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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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

OPENING COMMENTS OF THE CALIFORNIA COMMUNITY CHOICE ASSOCIATION ON TRACK 3B.1 AND TRACK 4 REVISED PROPOSALS

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- CalCCA directionally would support modifying the existing penalty structure to prevent load-serving entities (LSEs) from relying on penalties as a resource adequacy (RA) compliance strategy *if* (1) penalty levels are reasonable; (2) implementation timing avoids unproductively penalizing LSEs in a scarce RA market; (3) the modified penalties are implemented with a system and flexible RA waiver framework; and (4) all LSEs whose customers pay for the RA resources in the investor-owned utility (IOU) Power Charge Indifference Adjustment (PCIA) portfolio have proportional access to those resources.

- CalCCA supports Alliance for Retail Markets' (AReM's) proposed partial penalty rebate for LSEs that cure their deficiencies within the prescribed time.

- Emergency back-of-the-envelope assessments of need and an appropriate Planning Reserve Margin (PRM) cannot substitute for the more rigorous analysis necessary to restore confidence in the Commission's resource adequacy program.

- Before increasing individual LSE requirements to reflect a higher PRM, the Commission should (1) account for the effect of scarcity conditions on LSEs' ability to comply with an allocated PRM increase, and (2) adopt a penalty waiver framework to provide a safety valve to prevent unnecessary and unproductive penalties.

- CalCCA supports the CAISO's proposed requirements for import RA eligibility *except* the proposal requiring a firm transmission showing on the last transmission leg. If, however, the requirement is adopted, the Commission, together, with the CAISO, should closely monitor price shifts in import RA supply; if material increases are seen following implementation of the requirements, the firm transmission requirement should be reconsidered.

- Replacing the current monthly RA requirements with a seasonal RA requirement as proposed by Powerex serves no apparent purpose and could increase customers' costs unnecessarily.

- CalCCA supports moving toward a marginal ELCC for solar and wind resources at a more measured pace than Staff's proposed immediate reduction of solar ELCC to zero.

- CalCCA requests that Staff refine its MCC buckets proposal to include clear rules to fully recognize the value of long-duration storage and hybrid resources, while not forcing duplicative procurement of dispatchable resources.

- CalCCA supports the Joint Parties' proposals to enable Distributed Energy Resources to provide RA capacity.

- The Green Power Institute (GPI) proposal to make RA the responsibility of the wires' provider represents a dramatic and unnecessary shift from the current framework, which should be rejected.

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Pursuant to the December 11, 2020, *Assigned Commissioner's Amended Track 3B and Track 4 Scoping Memo and Ruling* (Scoping Memo), the California Community Choice Association[1] (CalCCA) respectfully submits these comments on the Track 3B.1 and Track 4 Resource Adequacy (RA) proposals submitted by stakeholders on January 28, 2021.

I. INTRODUCTION

CalCCA appreciates the opportunity to respond to stakeholders' Track 3B.1 and Track 4 Revised Proposals, which address near-term, interim RA reforms pending the implementation of a more permanent framework through Track 3B.2. Current conditions and timing make consideration of these proposals challenging:

- The rolling blackouts in August 2020 remain fresh in the minds of stakeholders and policymakers, and scarcity conditions exist in the RA market with very limited near-term solutions;

[1] 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, Central Coast Community Energy, Clean Energy Alliance, Clean Power Alliance, CleanPowerSF, 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.

- Already-existing market uncertainty has been exacerbated by Energy Division Staff's (Staff's) proposal of an entirely new and untested long-term model, adding complexity in load-serving entity procurement strategies;

- The California Public Utilities Commission (Commission) has failed, after more than a year to adopt the Working Group 3 RA allocation proposed by Southern California Edison Company (SCE), CalCCA, and Commercial Energy,[2] which would more equitably distribute existing RA resources;

- The adoption of the local RA Central Procurement Entity (CPE) has added material uncertainty to the availability of system and flexible RA through the IOUs' Cost Allocation Mechanisms (CAM); and

- Negotiations for 2022 RA transactions are underway.

These conditions support a measured and moderate approach to mandating change for near-term RA compliance.

With this context in mind, CalCCA's comments respond to proposals from several parties and offer the following conclusions and recommendations:

- CalCCA directionally would support modifying the existing penalty structure to prevent load-serving entities (LSEs) from relying on penalties as a resource adequacy (RA) compliance strategy *if* (1) penalty levels are reasonable; (2) implementation timing avoids unproductively penalizing LSEs in a scarce RA market; (3) the modified penalties are implemented with a system and flexible RA waiver framework; and (4) all LSEs whose customers pay for the RA resources in the investor-owned utility (IOU) PCIA portfolio have proportional access to those resources.

- CalCCA supports AReM's proposed partial penalty rebate for LSEs that cure their deficiencies within the prescribed time.

- Emergency back-of-the-envelope assessments of need and an appropriate PRM cannot substitute for the more rigorous analysis necessary to restore confidence in the Commission's resource adequacy program.

- Before increasing individual LSE requirements to reflect a higher PRM, the Commission should (1) account for the effect of scarcity conditions on LSEs' ability to comply with an allocated PRM increase, and (2) adopt a penalty waiver framework to provide a safety valve to prevent unnecessary and unproductive penalties.

- CalCCA supports the CAISO's proposed requirements for import RA eligibility *except* the proposal requiring a firm transmission showing on the last transmission leg. If,

[2] *See* R.17-06-026, *Final Report of Working Group 3 Co-Chair: Southern California Edison Company (U-338 E), California Community Choice Association, and Commercial Energy*, Feb. 21, 2020 (WG 3 Proposal), §V.B. at 16-30.

however, the requirement is adopted, the Commission, together, with the CAISO, should closely monitor price shifts in import RA supply; if material increases are seen following implementation of the requirements, the firm transmission requirement should be reconsidered.

- Replacing the current monthly RA requirements with a seasonal RA requirement as proposed by Powerex serves no apparent purpose and could increase customers' costs unnecessarily.
- CalCCA supports moving toward a marginal ELCC for solar and wind resources at a more measured pace than Staff's recommendation for an immediate reduction of solar ELCC to zero.
- CalCCA requests that Staff refine its MCC buckets proposal to include clear rules to fully recognize the value of long-duration storage and hybrid resources, while not forcing duplicative procurement of dispatchable resources.
- CalCCA supports the Joint Parties' proposals to enable Distributed Energy Resources to provide RA capacity.
- The GPI proposal to make RA the responsibility of the wires' provider represents a dramatic and unnecessary shift from the current framework, which should be rejected.

Finally, CalCCA notes that the respective scopes of Track 3B.1 and Track 4 remain unclear. Stakeholders, including the Energy Division (ED), have categorized proposals in similar issue areas differently. Most critically, proposals for modification of the penalty structure are presented by PG&E as a Track 3B.1 issue and by ED as a Track 4 issue. CalCCA recommends, as further discussed below in Section II, that modifications of penalty structures be moved to a separate sub-Track for consideration to prevent imposing costs on customers for unnecessary and unproductive penalties under current market conditions.

II. THE COMMISSION SHOULD DEFER CONSIDERATION AND IMPLEMENTATION OF ANY MATERIAL MODIFICATIONS OF THE EXISTING PENALTY STRUCTURE TO A SEPARATE SUB-TRACK

PG&E, Staff, and AReM advanced proposals for significant modifications to the existing RA compliance penalty structure. In the longer run, CalCCA supports modifying the existing RA penalty structure to prevent LSEs from relying on penalties as an RA compliance strategy. The magnitude of penalties, implementation timing, and the creation of a "safety valve" however, are critical elements that must be considered in designing a modified penalty structure. To permit sufficient time and dialogue to refine these proposals, CalCCA recommends moving penalty issues to a separate sub-Track with an eye toward implementation for the 2024 RA compliance period.

A. Three Stakeholders Propose Changes to the Existing Penalty Structure

PG&E and the ED Staff propose very material changes to the existing penalty structures with increasingly weighty consequences for LSEs who rely on penalties as an RA compliance structure. As discussed below, however, both proposals fail to consider how implementation will affect LSEs and their customers under current market and regulatory conditions. AReM also proposes a change by creating a penalty rebate process for LSEs that cure RA deficiencies.

PG&E presents a Track 3B.1 proposal to develop a "point" system that imposes higher penalty levels on repeat offenders.[3] PG&E explains:

> [A]n LSE will receive a point (or points) for each instance (e.g. compliance filing) of system RA deficiency, regardless of magnitude, if the deficiency is not cured within five business days after notification by the Commission's Energy Division staff of the system RA deficiency.[4]

Deficiencies in non-summer months would accrue 1 point, while summer deficiencies would each accrue 2 points. The applicable system RA penalty price would be multiplied by a factor of 1, 2, or 3, depending upon the LSE's penalty "tier," which is based on its number of accrued points.[5] An LSE could return to lower tiers after 24 consecutive months of no additional points.

Staff likewise contemplates increased penalties for repeat offenders but goes further than PG&E, proposing a decertification process for an LSE with repetitive, extreme levels of non-compliance. Staff "is concerned that despite the recent increase in the summer system penalty

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3 *Revised Track 3B.1 Proposals of Pacific Gas and Electric Company (U 39 E)*, Jan. 28, 2021 (PG&E Proposal), Attachment 1 at 1-2 to 1-3.

4 *Id.* at 1-2.

5 *Id.* at 1-3.

price, it remains insufficient to incent compliance."[6] Staff consequently proposes a higher penalty price, taking one of three forms:

- An annual average price of $7.33/kW-month (a 10 percent increase), with a $4.89/kW-month winter penalty and a $9.77/kW-month summer penalty;
- An annual average price of $8.00/kW-month (a 20 percent increase), with a $5.33/kW-month winter penalty and a $10.67/kW-month summer penalty; or
- Increasing the summer penalty price to $13.84/kW-month so that the penalty cost over the three peak months equals the cost of an annual strip at the 2019 weighted average price of $3.46/kW-month.

Staff seeks input on whether these changes should be implemented for 2022 or gradually phased in.[7]

Staff also offers two proposals for extreme non-compliance. "LSEs with an outstanding unpaid penalty and LSEs with deficiencies of greater than ten percent of their total system RA requirement in three or more of the summer months (May – September)"[8] would not be permitted to increase load. Additionally, LSEs that are deficient by at least 50 percent of their system requirement for at least three summer months could be "delisted" through a decertification process.

AReM offers a proposal that would benefit LSEs that seek to cure RA deficiencies in their year-ahead showings.[9] AReM proposes a pro rata penalty rebate, up to one-half of the total penalty, for an LSE curing some or all of a year-ahead system RA deficiency by no later than the applicable month-ahead compliance filing.

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6 *Administrative Law Judge's Ruling on Energy Division's Track 4 Proposal*, Feb. 1, 2021, Appendix A (Staff Proposal), at 12.

7 *Id.* at 13.

8 *Ibid.*

9 *Revised Track 3B.1 Proposal of the Alliance for Retail Energy Markets*, Jan. 28, 2021 (AReM Proposal).

CalCCA supports limited changes to the existing penalty structure. The Commission should adopt in its Track 3B.1 decision AReM's proposed penalty rebate and a moderate 10 percent increase in penalties as proposed by Staff *provided* that the Commission contemporaneously adopts a system and flexible penalty waiver framework. More seismic shifts, however, should be deferred to a new sub-track for consideration in the context of existing market and regulatory conditions and coordination with the implementation of the PCIA Working Group 3 RA allocation.

B. The Commission Must Consider Market and Regulatory Conditions in Adopting Any Material Changes to the Current Penalty System

Any change in the penalty structure must be timed to allow new resources to be built, since applying penalties under conditions of scarcity does nothing to improve reliability and raises customer costs by allowing suppliers to reap ever higher contract prices. It has taken several years to get the Integrated Resource Planning (IRP) process to a functional place, where LSEs are given more clear direction on system RA needs. As a result, system RA is scarce, as demonstrated last August, and will be until the Decision (D.) 19-11-016 steel is in the ground. Even then, retirements could render the system tightly constrained. Under these conditions, levying extreme penalties on LSEs whose compliance is impaired by market conditions serves no purpose; it will simply increase customer costs with no incremental reliability benefit. While augmentation of the existing penalty framework may be warranted, the Commission can address market conditions in two ways: moderate implementation timing and establishment of a system RA waiver framework.

The CAISO's Stack Analysis shows that total System RA capacity is very limited, with little or no excess in the system over coming years. [10] If the CAISO is correct, adding the

[10] R.20-11-003, *Testimony of Jeff Billinton on behalf of the California Independent System Operator*, Table 2 at 12.

increments of procurement ordered by D.19-11-016 will not fill the shortfall or at minimum will not generate enough excess capacity to support a liquid RA market. In fact, LSE experience in the market reflects that scarcity when RA contracts cannot be obtained for any reasonable price. Thus, despite LSEs best efforts to bring new capacity online by August 2021, RA market conditions are expected to remain tight as resource retirements, changes in RA rules and modifications to QC valuations offset increases in supply. And until the market gains a greater margin of supply, RA procurement will resemble a game of musical chairs, allowing RA suppliers to hold out for ever higher prices while guaranteeing some LSEs will be short no matter how diligent their procurement efforts. Under these conditions, dramatically increasing penalties on a timeline that does not allow for incremental resource development will not achieve the desired purpose of bringing more supply to the market.

Regulatory uncertainty and inequities amplify these market conditions. A high level of uncertainty exists in the design of a long-term RA program. In particular, Staff proposes an entirely new and untested long-term forward energy contract model,[11] which would flip the existing model on its head. Until this is resolved, uncertainty may prevent LSEs from procuring any excess beyond what the Commission orders.

In addition, the disposition of system RA in the IOUs' portfolios remains in limbo. The Commission has failed, after more than a year of considering a proposal to allocate RA capacity in the IOUs' existing system and flexible RA to customers on whose behalf they were procured in their Power Charge Indifferent Adjustment (PCIA) portfolios, to adopt the solution proposed by CalCCA, SCE, and Commercial Energy.[12] Today, the IOUs' risk of RA non-compliance for their bundled customers is reduced materially by the fact that they have a "right of first refusal"

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[11] *Addendum to Staff Draft Straw Proposal for Consideration in Track 3B.2 of Proceeding R.19-11-009*, Feb. 26, 2021.

[12] WG3 Proposal, §V.B. at 16-30.

to all resources in the PCIA portfolios, while those customers who have departed IOU service bear all the financial costs of overall RA shortfalls. The WG 3 Proposal, which implicitly recognizes that customers of *all LSEs* bear the above-market costs of the PCIA resources, would provide pro rata access for all customers to the system and flexible RA products in the PCIA portfolio based on their cost responsibility. This mechanism thus would more fairly distribute the risk of RA non-compliance. Without this correction, the Commission effectively will continue to require departed customers to pay the price for bundled customers' risk mitigation. ***This inequity results in a clear cost shift from bundled customers to departing load customers.*** Adoption of the WG 3 Proposal for RA products would make changes to the penalty structure more equitable.

A similar problem arises with the Commission's recent adoption of the local RA CPE.[13] The Commission has provided the IOUs two options[14] to transfer their local RA resources to the CPE: sale of bundled RA products (i.e., all system, flexible, and local RA value in a resource) to the CPE *or* "gifting" the local RA attribute to the CPE at no cost. Under the sale option, the IOU will be required to transfer the entire asset to the CPE, with system and flexible attributes allocated out to all LSEs proportionately. This allocation could reduce the compliance risk of non-IOU LSEs. It is more likely, given scarce market conditions, that the IOUs will "gift" their local RA and retain the associated system and flexible RA to mitigate bundled customer compliance risk. Once again, all LSEs' customers pay the above-market costs of these RA attributes and all of these customers should have equal access to them for compliance purposes. Like the broader PCIA portfolio problem described above, ***the failure to equitably distribute***

[13] *See generally* D.20-06-002.
[14] D.20-06-002 at 26-27.

system and flexible RA access inequity results in a clear cost shift from bundled customers to departing load customers.

Finally, material changes should not be considered for 2022. Negotiations for 2022 RA supply is already underway. By the time a final decision is issued, LSEs will be even farther down the road. Any material changes should be considered, at the very earliest, for 2023.

C. If the Commission Elects to Augment the Penalties for RA Non-Compliance, a System RA Penalty Waiver Process is Critical to Ensuring Penalties are Necessary and Productive

CalCCA has previously proposed to expand the existing waiver process for local RA to include system and flexible RA compliance.[15] The Commission rejected the proposal, concluding that a system and flexible waiver process "requires further development and study."[16] The Commission restated its rejection again in a decision addressing CalCCA's petition for modification.[17] CalCCA pointed out that in system and flexible RA markets characterized by scarcity,[18] this proposal is consistent with the Commission's long-standing commitment that it will "ensure that LSEs are not placed in a position whereby they would have to pay any price to acquire the capacity needed for their RA obligations."[19] Any augmentation of penalties – particularly under current market and regulatory conditions described above – would be unreasonable without further consideration of a system and flexible RA penalty waiver process. For this reason, CalCCA proposes moving any material changes to the existing penalty structure to a new Track along with further consideration of a penalty waiver process.

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[15] *See California Community Choice Association's Late-Filed Track 2 Proposal,* Mar. 18, 2020 ("CalCCA Track 2 Proposal"); *see also* R.17-09-020, *California Community Choice Association Petition for Modification of Decision 19-06-026,* Oct. 30, 2019.

[16] D.20-06-031 at 65.

[17] D.20-09-003 at 4.

[18] *See* CalCCA Track 2 Proposal at 4-7.

[19] D.05-10-042 at 66.

A system and flexible RA waiver process could serve as a foundation for the Commission's efforts to encourage greater RA compliance. This process would require all LSEs seeking a waiver to demonstrate their efforts to comply with system and flexible RA requirements or face penalties. In addition, the process would allow the Commission to distinguish between LSEs taking commercially reasonable efforts to comply and those that are not and apply an escalating penalty structure limited only to these LSEs failing to take such efforts. It is critical, however, to have a means of differentiating LSEs who make commercially reasonable efforts from those who do not.

While a more complete solution should be considered in a subsequent Track, any waiver process should look closely at compliance efforts. It should look at (1) the number of Requests for Offer (RFOs) in which the LSE participated; (2) the number of RFOs issued by the LSE itself; (3) the number and nature of bilateral negotiations; and (4) the prices of any rejected offers. The waiver process should also examine an LSE's level of compliance with any outstanding procurement directives; for example, an LSE that has not materially complied with procurement order milestones for reasons within its control may not be eligible for the waiver. It could also consider the launch dates of new LSEs, taking a different approach to recent launches.

Increasing RA non-compliance penalties under existing market and regulatory conditions place non-IOU LSEs disproportionally at risk of non-compliance. Any penalty structure changes must consider these factors and include a reasonable penalty waiver process for system and flexible RA.

D. The Commission Cannot "De-certify" a CCA

Staff floats the idea of "decertifying" LSEs that are deficient by at least 50 percent of their system RA requirement for at least three summer months.[20] CalCCA agrees that the

[20] Staff Proposal at PDF 16.

deficiency level would represent gross non-compliance, which calls into question an LSE's ability to serve its customers. The proposal's solution, however, exceeds the Commission's legal authority. While the Commission may have decertification authority over ESPs, CCAs have independent statutory foundations. While they are subject to Commission oversight in areas designated by statute (*e.g.,* implementation plans, RA, RPS), their formation or existence does not require Commission authorization. Consequently, if, in a subsequent phase, the Commission elects to pursue more extreme penalties, decertification of CCAs must be excluded.

E. CalCCA Recommends Limiting Changes to the Existing Penalty Structure to the Adoption of AReM's Penalty Rebate Proposal and a 10 Percent Increase in Annual Average Penalties Supported by a System and Flexible RA Penalty Waiver Framework

As discussed extensively above, any major changes to the RA non-compliance penalty structure should be deferred to a separate track for careful consideration. Two proposals, however, warrant adoption for 2022. The Commission should adopt the AReM proposal for a limited, proportional penalty rebate when an LSE continues to engage in and is successful in further procurement to meet its deficiency. Additionally, Staff's proposal for a 10 percent increase in annual average penalties is the most reasonable proposal under current market conditions *provided* the Commission contemporaneously implements a system and flexible waiver framework.

III. THE COMMISSION SHOULD BE CAUTIOUS IN INCREASING LSE REQUIREMENTS TO REFLECT AN INTERIM PRM INCREASE UNDER CURRENT MARKET CONDITIONS

The CAISO proposes to increase the PRM for 2022 to 17.5 percent and consider resource needs during the 8:00 p.m. hour for June through October 2021.[21] The CAISO does not explain

[21] CAISO Proposal, Executive Summary and 27.

its reasoning in its proposal but points to its testimony in R.20-11-003.[22] CalCCA continues to question the sufficiency of this analysis as a basis for such a dramatic revision to the PRM for the reasons articulated in the same proceeding.[23] Recognizing that a higher PRM will result in higher costs for customers, the CAISO and the Commission have a responsibility to ground decisions in a robust analysis demonstrating that the increase d PRM will actually improve reliability. With these reservations, CalCCA can support the proposed 17.5 percent PRM *solely* for 2022. In the interim, the Commission should take swift action to begin a more robust examination for 2023 and beyond and not default next year to back-of-the-envelope analyses.

While CalCCA does not oppose the CAISO's proposal, limited solely to 2022, the Commission must take two actions to ensure that any allocation of the higher PRM to LSEs is reasonable and equitable. First, it is critical that the Commission ensure CCAs a fair allocation of the IOUs' PCIA portfolio RA resources. The market is already constrained, and leaving the advantage of the existing "right of first refusal" over RA resources all customers fund, places non-IOU LSEs at a higher risk of non-compliance. Second, the Commission should exercise discretion to waive any incremental PRM compliance obligation penalties, should the increment of procurement be unattainable under current market conditions. Determining whether the increment is unattainable could be assessed using criteria similar to those proposed in Section II.C., above.

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22 *Opening Testimony of Jeff Billinton on behalf of the California Independent System Operator Corporation*, Jan. 11, 2021, at 2-9.

23 *Direct Testimony of Nicholas J. Pappas on Behalf of the California Community Choice Association*, Jan. 11, 2021, at 4-20.

IV. THE COMMISSION SHOULD ADOPT THE CAISO'S MINIMUM RA IMPORT REQUIREMENTS BUT RECOGNIZE THE RISK OF POTENTIAL EXERCISES OF TRANSMISSION MARKET POWER

CalCCA generally supports the CAISO's Track 3B.1 revised proposals for import RA requirements. The CAISO proposes to incorporate into its tariff and have the Commission also count as RA compliant import resources that provide:

> (1) source and balancing authority area specification, (2) an attestation the import is committed solely to the CAISO, (3) minimum transmission service delivery requirements, and (4) availability to meet a 24x7 must offer obligation.[24]

The CAISO's proposed implementation for compliance year 2023 allows a reasonable opportunity for suppliers and LSEs to transition to the new requirements.

CalCCA remains concerned, however, regarding the CAISO's proposal to require firm transmission on the last leg and no lower than Monthly Non-Firm Point to Point transmission on all other upstream legs.[25] The lack of liquidity in the firm transmission market puts potential suppliers without firm transmissions rights at a significant disadvantage, resulting in a smaller pool of suppliers (the ones that already own or have access to the transmission). As explained in comments to the CAISO, [26] included below, this requirement presents a risk of market power exercise by transmission holders with potential increased costs flowing to consumers and without actually increasing reliability of supply to California consumers. In other words, the new requirement unnecessarily burdens load within the CAISO, without a demonstrable associated benefit.

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[24] *Track 3B.1 Proposals of the California Independent System Operator Corporation*, Jan. 28, 2021, Executive Summary and 2-14.

[25] *Id.* at 10.

[26] https://stakeholdercenter.caiso.com/StakeholderInitiatives/AllComments/9c1e6759-bbeb-4930-ad6b-ec6894b2b2a4#org-8644661e-855b-4013-a5c5-2586211f2842

As the path operator of the California Oregon Intertie (COI),[27] CAISO is required to allocate the available scheduling capability and available system transfer capability to the owners of the COI pro-rata based on their ownership, and to coordinate operations with Bonneville Power Administration as the Pacific Northwest Path Operator. The amount of COI capacity is known to CAISO and BPA prior to the operation of the CAISO Day Ahead and Real-time markets, and each will allow only as much energy to be scheduled on their respective portions of the COI path as can be accommodated by the available transmission facilities. This means that any energy that clears the CAISO markets can be expected to flow whether the schedules are using BPA Southern Intertie firm or non-firm transmission. In the event of post real-time market cuts to scheduled COI transactions, while there could be immediate cuts by BPA to schedules using non-firm transmission, within that class the cuts will be pro-rata and there is no reason to believe the schedules sinking to the CAISO Balancing Authority Area would be more or less likely to be using non-firm BPA Southern Intertie transmission than the schedules sinking to the non-CAISO BAAs. Even if a disproportionate share of the schedules to CAISO were cut initially, the situation would self-correct as soon as the new reduced transfer capability is reflected in subsequent real-time market runs, making the full amount of CAISO's "share" of the now-reduced COI available to serve CAISO loads.[28] It is also worth noting that; if only firm BPA Southern Intertie transmission were being used for all COI schedules, the CAISO would

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[27] *First Amendment to the Second Amended COI-POA California-Oregon Intertie Path Operating Agreement Among Pacific Gas and Electric Company, PacifiCorp, the Transmission Agency of Northern California, Western Area Power Administration, and California Independent System Operator Corporation* Dec. 15, 2020. This discussion focuses on the COI, but similar conclusions can be drawn related to the operation of the Pacific DC Intertie for schedule at the NOB.

[28] CAISO has provided no evidence that the other California Balancing Authorities have similar firm transmission requirements for imports into their BAAs as CAISO is proposing to impose within its BAA. In its comments on the January 12 and 13 Summer 2021 Readiness, CalCCA has identified issues and raised questions about the treatment of loads and exports, that should be considered before adopting CAISO's RA import firm transmission proposal.

experience its pro-rata reduction in the COI path anyway; and ii. CAISO has no guarantees that the RA import resources would not be displaced by resources with lower-priced bids in the real-time market, and those resources are not required to use firm transmission. Therefore, CAISO's proposed last leg firm transmission requirement will not result in increased reliability for CAISO.

CalCCA is also concerned that CAISO's analysis[29] of the competitiveness of the COB and NOB interties reaches incorrect conclusions about California LSE's ability to obtain firm transmission to meet the proposed RA requirements. The BPA Open Access Tariff mitigates the ability of the firm transmission rights holders from exercising market power by requiring them to release their unused rights into the real-time market. CAISO's proposal would remove the ability for this mechanism to be effective by removing the risk that rights holders will have unused rights that must be released into the real-time market. The unfortunate result will be the unchecked ability to exercise market power in the firm transmission rights market. However, CAISO is not proposing to replace the no longer effective BPA mitigation mechanism with any other mechanism to mitigate the exercise of market power. This approach is flawed and likely to harm consumers in California.

Further, because buyers need to acquire both transmission and generation, considering only transmission holdings misses an important part of the picture. There is a much more limited set of potential suppliers that have access to both generation and transmission. The CAISO's analysis completely ignores this point. Parties with dominant positions in firm transmission rights potentially could demand excess payments for the firm transmission to a level that prevents third party generators without firm rights from competing in the RA market. Contrast

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[29] Presentation, *Day 2: RA Enhancements Draft Final Proposal and Sixth Revised Straw Proposal,* Jan. 6, 2021. http://www.caiso.com/InitiativeDocuments/Day2Presentation-ResourceAdequacyEnhancements-DraftFinalPropsoal-SixthRevisedStrawProposal.pdf

this with the current environment in which all generators with available generation capacity have the opportunity to compete to deliver the energy from their resources to COB and NOB. Not only does the CAISO analysis overstate the existing competitiveness of the firm transmission market, but its proposal will also exacerbate concerns over market power that parties have under the current market structure without this new requirement.

Mandating a showing of firm transmission likely will provide little or no more incremental benefit than a source specification, attestation and 24/7 must offer obligation, but will certainly reduce supply or, alternatively, increase costs unnecessarily. For these reasons, CalCCA encourages the Commission to reject the CAISO proposal for firm transmission. If, however, the requirement is adopted, the Commission, together, with the CAISO, should closely monitor price shifts in import RA supply; if material increases are seen following implementation of the requirements, the firm transmission requirement should be reconsidered.

Finally, with the adoption of the CAISO's proposed requirements, the Commission should release the "must flow" requirement for Availability Assessment Hours (AAH), which mandates self-scheduling or zero to negative bids of up to $150/MWh.[30] As a preliminary matter, the Commission's bidding requirements will not necessarily ensure that the energy will flow into, or stay, in California. If prices are the same or are higher in Arizona as in SP15, energy can flow from the Pacific Northwest or NorCal into SP-15 and out to Arizona, even if CAISO has to curtail load within California. That is because the current CAISO rules actually give wheel through schedules (paired import and export schedules) the highest curtailment priority (even above native CAISO load).[31]The CAISO's RA must offer requirements, along with the specified

[30] D.20-06-028, Ordering Paragraph 3 at 70.

[31] CAISO is currently considering implementing rules for Summer 2021 and 2022 that would place wheels on equal priority with CAISO load, which could still result in CAISO load curtailment even if there otherwise would have been sufficient resources to serve CAISO load absent the wheel transactions.

resource requirements and the associated attestation requirements, should provide sufficient assurances of delivery to enable removal of the bidding requirement. Unless the seller has market power, they should be motivated to offer into the market at the resource's marginal cost.

V. THE COMMISSION SHOULD CLARIFY NON-RESOURCE SPECIFIC IMPORTS REVIEWING REQUIREMENTS EX ANTE AND EX POST REVIEW

Staff proposes a framework for verifying RA compliance for imports. Staff would review "contracts when filings are made to assess 'ex ante' compliance with the contract provisions required by D.20-06-028."[32] Once the data become available "ex post" to assess whether the non-resource specific import RA was bid in compliance with D.20-06-028, Staff will review bidding and self-scheduling activity to confirm that import RA resource.[33]

CalCCA supports the ex ante process with one refinement. The Staff should provide a standard template of the components of a confirm for the RA product, similar to what Western States Power Pool (WSPP) does for various schedules (*e.g.*, Schedule C, Specified Source, etc.) to minimize the confirmation transaction time for both LSEs and Staff.

Staff's proposed methodology Staff leaves LSEs uncertain of their RA compliance until long *after* their annual and even monthly showings. More uncertainty is not desirable in the current environment, and CalCCA has concerns about the capacity of the current Energy Division Staff to review all these data given other demands. With those reservations, CalCCA supports adoption of the Staff proposal.

VI. ADOPTING A SEASONAL RA REQUIREMENT AT THIS TIME SERVES NO CLEAR PURPOSE AND COULD INCREASE COSTS

Powerex proposes modification of the Commission's RA program to require LSEs to meet RA requirements on a seasonal basis with a showing on a year-ahead basis.[34] Powerex

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32 Staff Proposal, Proposal E.

33 *Ibid.*

34 *Revised Track 3B.1 Proposals of Powerex Corp.*, Jan. 28, 2021, at 2-3.

reasons that this approach will "ensure that California LSEs are able to more effectively compete with external LSEs to obtain forward commitments of the physical supply necessary to meet reliability needs would align California's products more closely with other markets."[35] This modification works to the benefit of suppliers, not LSEs.

Powerex's modification is unnecessary. Powerex argues that this approach will avoid putting California LSEs "last in line" for regional resources, will reduce forecasting errors and the need to assess when precisely the summer load will peak, and allows California to benefit from regional diversity in peak load.[36] However, this argument ignores the reality that LSEs have the ability to contract for multiple months already. Today, when suppliers are unwilling to contract with California LSEs except on a multi-month, seasonal basis, California LSEs already have the capability to do so, as needed. On the other hand, limiting California LSEs to only multiple month contracting will lead to increase costs for unneeded capacity, raising customer costs While this approach would benefit suppliers by reducing the risk that they will be able to sell supply for all months, it is unclear how it benefits LSEs and could lead to higher costs for customers.

VII. CALCCA SUPPORTS THE JOINT PARTIES' PROPOSALS TO ENABLE MORE ACCURATE RECOGNITION OF BEHIND-THE-METER RESOURCE VALUE

The Joint Parties' Track 4 proposal identifies potential solutions to address existing barriers and regulatory gaps preventing the realization of the full reliability value of behind-the-meter (BTM) resources. [37] CalCCA agrees that progress is needed in these areas and supports the "market-informed" pathway for BTM resources put forward by the Joint Parties. As the

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35 *Id.* at 2.
36 *Id.* at 2.
37 *See generally Track 4 Proposal of Sunrun Inc., California Energy Storage Alliance, California Solar & Storage Association, Tesla, Inc., Center for Energy Efficiency and Renewable Technologies, Vote Solar, and EnelX North America, Inc.*, Jan. 28, 2021 (Joint Parties' DER Proposal).

Joint Parties describe, BTM resources capable of providing RA capacity are currently impeded from participating in the wholesale market by a number of obstacles, including the constraint on net exported power under PDR and the lack of a QC methodology for DERP resources. A market informed pathway would enable BTM hybrid and storage resources to provide measurable, consistent reliability performance without having to navigate the complexity associated with being fully market integrated.

CalCCA also agrees with the Joint Parties' recommendation that, as a starting point, the same QC methodologies used for in front of the meter hybrid and storage resources should apply to their BLM counterparts. While capacity valuation may ultimately be impacted by factors unique to BTM systems, this approach recognizes that to the extent dispatch capabilities are the same, BTM and FOM hybrid and storage resources offer analogous services. In contrast, the LIP methodology currently employed by BTM resources participating in the CAISO market as PDR fails to count grid exports, which significantly reduces RA value for resources capable of dispatching beyond on-site load relative to their actual reliability potential.

VIII. CALCCA SUPPORTS FURTHER CONSIDERATION OF A MARGINAL ELCC CALCULATION BUT OPPOSES ENERGY DIVISION STAFF'S PROPOSED IMPLEMENTATION

Several parties advance proposals to improve the valuation of RA resources through refinement of the Effective Load Carrying Capability (ELCC) calculation. In particular, the California Wind Energy Association (CalWEA) urges the adoption of a marginal ELCC methodology for wind and solar resources,[38] and Staff proposes adopting a "zero" marginal ELCC for any new solar resources. CalCCA supports continued exploration of a transition to a marginal ELCC framework to provide for more accurate accounting of resource contributions and to provide certainty for LSEs and resource developers. More broadly, CalCCA supports

[38] *Track 3B.1 Proposal of the California Wind Energy Association*, Jan. 28, 2021, at 2-3.

transitioning to a new RA structure that better reflects renewable resource reliability contributions and may mitigate the need to account for resource saturation through the current ELCC framework.

While supporting consideration of a marginal ELCC, CalCCA does not support Energy Division's proposed implementation, which would bluntly devalue the RA value of all new solar resources to zero. Staff's Track 4 proposal suggests new solar resources receive no ELCC value beginning in 2021. It provides several important implementation details:

> Given the fact that the solar ELCC value is already near zero, staff propose that all solar resources that reach COD after December 31, 2020 receive a QC value of 0. Resources that reach COD in 2021 or later that were contracted before the date of the Track 4 decision would receive the average ELCC if they provide evidence of the date the contract was signed to CPUC staff. All other existing solar resources would also continue to receive average ELCC values.[39]

Staff's proposal would effectively establish two classes of solar resources – solar resources credited at the current average ELCC values and solar resources credited at zero.

CalCCA understands the temptation to simplify declining values to zero, but the Staff proposal goes too far too quickly. Valuing some resources at the average while artificially valuing others at zero for all months would give the solar fleet less reliability credit than it actually delivers. These resources' contributions, albeit reduced, should be credited in the RA program and, for some months, are likely to remain significant for years to come. Indeed, the Commission's most recent representation of the ELCC trajectory provides a glidepath with solar resources continuing to provide contributions through at least 2026.[40]

Solar and wind ELCCs could ultimately be eliminated in an RA program structural reform. In Track 3B.2 of this proceeding, CalCCA and SCE have advanced a structural reform

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39 Staff Proposal at 4.

40 CPUC Stack Analysis Model, February 2, 2021; ELCC Surface Model Tab.

proposal that would reduce the need for the ELCC construct, instead recognizing the range of reliability contributions offered by variable renewable resources.

If the ELCC construct is retained, the Commission should move toward a marginal ELCC for both solar and wind. The movement, however, should be measured and provide certainty regarding the future ELCC values for existing and new resources. Further, additional discussion is needed to understand the full impact of transitioning to a marginal ELCC approach. In particular, CalCCA requests clarification and consideration around how new hybrid resources would be treated under Staff's proposal. If the solar component of all new hybrid resources receives a zero ELCC that would effectively unravel the QC methodology adopted in D.20-06-031, defaulting hybrid resources to the same RA value as standalone storage. Unlike standalone solar resources, hybrid and co-located resources are only beginning to come online at the scale anticipated and required to meet SB 100 goals while maintaining reliability. The transition to marginal ELCC for solar resources should carefully consider the impact on hybrid and co-located investments.

IX. PROPOSED IN TRACK 4, ENERGY DIVISION'S MCC BUCKETS PROPOSAL CONTRADICTS OTHER COMMISSION POLICY AND LEAVES SUBSTANTIAL AMBIGUITIES THAT MUST BE RESOLVED.

CalCCA appreciates Energy Division Staff's Track 4 proposal to adjust the MCC buckets.[41] However, the proposal suffers from two shortcomings: the treatment of long-duration resources and the treatment of hybrid resources. With these modifications, CalCCA supports Staff's MCC bucket proposal as an interim solution.

First, the Commission should clarify how long-duration resources will be treated if Category 2 is eliminated as ED proposes. The ED proposal states that "to reduce complexity, Staff also propose to eliminate Category 2. This bucket is rarely used as there are few resources

41 *Energy Division Proposals for Proceeding R.19-11-009* at 2.

that are available for eight, but not sixteen, hours per day."[42] Although this bucket may have been "rarely used" in the past, this elimination ignores long-duration storage resources that will come online in the future, some of which will have an eight-hour duration and would thus fall into Category 2. Indeed, the Commission itself, in the IRP Procurement Track, proposed that "1,000 MW of long-duration storage (defined as providing 8 hours of storage or more) be required to be part of the procurement required by no later than 2025."[43] The Commission should maintain Category 2 until a more permanent solution for LDS can be developed.

Second, the Commission should treat a hybrid resource as a single resource, not two resources, for purposes of assigning MCC buckets and should calculate its availability accordingly. Hybrid resources are an increasingly important part of the grid. In its Hybrid Resources Final Proposal, the CAISO estimates:

> Today [as of October 2020, the date this report was issued], there is about 550 MW of storage and hybrid resources interconnected to the ISO grid, but the ISO anticipates about 1,500 MW of these resources by the end of 2021 and continued rapid growth over the next few years. These resources make up a majority of the interconnection queue for new resources coming onto the system in the future.[44]

Hybrid resources have a unique operating profile that must be considered when determining availability. And yet the Staff's proposal is silent on how hybrid resources would be treated for the purposes of MCC bucket assignation.

The Commission should clarify hybrid resource treatment to ensure that the full reliability value of hybrid resources is recognized. In particular, evidence presented by CEERT from an operational study by Astrape suggests strongly that unlike stand-alone solar or storage, hybrid resources will continue to provide 95 percent or more of their reliability value going

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[42] *Id.* at 2.
[43] *Administrative Law Judge's Ruling Seeking Feedback On Mid-Term Reliability Analysis And Proposed Procurement Requirements* at 17.
[44] *California ISO Hybrid Resources Final Proposal* at 3.

forward.[45] If so, the non-linear and diversity value of hybrids are sharply distinct from the individual resources, which means that hybrid resources must be treated as a separate technology class within the RA framework. CalCCA recommends either a further track to develop a more technically sound approach, or a transition to an explicit energy and capacity construct like the SCE CalCCA proposal in Track 3B.2.

The current MCC bucket proposals only be adopted for the near term while a more accurate methodology is developed. The MCC bucket proposal is a crude approximation for a true energy sufficiency test and one that will increasingly distort the market and drive up customer costs going forward. In particular, MCC bucket 4 is grounded in the mistake assumption that a 24-hour strip of load can only be met with a single, 24-hour resource. However, decarbonized grids will inherently meet this load with combinations of resources operating at different times of day (*e.g.*, solar during the solar window and storage overnight). As LSEs invest in renewables and storage, they will increasingly meet load with combinations of resources, rather than baseload generation. Once an LSE has enough time-dependent resources and storage to meet more than 44 percent of its load in all hours, the MCC bucket 4 will require that LSE to contract with 24-hour dispatchable resources that it does not actually need to meet its load across the day. While no LSE is currently forced into duplicative contracting because of this constraint, this will emerge as an issue perhaps as soon as 2024 according to some LSE plans as indicated in individual IRPs. While this will become an issue, it may have a relatively simple solution of allowing combinations of resources able to meet load in different hours (*e.g.*, hybrid resources or aggregations of generation and storage) to count as MCC4 eligible. Thus, CalCCA

[45] Presentation, *Interim QC Counting Rules for Solar/Wind + Storage Hybrids*, J. Caldwell, CEERT, Track 3B.1 and 4 Workshop, Feb. 25, 2021, slides 99 et seq. https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Energy/Energy_Programs/Electric_Power_Procurement_and_Generation/Procurement_and_RA/RA/Track%204%20Track%203B1%20RA%20Workshop%20Slides%2020210225.pdf.

highlights that the currently proposed MCC structure must be viewed as an interim measure that will have to be reformed in the next three years.

X. CONCLUSION

For the foregoing reasons, CalCCA requests consideration of the concerns raised in these comments on Track 3B.1 and Track 4 in adopting changes for compliance year 2022.

Respectfully submitted,

CALIFORNIA COMMUNITY CHOICE ASSOCIATION

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