adopts implementation details for the central procurement of multi-year local resource adequacy (RA) to begin for the 2023 compliance year in the Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) distribution service areas, including identifying PG&E and SCE as the central procurement entities (CPE) for their respective distribution service areas and adopting a hybrid central procurement framework. The framework places full local RA procurement responsibility on behalf of all load serving entities (LSE) on the CPE, and LSEs no longer receive individual local requirements. LSEs that have procured local resources may “(1) show the resource to reduce the central procurement entity’s (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.” Under the “show” option, the LSE does not receive one-for-one credit for its local resources.

In adopting the hybrid central procurement framework, the California Public Utilities Commission (Commission) found that, even without a financial crediting mechanism, the framework does not disincentivize procurement of local resources because LSEs procure local

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1 D.20-06-002 at 1, Ordering Paragraphs 2-4.
2 Id. at 22-23, Ordering Paragraph 3.
3 Id. at 23, Ordering Paragraph 4.
4 Id. at 23.
resources for many reasons beyond the local RA value. The Commission recognized, however, that “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” To that end, the Commission committed to developing a “financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value” (LCR RCM), if details can be assessed and developed. To develop such a mechanism, the Commission directed a working group (WG) co-led by CalCCA and either PG&E or SCE. The Commission also included within the scope of the WG issues related to treatment of existing contracts, including potential application of the LCR RCM to these contracts. The Commission further required the co-leads to file a WG report on consensus and non-consensus items (Report) in this proceeding by September 1, 2020. In addition, the assigned Commissioner in this proceeding issued the Assigned Commissioner’s Amended Track 3.A and 3.B Scoping Memo and Ruling, dated July 7, 2020 (Amended Scoping Memo), designating evaluation of an LCR RCM as an issue in Track 3.A and requiring WG reports and proposals from parties to be filed on September 1, 2020.

In both D.20-06-002 and the Amended Scoping Memo, the Commission identified four specific issues to be addressed by the Report:

a. 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);

b. How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;

5 Id. at 40-41, 72.
6 Id. at 42, 72.
7 Id., at 43.
8 Id. at Ordering Paragraph 5.
9 Id. at 46, 75 and Ordering Paragraph 6.
10 Id. at Ordering Paragraph 5.
c. 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; and

d. 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.

In addition, the Commission directed in D.20-06-002 that the Report “address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources.” 11 D.20-06-002 also requires the WG to (i) “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” 12 and (ii) consider how the CPE will 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.” 13

The Report must also address consensus and non-consensus items regarding treatment of existing contracts. 14

Using this guidance, CalCCA and PG&E, serving as WG co-leads, sent an email to the service list on July 6, 2020, soliciting initial input from stakeholders through informal comments submitted on July 20, 2020, and seeking participation by other stakeholders with an interest in presenting at a WG workshop on the identified issues set for July 27, 2020. 15 Eight parties submitted informal comments on the 7 Issues on July 20, 2020 ahead of the July 27, 2020 WG

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11 Id. at Ordering Paragraph 5. The Amended Scoping Memo includes a similar requirement. Amended Scoping Memo at 3.
12 Id. at Ordering Paragraph 6.
13 Id. at pp. 44-45. The four issues identified above (a.-d.) and the three issues identified in this paragraph (i.e. in the first sentence and romanettes (i) and (ii) of the second sentence) are referred to herein as the “7 Issues.” The 7 Issues are also outlined in the email attached as Exhibit A.
14 Ibid.
15 The email to the service list laying out the WG schedule is attached as Exhibit A.
workshop. These informal comments are attached as Exhibit B to this Report. Three parties (PG&E, CalCCA, and San Diego Gas & Electric Company (SDG&E)) expressed interest in presenting at the WG workshop. The co-leads facilitated the WG workshop by WebEx on July 27, 2020, beginning at 10:00 a.m. The co-leads jointly presented a review of the 7 Issues identified in D.20-06-002 and initial informal comments on the 7 Issues. Additionally, PG&E made a presentation as a participant in the WG to address pending issues. CalCCA also presented as a WG participant, offering two proposals. The only other party presenting a proposal was SDG&E. These presentations are attached as Exhibit C. WG participants submitted informal comments and replies regarding the WG workshop on August 3, 2020, attached as Exhibit D, and on August 17, 2020, attached as Exhibit E, respectively. A draft of the Report was circulated to WG participants on [August 21, 2020], with informal comments on the draft Report submitted on [August 26, 2020] and attached here as Exhibit F.

The workshop and parties’ informal comments have helped inform this Report.

B. Topics Expressly Excluded from Scope

The Commission expressly identified certain topics as out-of-scope. They include:

1. One-for-one credit mechanism for local RA that does not account for relative effectiveness of shown resources relative to bid resources;\(^{16}\)

2. Ex-post price premium based on the average price paid by the CPE for resources in the local area for which a resource is shown;\(^{18}\)

3. Credit mechanism for fossil fuel resources (other than potentially for existing contracts);\(^{19}\)

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\(^{16}\) D.20-06-002 at 43 (“The Commission is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts.”.

\(^{17}\) Id. at 41.

\(^{18}\) Id. at 42.

\(^{19}\) Id. at 41.
4. An LCR RCM mechanism for the SDG&E Transmission Access Charge (TAC) area, where a CPE will not be designated.  

Stakeholders generally adhered to this guidance in offering proposals presented through the WG process and described in this Report.

C. Schedule of Completed Activities

The co-leads scheduled and completed the following WG activities:

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Status</th>
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<tbody>
<tr>
<td>July 6, 2020</td>
<td>Co-leads circulated notice to the service lists of WG co-leads and WG schedule, including workshop, and request for informal comments on 7 Issues outlined in D.20-06-002 on pages 43-45 and in Ordering Paragraphs 5 and 6.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 17, 2020</td>
<td>Co-leads circulated notice of workshop date and call-in information to the service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 20, 2020</td>
<td>Parties submitted informal comments to the service lists in response to the co-leads’ request on 7 Issues outlined in D.20-06-002 and notified co-leads of intent to present at workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 24, 2020</td>
<td>Co-leads circulated notice of agenda and presentation materials for the virtual workshop to service lists.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 27, 2020</td>
<td>Co-leads hosted a virtual workshop on WebEx on LCR RCM and the treatment of existing contracts.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 30, 2020</td>
<td>Co-leads again circulated presentations from virtual workshop to workshop participants, in addition to a matrix for parties to utilize in developing informal comments on the workshop.</td>
<td>Complete</td>
</tr>
<tr>
<td>July 31, 2020</td>
<td>Co-leads circulated updated schedule for WG to the service lists, including dates for informal reply comments on workshop, issuance of a draft Report, and informal comments on the draft Report.</td>
<td>Complete</td>
</tr>
</tbody>
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\*Id. at Conclusion of Law 6.*
August 3, 2020 | Parties submitted informal comments on the workshop to co-leads, which were circulated to the service lists on August 4, 2020. | Complete
---|---|---
August 17, 2020 | Parties submitted informal reply comments on the August 3 informal comments to the service lists (PG&E’s informal reply comments were sent to the co-leads on August 17, 2020, and to the service lists on August 19, 2020). | Complete
August 20, 2020 | Co-leads circulated an updated schedule for the WG to the service lists | Complete
August 21, 2020 | Co-leads served a draft Report to the service lists for comment. | Complete
August 26, 2020 | Parties submitted informal comments on the draft Report to the service lists. | [Complete]
September 1, 2020 | Co-leads filed and served Report. | [Complete]

II. Guiding Principles and Objectives

The co-leads presented their views and interpretations on guiding principles and objectives in the July 27, 2020, workshop presentations.

A. Guidance from D.20-06-002

Drawing from D.20-06-002, the co-leads identified the following explicit guidance provided by the Commission, with the corresponding page number or ordering paragraph (OP) in brackets:

Effectiveness:

1. The LCR RCM cannot provide a “one for one” premium as CalCCA proposed without considering effectiveness. [p. 41]
2. The LCR RCM must address “local effectiveness” and “use limitations” of the shown resource to align the financial compensation with the actual LCR MW reduction the resource provided. [p. 42, OP 5]
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.” [OP 5.d.]

Least-Cost, Best-Fit:

a. “Because resources procured in the CPE solicitation would impact local compensation values and the least cost best fit solution, local resources shown by LSE’s 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]

b. “[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]

c. “[E]nsures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value…” [p. 43]

Premium Determination and Market Power Issues:

1. The LCR 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]

2. “[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]

3. 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]

4. “To the extent that market power inflates local area capacity prices, an ex post benchmark would exacerbate this problem by providing inflated prices to local resources shown by LSEs” [p. 42]

5. 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.” [OP 5.b]

Preferred Resource Development in Local Areas

1. “a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas.” [p. 41]

B. PG&E Proposed Principles

Based on the guidance in D.20-06-002, PG&E outlined the following four recommended principles for the LCR RCM in its workshop presentation included in Exhibit C:

- The LCR RCM should:
o Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;

o Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;

o Result in lower total costs to customers without sacrificing local area reliability; and

o Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

WG participants also provided recommendations and comments on guiding principles.

The Alliance for Retail Energy Markets (AReM) proposed the following principles in the evaluation of the need and structure for any such compensation mechanism:

- No CPE Over-procurement - The ability for an LSE to receive an LCR RCM payment from the CPE must not result in over-procurement by the CPE with those costs spread among all LSEs;

- Cost Causation – Customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; costs should not be spread to other LSEs or their customers;

- Premiums Paid for Shown Resources Must Be Aligned with the Auction – LSEs with resources worth a premium to the CPE should be eligible for compensation up to that premium not more; and

- Payment Length for Show Resources Must Be Aligned with the Local RA Requirement – The number of years an LSE is eligible for an LCR RCM payment should not be longer than up to three years – the term of the Local RA requirement.

California Energy Storage Alliance (CESA), in addition to responses to the specific 7

Issues presented, also suggested that the WG should:

- consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective local RA requirements, and

- clarify and discuss the implications of the CPE buying all RA attributes if selected.
III. Description of Proposals

A. CalCCA Proposals

1. CalCCA Option #1

CalCCA’s initial proposal, presented in its July 20, 2020, informal comments, advanced a CPE “must take” model. The model evolved as a result of the workshop and Parties’ comments, however, into a refined “Option #1” proposal presented in CalCCA’s July 27, 2020, comments. CalCCA does not recommend adoption of this approach but prefers its “Option #2” described below.

Under the must-take model, the CPE would be bound to take any local RA attributes from preferred or energy storage resources shown by an LSE. The price would be determined using the following formula:

Year 1: Use the median price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both system and local RA; subtract system RA price from local RA and multiply by effective megawatt (MW)

Subsequent Years: Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

This formulation removes the risk of market power influence by relying on the median CPE bid price rather than an average bid price. The median price is also unlikely to suggest pricing to future bidders, which an average price would do.

The number of MW shown by the LSE would be adjusted for effectiveness, using one of two methods. The first method would rely on published California Independent System Operator Corporation (CAISO) effectiveness factors, scaling a resource’s effectiveness to the average effectiveness procured by the CPE in that specific local area. Because these factors do not fairly represent the value of resources, due to their focus on a limited subset of constraints, CalCCA
did not favor this approach. The second method would rely on a yet-to-be determined methodology using data regarding peak contribution of particular technologies in specific local areas and data underlying the CAISO’s identified storage need in its annual Local Capacity Technical Study. CalCCA pointed out, however, that developing these technology-specific methodologies would be time consuming and would, at best, provide only rough justice in determining the showing value.

CalCCA does not support adoption of Option #1 due to the complexity of developing reasonable effectiveness calculations. In addition, it is difficult to square a CPE “must-take” model with the directive in D.20-06-002 that shown resources must be “evaluated alongside bid resources.”

2. CalCCA Option #2

CalCCA advances its Option #2 as the preferred methodology for the LCR RCM. Unlike Option #1, the CPE would not be bound to accept all shown resources but could reject them after considering their value “alongside bid resources.” The “pre-determined price” calculation would be the same as Option #1:

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

Subsequent Years: Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

The only difference is that an LSE could choose to show its resources to the CPE for local credit at a price lower than the pre-determined price if desired.

The primary benefit of this approach, however, is administrative simplicity. Option #2 does not require further work to develop highly technical, technology-specific effectiveness calculations.
values. Instead, it relies on the guidelines the CPE will use to evaluate bid resources. In other words, the CPE would apply the same methodology or considerations to bid and shown local RA resources in comparing their value.

Beyond these fundamental features, CalCCA addressed term and documentation of showings. Resources committed through a showing would have a three-year commitment where the term start date could be any year within the three-year forward compliance period. The showing (like bid) would be documented through a confirm under the Edison Electric Institute (EEI) Master Agreement.

3. **CalCCA Proposal on Treatment of Existing Contracts**

In essence, since preferred and storage resources are covered by the showing option, the legacy treatment for existing contracts identified by D.20-06-002 LCR RCM would only apply to existing fossil contracts. The Commission did not extend this same authority for an investor owned utility (IOU) to show fossil utility owned generation (UOG). As stated in D.20-06-002, existing fossil UOG would be required to bid into the CPE solicitation, and bid UOG would receive Cost Allocation Mechanism (CAM) treatment.\(^{21}\)

CalCCA proposes that existing fossil contracts receive legacy treatment for five years from the implementation of the CPE. Legacy contracts will include only resources that are currently online and were contracted by an LSE on or before June 11, 2020 (the date D.20-06-002 was issued).

<table>
<thead>
<tr>
<th>Summary of CalCCA Option #2 LCR RCM Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CPE Obligation</strong></td>
</tr>
</tbody>
</table>

\(^{21}\) D.20-06-002 at 48.
<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>CPE applies effectiveness criteria to shown resources in the same way the criteria are applied to bid resources.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Price Update</td>
<td>If selected, LSE will be paid the showing price (pre-determined price or below) without annual adjustment for effectiveness, like bid resources.</td>
</tr>
<tr>
<td>Pre-determined Price</td>
<td>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 (see §b. above.</td>
</tr>
<tr>
<td>Calculation of Payment</td>
<td>If selected, LSE will be paid the pre-determined price (or lower if the LSE showed at a lower price) for the shown resource.</td>
</tr>
<tr>
<td>Premium Granularity</td>
<td>Price is differentiated by local area or sub-area, unless aggregation up is required to mask individual resource prices; not technology-specific prices.</td>
</tr>
<tr>
<td>Showing Term</td>
<td>LSE may show a resource for a term of up to three years, with the term commencing within the current three-year compliance period.</td>
</tr>
<tr>
<td>Bid/Show Election</td>
<td>LSE may show or bid its resource, not both.</td>
</tr>
<tr>
<td>Existing Contracts</td>
<td>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 UOG “resources” do not qualify for a local showing.</td>
</tr>
</tbody>
</table>

**B. SDG&E Proposal**

SDG&E developed a proposal, included it in their July 20, 2020 comments, and presented the proposal at the July 27, 2020 workshop. SDG&E’s proposal addressed resource applicability, local premium, effectiveness factors, duration, and cost-allocation.

On resource applicability, SDG&E noted that the LCR reduction compensation mechanism would apply to only three categories of shown resources:

1. All energy storage;

2. All preferred resources; and
3. Grandfathered contracts of existing fossil fuel resources.

On the local premium, SDG&E proposed that the CPE utilize the relevant Power Cost Indifference Adjustment (PCIA) System RA Market Price Benchmark (MPB) for its area, either NP-15 or SP-15 for the compliance year. SDG&E noted that the System RA MPB is typically available in November prior to the compliance year. SDG&E suggested consideration of the weighted average price of Local resources that were contracted by the CPE for the compliance year. This means that the CPE must identify the specific cost related to RA capacity procured if it procured other attributes, such as Flexible RA or energy tolling, which is necessary to ensure an apples-to-apples comparison. SDG&E also explored using the PCIA Local MPB, however it was unclear how the CPE procurement of Local resources would impact the PCIA Local MPB calculation. Therefore, SDG&E recommended using prices relevant to CPE procurement. SDG&E also maintained that both values could be made publicly available in November after the CPE has finished its procurement along with the publication of the annual PCIA MPBs.

On effectiveness, SDG&E argued that effectiveness factors should be guided by the CAISO and the annual Local Capacity Technical Study (LCTS). However, since the methodology may be too complex, SDG&E offered a simpler alternative until a more precise methodology can be adopted. SDG&E proposed that the effectiveness factors for all shown resources be calculated based on the percentage resulting from the local or sub-area LCR divided by the total amount of capacity shown and CPE procured capacity. SDG&E provided the example that if the LCR is 100 MWs and 40 MWs were shown by LSEs, and 80 MWs were procured by the CPE, the percentage would be 100 MW / 120 MW, or 83.33 percent. LSEs that showed the total of 40 MWs would receive a credit of approximately 33.33 MWs.
In terms of duration, SDG&E proposed that the resources would be shown annually on a three-year rolling basis. SDG&E’s proposal provided a process for how capacity would be continue to be shown as well as offered in future years to the CPE.

For cost-allocation, SDG&E proposed that the premium associated with the shown local RA capacity would reduce the costs allocated to the LSE by the CPE for the procurement.

C. PG&E Presentation and Proposals

While PG&E did not present a full proposal at the July 27, 2020 workshop, PG&E’s presentation included proposed guiding principles for the LCR RCM, detailed above in Section II and repeated here for convenience:

- The LCR RCM should:
  - Incent preferred resource development in local areas to reduce dependence on fossil-generation for reliability;
  - Reflect the effectiveness of a resource at meeting reliability requirements to prevent “leaning” by LSEs;
  - Result in lower total costs to customers without sacrificing local area reliability; and
  - Not be reflective of market power and/or introduce gaming opportunities but may reflect a “premium” based on the additional cost of developing resources in local areas.

PG&E’s presentation explained that PG&E had not identified a mechanism for developing a price that clearly met these proposed guiding principles. In attempting to establish an appropriate local price, PG&E considered two options: cost-based and market-based. PG&E discussed how each of these prices could be derived and outlined the drawbacks of each option. PG&E also proposed that the LCR RCM premium should be as granular as possible in order to send the correct market signals.
PG&E further explained its view that any “workable” solution must be paired with a transparent and appropriate effectiveness adjustment and demonstration of reduction in total costs to customers. PG&E’s presentation provided information regarding the complexity and potential infeasibility of developing effectiveness adjustments using CAISO effectiveness factors, as well as other measures of effectiveness that could be explored.

PG&E concluded its presentation by stating that the LCR RCM should not result in an increase in total costs to customers. In other words, resources paid through this mechanism must be lower cost than its alternative, and the mechanism must not be game-able.

In addition, PG&E utilized the July 20, 2020, informal comments to provide its proposals with respect to treatment of existing contracts and existing owned resources. First, PG&E proposed that legacy treatment of existing contracts not be afforded to contracts for local resources that were procured outside of an LSE’s transmission access charge (TAC) area (e.g. a northern California LSE that procured a resource within a southern California LSE’s TAC), as those resources were not procured by the LSE to meet local RA requirements, but were likely procured to meet the LSE’s system RA requirements. PG&E also proposed that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired, prior to the date of issuance of D.19-02-022, March 4, 2019 (i.e. when the Commission affirmed its intent to adopt a centralized procurement framework for local RA resources and the possibility that LSEs may no longer have a procurement obligation for local RA). PG&E also proposed that legacy treatment not be applied for the full term of an existing contract or the life of an existing owned resource.

IV. Consensus and Non-Consensus Items

A. Matrix of party positions
As part of the WG process, the co-leads developed a matrix of party positions that covers key questions, including effectiveness, granularity, transparency, bidding issues, annual adjustments, the evaluation process, and shows where there is consensus and non-consensus among parties. The matrix was distributed to workshop participants on July 30, 2020, and parties provided edits to the matrix as part of informal comments submitted on August 3, 2020. The matrix has been updated to incorporate edits submitted on August 3, 2020, and is included in this Report as Exhibit G.

B. Summary of Consensus and Non-Consensus Items for the 7 Issues

1. Cost-effectiveness

While some parties stated that the mechanism should not provide compensation if the resource does not provide value (CalPA) or does not reduce costs (PG&E), other parties argued that cost-effectiveness should not be in scope (CEDMC). Others raised feasibility of the mechanism if CAISO would need to provide information on effectiveness (SCE, SDG&E). Others argued that the CPE should produce multiple portfolios, akin to the transmission alternative portfolios the CAISO creates in the Transmission Planning Process, as a means to address cost-effectiveness (CESA).

With respect to how the mechanism should address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources, six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the topic should be within the scope of the mechanism and one party (CEDMC) stated that it should be outside of the scope of the mechanism.

PG&E and CESA expressed that a resource should demonstrate its effectiveness to receive compensation. CESA looks to have the assessment incorporate non-quantitative criteria, whereas PG&E looks to have only quantitative criteria used.
Six parties (CalCCA, CalPA, PG&E, SCE, SDG&E, and CESA) stated that the effectiveness adjustments could be determined by the CAISO through various mechanisms. The specific actions suggested by the parties varied, ranging from: adjustments to NQC values (PG&E), determination of effectiveness factors (SCE), using the Local Capacity Technical Study (SDG&E), and developing a stakeholder process for determining the appropriate mechanism (CalCCA).

CalCCA’s final proposal (Option #2) left the question to the CPE. The CPE is required to take effectiveness into account in selecting bids from its solicitations. Since CalCCA’s proposal (Option #2) contemplates a comparison of shown preferred resources alongside bid resources, CalCCA submits that the CPE should apply the same criteria – whatever they may be – to both bid and shown resources.

2. **Premium granularity**

There was a broad spectrum of perspectives on premium granularity. Some parties argued that the premium should be dependent on the data available; for example, it could be sub-area, local area, or TAC-wide area (SCE). Others argued for premiums for each resource technology type (CalPA) or by resource type, location, or operational characteristics (CEDMC), or based on location, including disadvantaged communities (DACs), GHG emissions reduction, and market power mitigation (CESA).

With respect to how granular the premium should be, three parties stated that the price premiums should be differentiated by local areas or sub-local areas (CalCCA, PG&E, and SDG&E) and one party stated that it should be differentiated by the TAC-wide area (SCE) unless a higher level of aggregation was required to mask the price of individual resource prices. SDG&E stated that it believed the complexity of developing individual premiums for the various types of resources in either sub-areas or local areas makes the task infeasible.
One party stated that a series of premiums should be stacked to arrive at the final premium for a resource (e.g., closer-to-load, within a DAC, GHG emission reduction, and offers market power mitigation) (CESA). An additional party referenced a premium for a resource being located within a DAC (CEDMC).

3. **Transparency of premium**

Parties broadly supported as much transparency as possible, while still protecting market-sensitive information. Parties presented numerous ideas on how and when data should be presented. For instance, PG&E advocated for aggregating data upfront and making more detailed data available after sufficient time had passed. CalPA argued for posting the premiums to the service list and CESA argued that premiums should be made available by resource class. SDG&E argued that advance knowledge of the premium is not necessary since LSEs could still have elected to show the resource if the offer is not selected by the CPE. **The LSE does not lose any optionality in maximizing value for its customers.**

CalCCA observed that its proposal would allow for full transparency of the predetermined price. Neither source of data required for the calculation -- the median bid price from the last CPE solicitation and the aggregated RA prices reported to Energy Division -- presents concerns regarding market sensitivity. The Energy Division prices are made public annually, and the median CPE price would reveal very little about the stratification of bids actually accepted by the CPE.

4. **Bidding issues**

On the issue of whether the mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation, both PG&E and CalCCA argued that the LSE would need to choose between voluntarily showing (for mechanism eligibility) and bidding / showing as part of the solicitation process. CESA argued that the LSE should not be precluded from also
bidding and showing. SCE recommended that this topic be further discussed in workshops to address issues of gaming risk.

CalCCA also proposes a price formula for the pre-determined price. The “pre-determined price” calculation would be calculated as follows:

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

Subsequent Years: Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year’s results) for local RA price; subtract system RA price from local RA price and multiply by effective MW

An LSE could choose to show its preferred or energy storage resources to the CPE for local credit at a price lower than the pre-determined price if desired.

5. Annual adjustments to local compensation

Parties had differing views on how frequently the mechanism should be adjusted. PG&E and SDG&E advocated that the premium should be updated annually to reflect the most recent CAISO Local Capacity Technical Study Report. CESA argued that an annual adjustment would not be necessary. Others argued that annual adjustments would ultimately depend on the details of the mechanism (SCE).

Because CalCCA proposes comparison of the shown resource alongside bid resources, as D.20-06-002 requires, CalCCA proposes no annual adjustment to the compensation. Bid resources are not adjusted annually for effectiveness but are paid as bid. In the same way, shown resources should be paid for the term of the showing at the pre-determined price (or below).

6. Bid evaluation process

On the question of how the CPE should incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred
resources, there were several disparate ideas. SCE argued that the question should be addressed in CPE implementation as it relates to the bid selection process and bid selection criteria and how the CPE will fairly implement the least-cost-best-fit procurement criteria. CEDMC argued that both qualitative and quantitative criteria be considered, and preferred resources should be favored over fossil-fueled resources. CESA argued that the criteria should link to integrated-resource-plan-identified future long-term procurement needs in local or sub-local areas and adhere to the loading order and SB 1136 statutory requirements to the greatest extent possible.

7. Treatment of existing contracts

There were several proposals relating to the treatment of existing contracts that spanned a cutoff date for qualification, the period over which a contract should qualify, and whether UOG should qualify.

On the issue of a cutoff date, PG&E and SCE advocated that legacy treatment should be applied only to local RA contracts executed, or owned resources that were acquired prior to the date of issuance of D.19-02-022, March 4, 2019. CalCCA argued that the mechanism should be applied to existing contracts entered into by an LSE on or before June 11, 2020.

On the issue of the period over which a contract should qualify, SCE argued that it should be for up to a five-year term length. PG&E also stated that legacy treatment should not apply for the full term of the existing contract or owned resource. CalCCA recommends that the term be consistent with the terms sought for bid resources.

Lastly, on the issue of UOG, CalCCA argued that UOG should not be eligible, while PG&E advocated for eligibility for UOG.

V. Consensus and Non-Consensus Around Full LCR RCM Proposals

A. CalCCA’s Proposal (Option #2)
CalCCA offered a complete proposal (Option #2) for the LCR RCM, summarized in their comments as follows:

<table>
<thead>
<tr>
<th><strong>Shown Resources Compared Alongside Bid Resources</strong></th>
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<tbody>
<tr>
<td><strong>CPE Obligation</strong></td>
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<tr>
<td><strong>Effectiveness</strong></td>
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<td><strong>Premium Granularity</strong></td>
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<td><strong>Showing Term</strong></td>
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<tr>
<td><strong>Bid/Show Election</strong></td>
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<tr>
<td><strong>Existing Contracts</strong></td>
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</table>

Several parties expressed interest in this proposal, although there was not broad consensus reached from all parties involved in the WG. Both Calpine Corporation and AReM submitted informal comments questioning the concept of permitting bids outside of the auction process and suggesting that there should be “full flexibility to specify the prices at which shown resources will be compared to bid resources” in the CPE’s auction to provide LSEs “incentives
to offer competitively to ensure that their resources are selected over offered resources.” AReM observed that all options for a compensation mechanism have risks for market power and gaming and questioned “if the limited potential benefits warrant moving forward with any compensation mechanism.”

PG&E submitted comments in reply to CalCCA’s proposal (Option #2) stating that PG&E did not find that the proposal clearly meets all of the objectives in D.20-06-002; however, PG&E believes it is reasonable and the only workable solution that has been put forth by the WG that clearly meets the objective of allowing LSEs to retain the system and flexible RA attributes and receive compensation for the local RA attribute under the hybrid procurement framework. If the Commission is willing to consider this proposal, PG&E believes that (i) all LSEs, including IOUs, should be able to avail themselves of the LCR RCM in the same manner (which requires the Commission to revisit IOU bidding requirements in D.20-06-002 in a new track of the RA proceeding or identify another venue to evaluate the bidding requirements for IOUs to participate in the LCR RCM proposed by CalCCA in Option #2), and (ii) LSEs should continue to be afforded the “voluntarily shown” option, without compensation under the LCR RCM, should LSEs want to retain the system/flexible RA products for use toward its LSE-specific system and flexible RA requirements.

SCE also submitted comments in reply to CalCCA’s proposal (Option #2) stating that there are merits to the proposal, and it should be further explored. SCE recommended a few clarifications to the proposal, including (i) if a shown resource is selected by the CPE during the solicitation, then the LSE should be paid its offer price for the shown resource, not the pre-determined premium, and (ii) the option of showing a local resource without direct compensation should be retained and made available to all LSEs.

B. SDG&E’s Proposal
As described in Section III.B, SDG&E also provided a full proposal on the LCR RCM. PG&E submitted comments on SDG&E’s proposal expressing concerns that the proposed methodology does not appropriately address cost effectiveness concerns. PG&E believes that it may overestimate voluntarily shown resources, which may result in customers paying for resources that do not provide any ratepayer value or any local area reliability benefits to the system. Additionally, PG&E has concerns with SDG&E’s proposal on local premium price, as this methodology is similar to the financial crediting mechanism proposed by CalCCA in Rulemaking 17-09-020 that was rejected by the Commission and specifically excluded from the scope of consideration in this Track.

Exhibits
Exhibit A: July 6, 2020 Service Email
Exhibit B: July 20, 2020 Informal Comments
Exhibit C: July 27, 2020 WG Workshop Presentations
Exhibit D: August 3, 2020 Informal Comments
Exhibit E: August 17, 2020 Informal Reply Comments
Exhibit F: August 26, 2020 Informal Comments on Draft Report
Exhibit G: Final Matrix of Party Positions
APPENDIX G

FINAL

MATRIX OF PARTY POSITIONS
### Working Group on Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) and Treatment of Existing Contracts

|-----|----------|-----------------------|---------|---------------------------------------------------|----------------------------------------------------------|
| 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? | Should effectiveness be determined by using:  
- CAISO’s Effectiveness Factors  
- CAISO’s LCTS Contribution to Peak Load Methodology  
- CAISO’s LCTS Energy Storage Limitation Study  
- Other | Calpine believes that the mechanism should consider effectiveness related to the effectiveness factors that are included in the LCTS as well as duration/energy limits analyzed by the CAISO. | The Council does not support the use of any of these approaches for determining local effectiveness. The concept of resource-specific local effectiveness has not been addressed by the CPUC which should be done before applying it in this context. | N/A |
| 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)? | Should effectiveness adjustments be applied to the:  
- Price premium  
- MW of shown capacity  
- Other | Either an adjustment to the price premium or the MW credited could work. | Not withstanding the Council’s opposition to the use of local effectiveness factors, premiums should not be technology-specific. Using demand responses as an example, whether the underlying technology is energy storage or customer load is irrelevant. Furthermore, the Loading Order, which serves as the basis for the CPUC’s directive to favor preferred resources in CPE procurement, does not differentiate between technology types for renewables, demand response, or energy efficiency. | N/A |
| 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? | Should premiums be:  
- Publicly posted  
- Confidential  
- Other | Premiums should reflect the fact that resources in different locations, including different sub-areas, have different “effectiveness.” | Location premiums should only be applied at the subLAP or LCA level. | N/A |
| 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; | Should the mechanism allow LSEs to:  
- Bid and show  
- Bid or show  
- PGE’s proposal (if an LSE voluntarily shows, the LSE cannot select the option to both bid and voluntarily show the resource as part of the CPE’s solicitation process)  
- Other | As indicated in Calpine’s informal comments, Calpine believes that CalCCA’s Straw Proposal #2 warrants further exploration. Under this approach, given that the CPE would be able to compare shown and bid resources in the solicitation, it is unclear why it would be necessary to establish pre-specified premiums for shown resources. Instead, if the proposal is ultimately adopted, the Commission should consider giving LSEs full flexibility to specify the prices at which shown resources will be compared to bid resources in the CPE solicitations recognizing that this structure would provide LSEs incentives to offer competitively to ensure that their resources are selected over other resources and that the CPE would have the discretion to not “procure” shown resources and defer to CAISO backstop procurement in the absence of sufficient competition. | Premiums should be publicly posted for transparency and to promote the development of resources that are most highly valued. | N/A |
| 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. | Should the premium be:  
- Fixed for the term of the commitment  
- Adjusted year to year  
- Other | If something like CalCCA’s Straw Proposal #2 were adopted, presumably shown resources would have the same certainty with respect to compensation as resources that are offered directly into the CPE solicitations, i.e., if the “bid” associated with a shown resource were selected, it would be paid its bid for the term of the commitment for which it was selected. | Any premium should be fixed for the term of the commitment. Otherwise, it would create revenue uncertainty and discourage development of the desired resources. | N/A |
| 6   | How the CPE incorporates 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? | At the Workshop, parties agreed that this should be addressed in a working group or through future proposals made in the RA proceeding, as suggested by the Commission (page 03-56 of 02-02-006) | This issue should be addressed as specifically as possible. An initial, simple approach could be to use a multiplier to ensure that preferred resources receive extra value in the bid stack of CPE solicitations. | N/A |
| 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? | What should be the exit off date for legacy treatment of existing contracts? | N/A | N/A | N/A |
| 8   | Other | What are the terms (length of time) for applying legacy treatment of existing contracts? | N/A | N/A | N/A |
| 9   | Overall | See informal comments. | | | N/A |

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1. The ability for a LSE to receive a payment from the CPE must not result in over-procurement by the CPE with the over-procurement costs spread among all LSEs.
2. The customers of LSEs with procurement costs above the CPE’s auction prices should not receive a credit for above-market costs and should directly bear those costs themselves; they should not spread those costs to other LSEs or to the customers of other LSEs.
3. To the extent payments for shown resources are determined to be warranted, LSEs with such resource types that are worth a premium to the CPE should be eligible for compensation up to that premium.
4. The number of years of compensation for which a LSE is eligible for an LCR Reduction Compensation Mechanism payment should be for no longer than up to three years – the term of the Local RA requirement.
<table>
<thead>
<tr>
<th>California Community Choice Association (CalCCA)</th>
<th>California Energy Storage Alliance (CESA)</th>
<th>California Efficiency + Demand Management Council (Council)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporated not through a price reduction, but into a technology-specific modification of the megawatt (MW); California Independent System Operator (CAISO) should lead a stakeholder process to develop factors that could be used.</td>
<td>Favors an approach where the central procurement entity (CPE) request for offer (RFO) considers identifying multiple portfolios of bid and shown resources that, on one end, considers effectiveness as the binding, initial screening criteria and, on the other end, more heavily considers preferred attributes while ensuring effectiveness.</td>
<td>The CPUC should focus at least initially on a more simplistic approach, given the time constraints involved. Cost-effectiveness of local resources should not be within the scope of the mechanism. Use limitations of resources should not be considered other than in the context of ensuring that MCC Bucket limitations are not violated. Local effectiveness of individual resource has not been defined by the CPUC and might be impractical for application to DR resources due to the sometimes dynamic nature of their customer and technology composition.</td>
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<td>Price premiums would be differentiated by local areas, including the disaggregated &quot;PG&amp;E Other&quot; areas, unless a higher level of aggregation were required to mask the price of individual resource prices.</td>
<td>Generally supports granularity of the LCR reduction compensation mechanism and proposed the following premiums for consideration: (1) closer-to-load, (2) Disadvantaged communities (DAC), (3) Greenhouse gas (GHG) emissions reduction and (4) market power mitigation. A one-size-fits-all premium may undervalue the incremental value-added of certain projects.</td>
<td>Factors on which to base a premium can be resource location, resource type (especially preferred resources), or operational characteristics or for resources located in DACs.</td>
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<td>N/A</td>
<td>One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class.</td>
<td>Should be as transparent as possible to ensure that resource providers can develop the products of greatest value. For similar reasons, each CPE’s least-cost, best-fit methodology should be made as transparent as possible.</td>
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<tr>
<td>One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class.</td>
<td>N/A</td>
<td>One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class.</td>
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<td>Year-to-year adjustment to the local compensation mechanism should not be established and may not be needed.</td>
<td>CPE RFO evaluation criteria mirror the premium factors in the local compensation mechanism, link to IRP-identified future long-term procurement needs in local or sub-local areas, adhere to the loading order and SB 1136.</td>
<td>Both qualitative and quantitative criteria should be considered; pursuant to D.19-04-002, preferred resources should be favored over fossil-fuel resources and not disadvantaged, fairly compared to existing, fully-depreciated gas resources on a cost basis; greater consideration to low- or zero-emission resources in meeting State’s environmental goals.</td>
</tr>
<tr>
<td>N/A</td>
<td>Use of a median referent price, which is unaffected by high outliers in a price distribution.</td>
<td>N/A</td>
</tr>
<tr>
<td>Use of a median referent price, which is unaffected by high outliers in a price distribution.</td>
<td>Recommends that resources be committed for a three-year term. Showing, like a successful bid, should be documented through a confirm.</td>
<td>N/A</td>
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<tr>
<th></th>
<th>Pacific Gas and Electric Company (PG&amp;E)</th>
<th>Public Advocates Office (CaPA)</th>
<th>Southern California Edison Company (SCE)</th>
<th>San Diego Gas &amp; Electric Company (SDG&amp;E)</th>
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<tr>
<td>Local resources are not equally &quot;effective&quot; in meeting local area reliability needs; Should only be compensated for resources that either have been demonstrated to meet up-front eligibility requirements or have an effectiveness adjustment applied to the net qualifying capacity (NQC).</td>
<td>The effectiveness and ability of a resource to provide those local resource adequacy (RA) attributes should match or exceed the requirements of the Commission and/or CAISO that qualify specific technologies' ability to count as local RA,</td>
<td>Local effectiveness is determined by CAISO based on the fleet of resources available and the contingencies that the fleet meets. CAISO would need to provide the information on effectiveness factors and the value of use-limited resources in meeting a local area need in its LCR studies.</td>
<td>Should be guided by the CAISO and the annual Local Capacity Technical Study. However, SDG&amp;E offers a simpler solution based on total CPE procured MWs and Shown relative to the LCR.</td>
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<tr>
<td>Ideally, the proposed compensation mechanism would be calculated for each sub-local area. Should reflect the contribution of a resource type to local area reliability.</td>
<td>There should be pre-determined premiums calculated for each resource technology type.</td>
<td>The premium should reflect the actual contribution to the local RA need of a resource and market conditions; The level of granularity should consider, and very likely depend on, data availability and the robustness of the data that report historic RA prices for these areas.</td>
<td>Proposes single premium for all resource types. Premium can be local area specific or broken down into sub-areas if sufficient data is available. Believes the complexity of developing individual premiums for the various types of resources in other sub-areas or local areas makes this task infeasible.</td>
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<td>Potential options include publishing aggregated data upfront and more granular data after a sufficient period of time has passed or publishing range (e.g., highest value area to lowest) or tiers with ranges (e.g., top five local premiums include these areas and are between $5 and $7).</td>
<td>The Commission should post the premium and include them in both its annual RA Report and the annual Final RA Guide; This may not be feasible if a premium is created for each unique resource since it may be calculated depending on market sensitive resource information.</td>
<td>The transparency of the premiums would depend heavily on the data used to determine the premiums.</td>
<td>Utilize CPE procured costs compared to PCIA System Market Priced Benchmarks.</td>
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<td>LSE may 1) voluntarily show a resource for local premium but may not bid or 2) bid and voluntarily show the resource for no local premium.</td>
<td>N/A</td>
<td>Due to complexity, recommends this be discussed in workshops evaluating gaming risk.</td>
<td>Compensate Mechanism is only applicable for resources that either Show or Bid and Show if not selected.</td>
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<td>Any effectiveness adjustment to local premiums should reflect the assumptions and findings of the most recent CAISO Local Capacity Technical Study Report.</td>
<td>Premium would increase or decrease as NQC is adjusted year to year.</td>
<td>Depends on details of the mechanism on how the effectiveness of resources is considered in deriving a premium.</td>
<td>Compensation Mechanism adjusts annually based on the capacity that CPE procured and Shown, the updated LCR, the CPE procurement costs and the PCIA System RA MPB</td>
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<td>N/A</td>
<td>N/A</td>
<td>Recommendations to be addressed in the area of CPE implementation as it relates to the bid selection process and criteria.</td>
<td>N/A</td>
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<td>Legacy statement of Local RA related contracts should be applied only to contracts executed, or owned resources that were acquired, prior to issuance of D.19-02-022(3/4/2019); not to local resources procured outside of the LSE’s transmission area charge (TAC) area; do not support being applied for the full term of an existing contracts.</td>
<td>N/A</td>
<td>Apply to only those existing resources signed before the issuance of central procurement decision on 3/26/2020; for new resources it could apply to contracts signed prior to the PD, therefore limitation is only for local RA contracts with existing resources – up to a five-year term length.</td>
<td>Provided additional details of the commitments for shown resources as years roll forward. Shown local RA capacity is committed for a period of up to three years. No process to decommit a resource except for certain reasons, such as resource retirements or force majeure.</td>
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<td>SDG&amp;E believes its proposal offers a simple approach to meeting the needs of creating a Local Capacity Reduction Compensation Mechanism using transparent and annually refreshed data. SDG&amp;E believes that while a more granular methodology may provide additional precision or &quot;value&quot; to specific resource types and various areas, the potential lack of available data may cause such a methodology to be difficult to implement.</td>
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