BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations.	R.19-11-009

CALIFORNIA COMMUNITY CHOICE ASSOCIATION'S COMMENTS ON 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

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The California Community Choice Association (CalCCA)[1] submits these comments on the co-leads' (CalCCA and Pacific Gas and Electric Company (PG&E)) September 1, 2020, *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* (Report) pursuant to the Amended Scoping Memo and Ruling.[2]

I. INTRODUCTION

The California Public Utilities Commission (Commission) determined in D.20-06-002 that a financial credit mechanism for load serving entities (LSEs) "showing" their resources to the Central Procurement Entity (CPE) "potentially provides LSEs with additional incentives for

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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, Central Coast Community Energy, CleanPowerSF, Clean Power Alliance, Desert Community Energy, East Bay Community Energy, Lancaster Choice Energy, Marin Clean Energy, 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 R.19-11-009, *Assigned Commissioner's Amended Track 3.A and 3.B Scoping Memo and Ruling,* July 7, 2020, at 6.

investments in preferred and energy storage local resources in constrained local areas."[3] The Report reasonably reflects the process of the working group directed to develop this financial credit mechanism and summarizes the proposals advanced by participating stakeholders. Because the working group appropriately framed its discussions around the several questions posed by D.20-06-002, however, gleaning a full and actionable solution from the more than 300 pages of the Report and exhibits can be challenging. CalCCA's comments thus draw together its comments and the Report's summary to highlight CalCCA's proposals for a crediting mechanism and treatment of existing contracts.

As the Report explains,[4] CalCCA has proposed a mechanism for a Local Capacity Requirement Reduction Compensation Mechanism (Mechanism) for all preferred resources and a proposed legacy treatment for other existing contracts. As noted in the Report, CalCCA's proposed Mechanism has several key elements:

- ✓ The Mechanism will allow the CPE to compensate LSEs that show the local resource adequacy (RA) attributes for only preferred and energy storage resources in their portfolio.
- ✓ LSEs will be able to show their preferred resources for a local RA premium set at or below a pre-determined price relying on historical RA pricing data.
- ✓ The CPE will compare the LSE's showing "alongside bid resources" to ensure their procurement is cost-effective for ratepayers.
- ✓ As a part of determining the cost-effectiveness of a LSE's showing, the CPE will evaluate the effectiveness of the resource in addressing local constraints in the same way it evaluates effectiveness for bid resources.

As discussed below in Section II, CalCCA's proposal squarely meets the requirements established by D.20-06-002.

3 D.20-06-002 at 41.
4 *See* Report, Attachment 1-23 through 1-25.

CalCCA also proposes application of the Mechanism for other types of resources under existing contracts. "Existing contracts" should be defined as contracts executed to convey local RA attributes from a third party to a LSE executed not later than June 11, 2020 (the date D.20-06-002 was issued). Additional eligibility rules are discussed in Section III.

As the Report reveals, CalCCA's proposed solution for preferred and energy storage resources has garnered a reasonable degree of consensus among CalCCA, Southern California Edison Company (SCE) and PG&E.[5] The comments below organize CalCCA's proposals as reflected in the Report and its exhibits in a straightforward and actionable way. For direct responses to the questions posed by the Commission in D.20-06-002, please refer to CalCCA's informal comments.[6] CalCCA urges the Commission to adopt CalCCA's proposals to develop and implement a Mechanism for local capacity requirements.

II. THE COMMISSION SHOULD ADOPT CALCCA'S PROPOSALS FOR A FINANCIAL CREDIT MECHANISM AND EXISTING CONTRACT COMPENSATION

A. Elements of CalCCA's Proposals

CalCCA's proposal (Option #2 in the Report) is the only proposal shared by parties that deals fully with the details needed to implement a Mechanism. The following table summarizes the elements addressed by CalCCA's proposal:

Summary of CalCCA Option #2 Local Capacity Requirement Reduction Compensation Mechanism Recommendation	
CPE Obligation	The CPE may accept or reject the showing if more cost-effective resources are available.
Effectiveness	The CPE applies effectiveness criteria to shown resources in the same way the criteria are applied to bid resources.
Annual Price Update	If selected, the CPE will pay the LSE the showing price (pre-determined price or below) without annual adjustment for effectiveness, like bid resources.

5 *See* Report, Attachment 1-23 through 1-24, and Appendix G.

6 *CalCCA Informal Comments on The Local Capacity Reduction Compensation Mechanism,* August 3, 2020, at 3-9.

Pre-determined Price	The "pre-determined price" would be set in advance of the showing using the following transitional and final calculation methodologies: 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 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. A LSE will have the option to show its resources at a lower price if it believes that price will improve the likelihood that the resource will be accepted by the CPE.
Calculation of Payment	If selected, the CPE will pay the LSE the pre-determined price (or lower if the LSE showed at a lower price) for the shown resource local RA capacity. Costs for the local premium payment will be recovered through the CPE's charges to all customers.
Premium Granularity	The price will be differentiated by local area or sub-local area, unless aggregation up is required to mask individual resource prices. The pre-determined price will be the same for all technologies.
Showing Term	A LSE may show a resource for a term of up to three years, with the term commencing within the current three-year compliance period for which it is shown.
Bid/Show Election	A LSE may show or bid its resource, not both.
Existing Contracts	Contracts executed to convey local RA attributes from a third party to a 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 utility-owned generation (UOG) "resources" do not qualify for a local showing.

In addition to directly answering the questions posed by D.20-06-002, the Commission should note that CalCCA's proposal addresses two issues not included in the questions posed by the decision: how to determine the "pre-determined price" for the resource showing and the term of any showing.

B. CalCCA's Financial Credit Mechanism Proposal Conforms with the Guidance Provided in D.20-06-002

The Commission provided guidance and principles for the financial credit mechanism in D.20-06-002. As discussed below, CalCCA's proposal fully addresses these principles.

1. Effectiveness

The Commission made clear that the Mechanism cannot provide a "one-for-one" credit without considering effectiveness.[7] Similarly, it noted that the Mechanism must address "local effectiveness" and "use limitations" of the shown resource.[8] CalCCA's proposal addresses this requirement by providing that the CPE, which the Commission has directed to consider effectiveness in choosing resources from the bid solicitation,[9] will determine the effectiveness of shown resources.

The Commission also required consideration of how to adjust payments to a LSE "from year to year to account for changes in the effectiveness of the resource reducing local requirements."[10] CalCCA's proposal does not propose a year-to-year price adjustment, because the shown resources will be evaluated by the CPE alongside bid resources and they should receive the same treatment. The IOU will not adjust a price bid in the solicitation every year of the bidder's proposed term. Instead, the relative effectiveness over the term of the showing, and the reasonableness of price in light of that effectiveness will implicitly be accounted for in the CPE's evaluation of bid resources. In other words, the Commission's directive to consider price

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7 D.20-06-002 at 41.

8 *Id.*, Ordering Paragraph 5.

9 *Id.*, Ordering Paragraph 14. CPE selection criteria must include "Local effectiveness factors, as published in the California Independent System Operator's Local Capacity Requirement Technical Studies" and "Energy-use limitations."

10 *Id.*, Ordering Paragraph 5.d.

adjustments is addressed by providing that the manner in which the CPE addresses changing effectiveness of bid resources over proposed terms will apply equally to shown resources.

2. Least-Cost, Best-Fit

The Commission raised concern that the shown resources fit the CPE's portfolio and provide value to ratepayers. It stated:

> 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.[11]

Indeed, for this reason, "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."[12]

CalCCA's proposal addresses this guidance by requiring that the shown resource be "evaluated alongside bid resources to fully assess the cost effectiveness of the local portfolio being considered by the CPE." To enable this evaluation, CalCCA proposes a pre-determined price, addressed in the next section.

3. Setting the Pre-determined Price

The Commission did not expressly direct parties to propose a methodology for calculating the "pre-determined" price in the questions posed by D.20-06-002. For that reason, CalCCA was among the few parties touching on how to calculate the pre-determined price. CalCCA proposes the following methodology:

> 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

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11 *Id.* at 42.

12 *Id.* at 42.

Subsequent Years: Use the median price from the last two 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

As discussed in the next section, this price formulation presents little risk of incorporating market power premiums into the price and enables the Commission to make the price transparent.

CalCCA also proposes that the "pre-determined" price operates as a price cap. LSEs should be free to bid a *lower* price if they believe a lower price is necessary to account for the resource's characteristics or wish to increase the likelihood of the CPE's acceptance of the showing.

4. Avoiding Incorporation of Market Power Premiums in Pre-Determined Price

Leading up to D.20-06-002, CalCCA proposed *ex post* adoption of a price determined by subtracting system RA prices recently reported to the Energy Division from the average price set for local RA in the CPE's solicitation. The Commission rejected this proposal, raising concern that this approach would average in market power premiums reflected in bids to the CPE.[13] CalCCA thus modified its proposal in two responsive ways. First, the price will be determined in advance of the showing, rather than after the bid solicitation. Second, the local RA price will not be the average, but the median price offered in the solicitation. If there are too few prices in a local area or sub-local area to provide a reliable price, the Commission could aggregate additional local areas to eliminate the influence of potential market power.

[13] *See id*. at 43.

5. Pre-determined Price Transparency

The Commission directed the working group to 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."[14] CalCCA's proposed price relies on historical median prices from the CPE's *prior* solicitation. The median price reveals nothing about the stratification of bids around the median price, nor does it illuminate bid prices for bundled RA resources. It also relies on system RA data provided by LSEs to Energy Division, which will be made public anyway in the annual RA report. Consequently, publishing the "pre-determined" price presents little if any market sensitivity concern.

6. Application of the Premium to Existing Contracts

The Commission directed the working group to address potential application of the crediting mechanism to "existing contracts."[15] The Commission included within this category fossil resources, which would not otherwise be eligible for the financial credit mechanism.[16] The Commission further indicated that it was not inclined to provide legacy treatment to "resources that are not currently online, absent compelling information provided in the working group report."[17]

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 a 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.

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14 *Id.*, Ordering Paragraph 5.b.
15 D.20-06-002, Ordering Paragraph 6.
16 *Id.* at 41.
17 *Id.* at 46.

C. PG&E and SCE Generally Support CalCCA's Financial Credit Mechanism for Preferred and Energy Storage Resources

The Report indicates that while some parties raised questions regarding the CalCCA proposal, PG&E and SCE generally support the direction of CalCCA's financial credit mechanism for preferred and energy storage resources. It concludes:

> 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.[18]

PG&E departs from CalCCA's approach, however, when it comes to existing fossil UOG, as discussed below. SCE likewise finds merit to the proposal and states that it should be further explored.[19] SCE's concern regarding the price paid by the CPE for a showing has now been addressed by CalCCA, providing for the CPE to pay the shown price, whether the pre-determined price or a lower price. SCE, like PG&E, departs from CalCCA's approach on existing fossil resources.

III. THE COMMISSION SHOULD REJECT THE IOU'S PROPOSAL TO "SHOW" THEIR FOSSIL RESOURCES TO THE CPE

The IOUs contend that D.20-06-002 permits the IOUs to show their local RA attributes to CPE for no compensation. D.20-06-002 recognizes this approach as a feature of a hybrid approach. The notion of the IOUs voluntarily showing local RA attributes to the CPE for no compensation, however, was not included in conclusions of law or ordering paragraphs, leaving the issue uncertain. Moreover, allowing the IOUs to show PCIA resources for no compensation gives the local RA benefit of those resources to *all* LSEs by reducing their CPE charges – even if they are not responsible for the resource costs of those resources under the PCIA. This is

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18 Report, Attachment 1-25.

19 *Ibid.*

particularly true for pre-2009 Direct Access (DA) customers, who no longer have any obligation to pay for the costs of legacy resources – the bulk of fossil resources – in the IOU portfolios.[20] In short, CCAs would pay for the local RA value through their PCIA rates, while pre-2009 DA customers would get the benefits for free. The IOU's proposal thus results in a serious cost shift from one customer class to another that must be prevented.

Neither do these fossil resources fit in the category of "existing contracts" eligible for a local showing and premium. "Existing contracts," as the term is used in the decision, do not include existing IOU fossil resources. 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."[21]
- "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."[22]
- "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."[23]

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 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."[24]

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20 *See* D.19-12-010 (PG&E); *see also* D.19-08-022 (SDG&E and SCE).
21 *Id.* at 41.
22 *Id.*, Ordering Paragraph 6.
23 *Id.* at 41.
24 *Id.* at 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."[25] 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."[26] In other words, the IOU will be able to show its *preferred resources or energy storage* to the CPE, just as other LSEs would. The IOUs should also be able to show *existing fossil* <u>*contracts*</u>, subject to the terms and conditions discussed in CalCCA's proposal above. No other party, however, is permitted by D.20-06-002 to "show" an existing fossil resource to the CPE.

The IOUs' proposal falls outside the boundaries of D.20-06-002 and should be rejected. The IOUs should be required to file a Petition for Modification to the extent they wish to advance this proposal.

IV. CONCLUSION

For the foregoing reasons, CalCCA requests adoption of the proposals advanced in these comments.

Respectfully submitted,

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25 *Id.*, Conclusion of Law 14.
26 *Id.*, Conclusion of Law 9.