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

Order Instituting Rulemaking to Establish  
Policies, Processes, and Rules to Ensure  
Reliable Electric Service in California in the  
Event of an Extreme Weather Event in 2021.

R.20-11-003

**CALIFORNIA COMMUNITY CHOICE ASSOCIATION'S  
RESPONSE TO EMAIL RULING DIRECTING PARTIES TO SERVE AND FILE  
RESPONSES TO PROPOSALS AND QUESTIONS REGARDING EMERGENCY  
CAPACITY PROCUREMENT BY THE SUMMER OF 2021**

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## SUMMARY OF RECOMMENDATIONS

- The Commission should immediately schedule workshops in January to assess Summer 2021 reliability needs prior to issuing any procurement order, incorporating existing analyses identified by the California Independent System Operator Corporation (CAISO) and Southern California Edison Company (SCE) and any other available stakeholder analyses made available in advance of the workshop.
  - If the Commission determines a procurement order is necessary, rather than reliance on CAISO backstop procurement, the use of centralized procurement through the investor-owned utilities' Cost Allocation Mechanisms (CAM) is a reasonable approach if narrowly scoped and constrained.
  - Any increase in the existing planning reserve margin, if necessary, should not be pushed down to individual load-serving entity (LSE) resource adequacy (RA) requirements but should be met incrementally through the CAM; flowing the increase through to LSEs will bring confusion and uncertainty to the market and risk unproductive increases in LSE penalties.
  - Resources procured centrally for Summer 2021 should be very narrowly targeted to out-of-market resources that would not otherwise be procured by LSEs for RA showings and should be structured to minimize disruption to LSE procurement for RA compliance.
  - Procurement should be focused on Summer 2021 and exclude consideration of future procurement periods to ensure timely completion of the process.
  - CAM procurement should strongly prefer one-year transactions and exclude transactions exceeding three years; preferred and demand-side management resources should be preferred where possible.
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The California Community Choice Association (CalCCA)<sup>1</sup> submits these comments in response to the *Email Ruling Directing Parties to Serve and File Responses to Proposals and Questions Regarding Emergency Capacity Procurement by the Summer of 2021* (Ruling), issued on December 11, 2020.

**I. INTRODUCTION**

Despite stakeholders' recommendations for other approaches to ensuring Summer 2021 reliability, the Commission appears inclined to default to investor-owned utility (IOU) central procurement. CalCCA continues to maintain that a more efficient, coordinated and cost-effective approach would allow the CAISO to procure resources needed in excess of known, available resources through a modified Capacity Procurement Mechanism (CPM) or, for necessary resources seeking retirement, the Reliability Must Run (RMR) program. This

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<sup>1</sup> California Community Choice Association represents the interests of 24 community choice electricity providers in California: Apple Valley Choice Energy, Baldwin Park Resident Owned Utility District, CleanPowerSF, Central Coast Community Energy, Clean Energy Alliance, Clean Power Alliance, Desert Community Energy, East Bay Community Energy, Lancaster Choice Energy, Marin Clean Energy, Peninsula Clean Energy, Pico Rivera Innovative Municipal Energy, Pioneer Community Energy, Pomona Choice Energy, Rancho Mirage Energy Authority, Redwood Coast Energy Authority, San Diego Community Power, San Jacinto Power, San José Clean Energy, Silicon Valley Clean Energy, Solana Energy Alliance, Sonoma Clean Power, Valley Clean Energy, and Western Community Energy.

approach minimizes the complexity of coordinating procurement among three IOUs, ensures that the procurement meets the needs of the system operator, and ensures that the cost of incremental capacity is broadly socialized within the CAISO control area. Such an approach would minimize interference with the existing RA market as well. CalCCA encourages the Commission to continue to consider a more central role for the CAISO in these near-term emergency conditions. Acknowledging the Commission's apparent chosen course of action, however, CalCCA's comments respond to the Ruling in the context of mandated IOU central procurement to meet anticipated Summer 2021 incremental requirements.

CalCCA responds below directly to the proposals and questions identified in the Ruling. These comments, however, also briefly address central issues skirted by the Ruling. The Ruling does not directly seek comment on the methodology that should be used to calculate the incremental RA requirement. CalCCA continues to support workshops in early January to estimate the requirement, beginning with analyses performed by the CAISO and SCE and augmented by any additional stack or other analyses presented by other stakeholders. The Ruling also avoids focus on whether the requirements should be separate from individual LSE RA requirements, as the Commission appropriately elected in Decision (D.) 19-11-016, or pushed down into those individual requirements. CalCCA strongly supports the former, noting that imposing the incremental need directly on LSEs will only increase penalties with no incremental benefit to reliability. Each of these issues is discussed below.

## **II. PROCUREMENT TYPE INITIAL PROPOSAL**

### **Response to Proposal**

CalCCA generally supports the Ruling's timeframe for procurement subject to refinement. Requiring a commercial operation date by June 1, 2021 ensures that incremental resources will be available during August and September. Resources that have a high likelihood

of making an August 1, 2021 online date, however, should also be included in scope as “next-best” alternatives to maximize the potential for resource adequacy in the event insufficient resources are available by June 1, recognizing that resource deficiency risk increases from June through September.<sup>2</sup>

CalCCA also agrees with the broad categories of resources that should be included within the scope of procurement. Careful refinement of these categories, however, is critical to ensure that the resources procured to meet incremental requirements are actually incremental. In other words, the scope of procurement must be limited to resources that would not otherwise be procured by LSEs to meet their 2021 monthly system resource adequacy requirements. Without these limitations, increased demand under already tight market conditions will lead to even higher prices for LSEs trying to fill their existing capacity requirements, or shift resources that would otherwise be procured by LSEs to the IOUs with no commensurate increase in overall RA capacity. Such outcomes would be counterproductive. Thus, criteria must be set for each category to provide clear guidance to the IOUs in their procurement.

Incremental efficiency upgrades to existing power plants and incremental storage should be straightforward. Any such projects that can be achieved by Summer but have not yet been contracted should be included in the procurement scope. The availability of these projects could be identified in brief comments by developers to the Commission in early January and through the Request for Offer processes initiated by the IOUs. Re-contracting for generation that is at-risk of retirement requires guidelines. To provide these guidelines, Commission Staff, in coordination with the CAISO, should develop a public list of known resources indicating their eligibility status based on the following criteria:

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<sup>2</sup> See Comments of the California Independent System Operator Corporation on Order Instituting Rulemaking Emergency Reliability, Nov. 30, 2020 at 13-17.

- Any resource on CAISO’s Final Net Qualifying Capacity (NQC) Report for Compliance Year 2021<sup>3</sup> should be considered an “in market” resource, and should be ineligible, unless the resource:
  - Offers more capacity than its rated NQC;
  - Offers more capacity than has been shown by LSEs or otherwise made available to CAISO in the same month for any of the prior three years; and
  - Can be clearly demonstrated to be “out of market” for LSE procurement due to other economic, legal, or regulatory reasons which require central procurement.
- Any resource indicated by LSEs for compliance with D.19-11-016 should be ineligible.
- Any resource on the CAISO’s most recent Announced Retirement and Mothball list<sup>4</sup> should be considered an “out-of-market” resource and should be eligible.
- Any resource not indicated on CAISO’s Final NQC Report for Compliance Year 2021, including firm import energy contracts, should be eligible.

The Ruling also identifies Utility Owned Generation (UOG) as a potential source of incremental procurement. Incremental procurement cannot include any existing UOG resources, since these resources should be either allocated through the CAM, assigned to bundled customers under the Power Charge Indifference Adjustment (PCIA) mechanism or otherwise offered to the market. Only expansions of existing UOG should be considered, and any such expansions – particularly those that lead to long-term commitments for ratepayers -- should be secondary to other available resources.

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<sup>3</sup> <http://www.caiso.com/planning/Pages/ReliabilityRequirements/Default.aspx>

<sup>4</sup> <http://www.caiso.com/Documents/AnnouncedResourceRetirement-MothballListPosted11062020.html#search=mothball>

Finally, the Ruling suggests that resources may include RA only contracts or contracts that include tolling agreements. CalCCA assumes the intent is to describe the types of products that can be procured from the categories of resources discussed above. If there is another intent, the Commission should clarify.

### **Responses to Questions**

**1. In considering incremental authorization for procurement, what parameters should the Commission place on contracts regarding pricing, contract term, and operational characteristics?**

Prices paid by the IOUs should be limited to the CPM soft offer cap plus the summer penalty price, except in the possible case of expansions, new storage projects, or resources with other compelling one-time fixed costs required to re-enter the market or expand output such as modified interconnection. If pricing exceeds the CPM soft offer cap plus the summer penalty price], however, the Commission should require support for the price on a cost basis. Finally, the Commission should require the IOUs to rely on the CAISO backstop process where there is a reasonable suspicion that market power is being exercised. The Commission should articulate a preference for one-year transactions, or three years or less should one-year transactions prove infeasible. Only if the IOUs are unable to procure the needed capacity within these terms should the Commission authorize longer term procurement. The Commission should also implement a preference for demand-side and preferred resources where feasible.

Operational characteristics of qualifying resources should be defined by the CAISO. If a resource type qualifies for procurement, its reliability value should be determined consistent with existing RA rules.

**2. Should the Commission limit the total volume of incremental procurement authorized?**

If the Commission declines to further develop the system needs analysis through workshops, the Commission should authorize incremental procurement reflecting the Commission-jurisdictional LSEs' share of the CAISO's estimate of additional resources necessary to secure reliability for Summer 2021. The need should be expressed in megawatts (MW), as the Commission did in D.19-11-016, rather than through a temporarily increased Planning Reserve Margin (PRM). If, however, the increase must be expressed in a temporary increase in PRM, the increase should not be arbitrary but should be tied directly to the MW of need identified in a workshop set for early January. As CalCCA noted in its reply comments, the workshop should review and harmonize recent analyses performed by the CAISO, SCE, Commission Staff, and any other stakeholders. The final procurement order should be based on rigorous analyses that incorporate both temporal and spatial dynamics, which are critical to an accurate assessment of reliability. The final MW of need should account for (a) incremental procurement above the D.19-11-016 procurement track requirement, and (b) the increased MW of reliability that can reasonably be expected to result from Emergency Load Response Programs (ELRPs) or other out-of-market programs implemented by June 2021.

If the Commission feels compelled to act without delay, it could authorize an initial tranche of procurement representing a subset of the expected procurement need while continuing to assess the full procurement need through workshops in January. This process would initiate immediate action while reducing the likelihood that a procurement order significantly over- or underestimates the full procurement need, while facilitating market discovery regarding potential available supply.

The authorized procurement should be implemented as a specific IOU requirement without pushing the requirement down into individual LSE requirements for 2021. The Commission can achieve the same reliability benefits taking this approach without taking the time to modify and debate how the additional procurement is translated to individual LSE requirements. Setting appropriate PRM levels for the RA program and translating the dual peak and post-peak requirements to individual LSEs will take additional time the Commission cannot afford if it intends to timely implement its changes. Pushing the increased requirements down to individual LSE requirements at the same time as pursuing CAM procurement will only lead to confusion and potentially greater levels of penalties. Under such a system, individual LSEs will not have sufficient information to anticipate their allocated CAM share of system RA in a manner that permits accurate portfolio balancing. In turn, this would create perverse incentives for short LSEs: where the procurement order is comingled with their RA requirement, LSEs may seek to remain short while awaiting an allocation of an unknown but sizeable quantity of centrally procured resources.

**3. Should procurement that cannot achieve a commercial operation date by June 1, 2021 also be considered in this procurement authorization?**

Procurement that cannot under any circumstances achieve commercial operation by August 1, 2021, should be placed in a separate procurement track of R.20-05-003. There is significant storage and generation capacity coming online through the IRP process for the peak in 2022 and beyond. Thus, any generation that cannot be used for this Summer's peak period will be redundant in light of the procurement already underway under the regular IRP process under D.19-11-016. This will limit the use of the CAM to emergency purposes and facilitate LSE self-procurement for resources that can be brought online in later periods.

**4. Are there any additional considerations regarding the procurement type that the Commission should consider in issuing a procurement authorization?**

Scoping the type of procurement pursued by the IOUs for purposes of Summer 2021 presents a challenge in setting the boundaries for incrementality. If the procurement scope is overbroad, the Commission risks allowing the IOUs to “skim the cream” off the RA market that LSEs will depend upon to fill their remaining monthly system RA requirements. This could lead to even higher prices for LSEs who are trying to fill their short positions or greater penalty levels for LSEs with no net gain in resource availability Summer 2021. If the scope is too narrow, the Commission risks leaving potential reliability resources on the table, defaulting to CAISO backstop procurement. The sweet spot is a scope of procurement targeting resources that would not otherwise be procured by LSEs to meet their RA requirements at the current 15 percent PRM.

The scope of IOU procurement will include the types of resources discussed above. These will be resources that require additional capital for expansion, face regulatory challenges (e.g., interconnection), have publicly signaled a risk for retirement through the CAISO’s mothball list, or take advantage of a capability to develop and construct a new uncontracted resource before August 1, 2021.

In addition, procurement ordered under this proceeding should not be inconsistent with statewide planning efforts or conflict with state climate goals. While this may not be feasible if sufficient renewable generation, storage, and demand side resources are not available on the short time frame, the Commission should incorporate preferences consistent with state climate goals to the extent possible.

**5. Are there additional specific issues the Commission should consider in authorizing procurement to ensure that the procurement is cost-effective under the existing circumstances, would address system needs, and be in the public interest?**

The Commission, in coordination with the CAISO and other stakeholders, should clearly define a methodology for determining the amount of incremental need that must be met.

CalCCA proposed in its reply comments workshops in early January to assess the need, starting with the analyses undertaken by the CAISO and SCE, augmented by stack or other analyses conducted by other stakeholders.

The methodology must start with an accurate assessment of the existing fleet. It thus should include all resources responding to D.19-11-016 that are set to come on-line by August 1, 2021. This should include resources that may be incremental to any individual LSE's 2021 requirement under D.19-11-016, unless the Commission determines such excess procurement would qualify for the proposed order. The methodology must fully recognize the value of uncontracted demand response (DR) resources and contributions from behind-the-meter (BTM) resources and all other "out of market" secondary demand side resources available to reduce load. The methodology should account for the estimated availability of ELRPs and other demand response resources. The determination of incremental need must account for "all of the above" and should not overlook any source of potential reliability support for Summer 2021.

The methodology should also limit the IOU procurement to the CPUC-jurisdictional share of the need. The CAISO should be responsible for requiring incremental procurement for all non-jurisdictional LSEs.

### III. PROCUREMENT PROCESS INITIAL PROPOSAL

#### Response to Proposal

The Ruling correctly observes that the two most expeditious contracting vehicles will be bilateral negotiations and offers from recent Integrated Resource Planning (IRP) request for offers (RFO) bid stacks. The Commission should not, however, foreclose other potential vehicles, including additional IOU RFOs or CAISO backstop, to fulfill requirements.

#### Responses to Questions

6. **Are there other expedited processes besides bilateral negotiations or revisiting offers from recent IRP RFO bid stacks that could be used to ensure cost-competitive resources are procured to be online for Summer 2021?**

As noted above, the Commission should not foreclose the possibility of expedited RFOs to elicit responses from resources that may not have been previously offered, as some potential sources of cost-effective incremental capacity were not eligible under D.19-11-016. It should further encourage reliance on CAISO backstop when to do so may be more cost-effective or expeditious. Finally, as suggested in response to Question [], the Commission should provide full transparency for project availability by soliciting comments from developers in early January identifying potential projects.

7. **Can or should actions be taken to expedite the permitting and interconnection processes associated with this procurement?**

No comment.

8. **What existing investor-owned electric utility procurement processes (for example, Procurement Review Group consultation independent evaluator oversight, etc.) should be utilized for this procurement?**

The Commission should rely on the same procurement processes that will be utilized for Central Procurement Entity (CPE) local RA procurement to ensure that the IOU does not unreasonably favor its resources. The Procurement Review Group (PRG) and the Independent

Evaluator (IE) processes should be the foundation for ensuring the reasonableness of any incremental procurement.

**9. What information must be included in any filings seeking final approval from the Commission, including in any potential advice letter filings that might be evaluated and resolved by the Commission’s Energy Division?**

If the Commission adopts an expedited approval process, it should maximize the transparency of the emergency transactions undertaken on behalf of all LSEs. CalCCA recommends disclosure, at a minimum, of the following transaction details: Counterparty, resource ID, online date and key milestones, milestone penalties, volume, term, hours of availability, impact on the CAM charge, point of interconnection or import intertie, resource type/technology, linkage to incrementality guidelines, whether the price exceeds the price collars, and, if so, the basis for the exceedance; and opportunity for renewal.

**10. Are there any additional considerations regarding the procurement process that the Commission should consider in issuing a procurement authorization?**

While there are potential efficiencies to be gained from central procurement under the circumstances, there is significant risk that a poorly scoped emergency procurement order could result in market disruption and escalated capacity pricing without achieving its stated goal of increasing capacity available to CAISO. It is critical to consider the role of the procurement order in the context of the broader 2021 RA market and design the procurement order with an eye toward synergy rather than discord.

Specifically, the procurement order must be designed to augment, rather than disrupt, on-going activities by LSEs to procure remaining RA need left from their 2021 Year Ahead RA filings. It is likely that the resources necessary to fulfill LSE RA positions may approach, if not exceed, the available supply of accessible, “in market” RA resources, and the proposed

procurement order should anticipate that the vast majority of these resources will come under contract with LSEs prior to the Month Ahead filings, with any remaining known NQC available to CAISO for CPM procurement if absolutely necessary.

The proposed order should, therefore, be narrowly targeted towards the procurement of resources which would not otherwise be procured by LSEs in the normal course of the RA program. Examples of such resources could include:

- Resources which could increase their available NQC with limited physical, legal, or regulatory modifications;
- Resources which could be quickly augmented with additional on-site storage or generating capacity;
- Resources which require multi-year maintenance investments to remain in the RA market;
- Resources which are currently mothballed or otherwise out of service; and
- Import resources.

Failure to properly scope the procurement order could lead to several negative outcomes. First, and most significantly, a poorly scoped order which allows for the procurement of any RA capacity could severely disrupt LSE RA procurement and cannibalize, rather than expand, available RA supply. Take, for example, a procurement order which simply directed IOUs to procure 1,000 MW of RA of any variety. Generators currently engaged in bilateral negotiations with LSEs would immediately consider whether better pricing and terms could be available through the emergency procurement order, slowing LSE negotiations. Assuming LSE RA requirements meet or exceed available supply, any resources siphoned off from these bilateral negotiations would result in a zero-sum reduction in individual LSE showings – leading to no net gain in capacity while increasing the likelihood of LSE deficiencies and exacerbating scarcity pricing.

The policy considerations faced here have strong parallels to the incrementality considerations faced by the Commission in D.19-11-016, and can be best addressed using similar tools. Specifically, the Commission should strive to clearly define and delineate resource eligibility at the outset.

#### **IV. PROCUREMENT COST RECOVERY AND RATEMAKING TREATMENT**

##### **Response to Proposal**

CalCCA does not agree that the most efficient and cost-effective approach to the problem is IOU central procurement. The CAISO is most intimate with its requirements and the status of generators and thus is in the best position to fill the gap for 2021. In addition, procurement by a single entity that oversees the entire CAISO footprint rather than three entities no doubt will be more efficient. Finally, the CAISO can also better socialize the costs of this procurement among all LSEs in its control area.

If, however, the Commission proceeds with IOU central procurement, CalCCA agrees that, subject to the other comments offered in this response, the CAM is the most suitable cost recovery mechanism.

##### **Response to Question**

- 11. Are there any additional considerations regarding cost recovery and ratemaking treatment the Commission should consider in issuing a procurement authorization?**

No comment.

#### **V. PROCESS FOR COMMISSION REVIEW**

##### **Response to Proposal.**

CalCCA understands the need for an abbreviated approval process to ensure needed resources are available for Summer 2021 but hesitates to support carte blanche action by the IOUs with a Tier 1 Advice Letter process. This expedited process should *only* be adopted if the

Commission maximizes the transparency of the transaction, as described above. CalCCA agrees that a Tier 1 process is not appropriate for UOG resources. Given the range of requirements this procurement will need as guardrails against imprudent procurement, it is most appropriate for the CPUC to retain solid review authority over any procurement.

**Response to Question**

**12. Are there any additional considerations regarding the process for commission review that the Commission should consider in issuing a procurement authorization?**

No comment.

**VI. CONCLUSION**

CalCCA respectfully requests consideration of the responses specified herein and looks forward to an ongoing dialogue with the Commission and stakeholders.

Respectfully submitted,



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December 18, 2020