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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 Reforms and Refinements, and
Establish Forward Resource Adequacy
Procurement Obligations.

R.21-10-002

**CALIFORNIA COMMUNITY CHOICE ASSOCIATION'S
PHASE 1 PROPOSALS IN RESPONSE TO THE
ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING**

Evelyn Kahl,
General Counsel and Director of Policy
CALIFORNIA COMMUNITY CHOICE
ASSOCIATION
One Concord Center
2300 Clayton Road, Suite 1150
Concord, CA 94520
(415) 254-5454
regulatory@cal-cca.org

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SUMMARY OF RECOMMENDATIONS

- The Commission should clarify the treatment of IOU shown resources in the PCIA;
 - The Commission should eliminate unnecessary barriers to LSEs showing their local resources to the CPE;
 - The CPE should expedite another all-source solicitation to procure additional local resources for 2023 and complete it by the time system and flexible requirements are finalized;
 - The Commission should immediately modify the timeline for 2023 CPE procurement and required documentation to provide adequate information to affected LSEs and avoid overprocurement of system and flexible RA resources;
 - If the CPE fails to meet the modified timeline, the Commission should consider a waiver of system and flexible RA penalties for LSEs with shortfalls resulting from the uncertainty created by CPE procurement of local RA; and
 - Within Phase Three of the Implementation Track, the Commission must evaluate the effectiveness of the current CPE structure.
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The California Community Choice Association¹ (CalCCA) submits these proposals in response to the *Assigned Commissioner's Scoping Memo and Ruling* (Scoping Memo), issued on December 2, 2021.²

I. INTRODUCTION

Decision (D.) 20-06-002 adopted a “hybrid” central procurement entity (CPE) framework for local Resource Adequacy (RA) in Pacific Gas and Electric Company (PG&E) and Southern California Edison Company's (SCE) service areas beginning with the 2023 RA compliance year.³ Under this framework, load-serving entities (LSEs) in PG&E and SCE's territories will no longer receive local RA allocations. Instead, CPE will be required to meet the local RA obligations through its own procurement using all-source solicitations or through “shown”

¹ California Community Choice Association represents the interests of 23 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, Santa Barbara Clean Energy, Silicon Valley Clean Energy, Sonoma Clean Power, and Valley Clean Energy.

² *Assigned Commissioner's Scoping Memo and Ruling*, Dec. 2, 2021 (Scoping Memo).

³ *Decision on Central Procurement of the Resource Adequacy Program*, June 12, 2020 (D.20-06-002).

resources offered by LSEs who retain the system and flexible attributes of resources they have procured but use the local attribute to reduce the CPE's overall procurement requirement. The CPE can also defer procurement to the California Independent System Operator (CAISO's) backstop mechanisms if procurement costs are deemed unreasonably high.

On November 1, 2021, PG&E and SCE's CPEs submitted Annual Compliance Reports summarizing CPE procurement activity in 2021. SCE Advice Letter 4626-E, dated November 1, 2021, summarizes the contracts, including local RA purchases and self-showing agreements, shown in Attachment A-1.⁴ Additionally, the Independent Evaluator Report indicates a small amount of unfulfilled monthly 2023 obligations likely to be filled in future request for offers (RFOs), and therefore, nothing has been deferred to the CAISO's backstop processes.⁵ PG&E's Supplemental CPE Annual Compliance Report filed on November 19, 2021 shows aggregate CPE procurement for the 2023 and 2024 compliance years.⁶ Total PG&E CPE procurement for 2023 is short of the 100 percent local RA requirement by roughly 4,000 to over 6,000 megawatts (MW) in some months. Total CPE procurement for 2024 is over 600 MW short of the 50 percent local RA requirement. It is not clear in the advice letter if the CPE will attempt to do more procurement to meet the local obligation or defer procurement to the CAISO's Capacity Procurement Mechanism (CPM) authority.

The Scoping Memo issued on December 2, 2021 establishes three phases of the Implementation Track of this proceeding. Phase One of the Implementation Track will consider

⁴ *Central Procurement Entity Annual Compliance Report: 2021*, Southern California Edison Company (SCE), Nov. 1, 2021 (SCE Advice Letter 4626-E), Attachment A-1.

⁵ SCE Advice Letter 4626-E, Independent Evaluator Report at 31 (document page 70 of 98).

⁶ *Supplemental: Pacific Gas and Electric Company ("PG&E") Central Procurement Entity ("CPE") Annual Compliance Report*, Nov. 19, 2021, Attachment 1.

modifications to the CPE structure and process and is scheduled to conclude by March 2022. The Scoping Memo outlines four issues within scope of Phase One, including:

- Implementation details of the “shown” resource component of the hybrid framework;
- Whether the CPE should be permitted to procure local resources outside of the annual all-source solicitation process set forth in D.20-06-002;
- Changes to the CPE timeline; and
- Whether modifications are needed to the requirements that PG&E and SCE (acting on behalf of their bundled load) bid their utility-owned generation and contracted resources into the CPE solicitation at their levelized fixed costs.⁷

Without understanding the source of the challenges faced by CPEs in meeting their full obligation, it is difficult to propose specific solutions. CalCCA first identifies these potential challenges that may exist under the current structure. Next, CalCCA identifies critical short-term issues that should be resolved and clarified to ensure the CPE and LSEs can meet their compliance obligations under the new CPE structure beginning with RA year 2023 compliance. Finally, CalCCA proposes the Commission establish a longer-term process to comprehensively review and consider wholesale modifications to the hybrid CPE framework in Phase Three of this proceeding considering the significant amount of unfilled local obligations documented in PG&E’s Supplemental Advice Letter. In summary, CalCCA recommends:

- The Commission should clarify the treatment of IOU shown resources in the Power Charge Indifference Adjustment (PCIA);
- The Commission should eliminate unnecessary barriers to LSEs showing their local resources to the CPE;
- The CPE should expedite another all-source solicitation to procure additional local resources for 2023 and complete it by the time system and flexible requirements are finalized;

⁷ Scoping Memo at 3.

- The Commission should immediately modify the timeline for 2023 CPE procurement and required documentation to provide adequate information to affected LSEs and avoid overprocurement of system and flexible RA resources;
- If the CPE fails to meet the modified timeline, the Commission should consider a waiver of system and flexible RA penalties for LSEs with shortfalls resulting from the uncertainty created by CPE procurement of local RA; and
- Within Phase Three of the Implementation Track, the Commission must evaluate the effectiveness of the current CPE structure.

II. POTENTIAL ISSUES FACING THE CPE FRAMEWORK

It is clear challenges exist with the current framework given the large local procurement requirement left unfilled in the PG&E service area for 2023 and 2024. However, without understanding the full picture of the local RA procurement landscape, it will be difficult for parties to this proceeding to identify the issues that need to be solved. Additional information is required for parties to make informed proposals to improve the central procurement entity framework. Such information includes:

- The amount of local RA self-shown to the CPE, specifying resources shown for no compensation and those shown under the Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM);
- The amount of local RA bid as a bundled product in the CPE solicitation;
- The amount of local RA procured by the CPE, specifying the amount procured through self-showings for no compensation, LCR RCM self-showing, and bids;
- The reasons for rejecting or withdrawing bids or self-showing offers for each category of procurement; and
- Of the resources not procured, the nature of the entity that currently controls the asset (*i.e.*, generator, LSE, marketer).

Without this information, it is impossible for parties to know and understand the source of the challenges with procurement in order to develop specific proposals. While stakeholders can speculate regarding the potential reasons underlying the significant CPE procurement shortfall, the range of potential causes implicate a range of solutions. Therefore, CalCCA's

proposals below focus on improvements that could be made to address potential challenges impacting compliance beginning in RA year 2023. Possible challenges include:

- Non-IOU generators with local RA resources may prefer not to sell bundled RA into the RA CPE to maintain the ability to separately transact system RA in the bilateral market;
- Terms and conditions of CPE solicitation and self-showing requirements deter LSEs from participation;
- Low levels of compensation for local RA attributes under LCR RCM do not provide sufficient incentives to self-showing when balanced with the associated risks (*e.g.*, substitution requirement); and
- LCR RCM is not available to all resources and so the benefit of self-showing such a resource is diminished even further.

As a result of the CPE uncertainty, LSEs face immediate and significant challenges in securing their own system RA positions. As provided in D.20-06-002, system RA resources associated with local RA bid into the CPE will be allocated to all LSEs in proportion to their load share.⁸ With a roughly 50 percent CPE open position for 2023, a significant possibility exists that additional 2023 system resources could be allocated to LSEs if and when the CPE fills its local RA position. This makes planning 2023 system RA procurement impossible for LSEs, leaving them between the rock and hard place of overprocurement or risking penalties. This position is untenable and must be addressed in the near term.

With these concerns in mind, CalCCA offers preliminary proposals in these comments. Additional opportunity for comments and revisions to proposals, however, will be critical as additional information on the failure of the PG&E CPE is brought to light.

⁸ D.20-06-002, Ordering Paragraph 8.c. at 94.

III. PROPOSALS

A. The Commission Should Clarify the Treatment of IOU Shown Resources in the PCIA

The Commission addressed cost recovery for IOU resources offered to the CPE in D.20-06-002. The costs of IOU resources normally recovered through PCIA are instead recovered through CAM if the resource is bid and selected in the CPE solicitation; the CAM recovery lasts for the term of the CPE procurement commitment to the resource.⁹ If a PCIA resource is not selected through the solicitation but instead is shown for local RA purposes, however, the Commission provided: “[S]hown resources are still subject to the local PCIA benchmarks adopted in D.19-10-001, which provide an RA capacity offset to the PCIA charge.”¹⁰ CalCCA seeks clarification of the Commission’s conclusion for shown PCIA resources.

Benchmarks are applied in the PCIA for the purpose of “pricing” resource attributes retained for bundled customer use. If a resource is shown for local RA, rather than bid to the CPE, the IOU likely has retained the resource to use as system RA for its bundled customers. If bundled customers retain the resource for system RA use, the appropriate “price” for retention is the system RA benchmark, rather than the local RA benchmark.

B. The Commission Should Eliminate Unnecessary Barriers to LSEs Showing their Local Resources to the CPE

The current process for LSEs to self-show resources for local RA could result in a “one-size fits all” approach that in some cases, prevents LSEs from being able to self-show resources. Stringent requirements set by the CPE can result in significant revisions to existing contracts LSEs have with local resources that either put unnecessary risk on the LSE or require

⁹ D.20-06-002 at 48.

¹⁰ D.20-06-002 at 77.

information about resource attributes that LSEs do not have and is unnecessary for execution of an RA contract. Due to the confidentiality requirements imposed by the CPEs during the CPE processes, LSEs are not at liberty to share the details of the requirements and/or terms and conditions that may have deterred completion of a self-showing; neither are generators or marketers at liberty to share their concerns regarding bid requirements.

The Commission thus should neutrally review and compare the bid and self-showing requirements and the contracts employed by each CPE to determine if certain requirements unnecessarily inhibit LSEs from showing local resources. In the event one CPE was able to secure significantly more self-shown resources than another, the Commission should identify discrepancies between each CPEs requirements to determine which are most prohibitive and assess whether those requirements are necessary.

C. The CPE Should Expedite Another All-source Solicitation to Procure Additional Local Resources for 2023 and Complete it by the Time System and Flexible Requirements are Finalized

Under the current CPE structure, CPEs are permitted to conduct multiple solicitations per year.¹¹ A second all-source solicitation should be performed quickly to meet the CPE's requirements by the time system and flexible requirements are finalized in June 2022. This solicitation must complete within the timeline outlined in section D so that (a) LSEs are aware of procurement done on their behalf by the CPE, and (b) the CAISO will know how much procurement may be deferred to its backstop authority in advance.

Given the magnitude of unfilled requirements for 2023, it is prudent for CPEs to perform additional solicitations early in 2022. This process should include another opportunity for LSEs

¹¹ D.20-06-002 at 38.

to self-show their own local resources after unnecessary barriers, if any, are eliminated so that LSEs can reach reasonable agreements with the CPE to self-show their resources.

D. The Commission Should Immediately Modify the Timeline for 2023 CPE Procurement and Required Documentation to Provide Adequate Information to Affected LSEs and Avoid Overprocurement of System and Flexible RA Resources

The intent of the present timeline was for the CPE to complete procurement in October two years prior to the operational year (*e.g.* October 2021 for RA year 2023).¹² The CPE timeline must provide sufficient time to allocate the system and flexible RA attributes as necessary and inform LSEs of their obligations prior to commencing final procurement for 2023 needs. Information around what has been procured by the CPE is critical for LSEs to plan their own system and flexible RA procurement because LSEs receive system and flexible credits for procurement done on their behalf by the CPE. Therefore, this information must be available to LSEs prior to the start of their own procurement for LSEs to plan effectively.

LSEs will begin procurement of 2023 system and flexible RA soon, if they have not already; having those solicitations compete for the same resources that the CPE is attempting to procure will result in overprocurement and increased rate-payer costs since procurement by either entity is likely to limit or eliminate the need of the other procuring entity. For these reasons, as a general matter, the CPE should complete their procurement of any local RA allocated to LSEs by October two years prior to the operational year, as intended. However, given the current circumstances, the timeline for 2023 procurement should be modified to allow time for expedited additional procurement to take place to meet the 2023 PG&E local area needs.

To enable LSEs to meet their system and flexible RA requirement without overprocurement and subsequent ratepayer costs and avoid distorting the market with CPE and

¹² D.20-06-002 at 69-70.

LSEs chasing the same resources, the CPE must complete its procurement from its additional all-source solicitation and put forth the results by the beginning of June 2022.¹³ This leaves LSEs five months to complete their procurement of system and flexible RA with enough time to meet their obligations by October 2022. In addition, the Commission should require CPEs to provide additional information in an updated compliance report, specifying allocations of system and flexible RA to each LSE as a result of the incremental procurement and whether any of the resources procured in the first or supplemental solicitations extend beyond 2024. This information should be provided immediately following the conclusion of its procurement in June 2022.

The Commission must also recognize that the timelines for procurement impact not only the Commission's RA process but the CAISO backstop procurement process as well. As such, the Commission should work with the CAISO to ensure that both processes serve customers and grid reliability in the best manner. At the conclusion of the year-ahead RA showing, the CAISO will evaluate for local RA deficiencies. While an LSE may show a resource that is in a local area for their system or flexible RA needs, it is not clear that this will be satisfactory for the CAISO to consider that resource as meeting the local area needs and whether the CAISO would still backstop. Since only resources shown for local RA incur a requirement to be shown in the monthly showings, it is possible that a year-ahead showing of a system resource that is also located in one of the local areas may not show up in the month-ahead showing for that same month as the LSE may use another resource to meet their system or flexible RA need. Given this, the Commission and the CAISO need to determine the conditions under which the CAISO will conduct backstop procurement.

¹³ The CPE could continue to accept self-showings beyond June 2022 until RA showings are due, as self-showings do not impact LSE allocations.

The Commission should also note that such backstop by the CAISO will occur after the annual showing but potentially before the month-ahead showing. While allocations by the CAISO could possibly happen in the monthly process, they would not happen at the time that year-ahead showings are due. This could result in LSEs either not meeting their year-ahead requirement or potentially being significantly over-procured at significant cost to customers. Since the quantity of backstop could be up to the currently short position of the CPE, the backstop could exceed 6,000 MWs. This is a significant uncertainty for all LSEs in conducting procurement.

Finally, if the local resources are under contract to an LSE for use in their system or flexible showings, they are unlikely to be sold to the CAISO for backstop purposes. This is because when the CAISO performs backstop, it buys all attributes. Thus, the LSE will not be able to offer the resource to the CAISO if doing so will make them short for their system and/or flexible RA requirements. For all these reasons, it is critical that the Commission include the CAISO in this process to determine how the various requirements and processes interact.

1. CPE Timeline

To fill remaining procurement requirements, as well as provide more certainty to LSEs procuring system and flexible RA, the following timeline should be adopted for 2023 procurement. This timeline generally follows the timeline outlined in D.20-06-002 with modifications to identify the timeline for additional CPE procurement that will provide LSEs with enough time to estimate the amount of procurement done on their behalf, the system and flexible RA credits they will receive as a result of CPE procurement, and the amount of procurement deferred to CAISO backstop authority.¹⁴

¹⁴ Modifications to the existing timeline outlined in D.20-06-002 are underlined.

February – May 2022:

- CPE conducts additional all-source solicitations for 2023.

April-May 2022:

- The CAISO files draft and final local capacity requirement (LCR) one- and five-year ahead studies. LCR studies will include any CAISO-approved transmission upgrades from the Transmission Planning Process (TPP) LCR study.
- LSEs in SCE and PG&E TAC areas commit to CPE to show self-procured local resources in RA filing for 2023 and 2024.
- Parties file comments on draft and final LCR studies.

June 2022:

- The Commission adopts multi-year local RA requirements for the 2023-2025 compliance years as part of its June decision.
- CPE receives total jurisdictional share of multi-year local RA requirements for 2023-2025 compliance years.
- CPE completes all-source solicitations for 2023 and submits updated compliance report documenting the information outlined in section 2, including the MW of resources offered to the CPE, the MW of resources accepted by the CPE, the rationale for the inability to accept any offers that were not accepted, and the amount of procurement the CPE expects to defer to backstop procurement.

July 2022:

- For the SCE and PG&E TAC areas, LSEs receive initial RA allocations, including CAM credits and system, flexible, and local requirements for 2023 (but are not allocated local requirements for 2024 and 2025).
- For SDG&E TAC area, LSEs receive initial RA allocations (system, flexible, local requirements) and CAM credits.

Late September 2022:

- CPEs and LSEs that voluntarily committed local resources to the CPE make local RA showing to the Commission and the CAISO.

Late September/early October 2022:

- For PG&E and SCE's TAC areas, LSEs are allocated final CAM credits (based on coincident peak load shares) for any system and flexible capacity that was procured by the CPE during the local RA procurement process or by the CAISO through its RMR process.

End of October 2022:

- LSEs in the SDG&E TAC make system, flexible, and three-year local RA showing. LSEs in PG&E and SCE TAC make year-ahead system and flexible RA showing. The CAISO determines necessary backstop procurement.

2. Required Documentation

Under this timeline, after the CPE concludes procurement for 2023, the CPE should be required to file an updated Compliance Report documenting the same information identified above in Section II. In addition, the CPE should be required to specify the amount of system and flexible RA associated with the procurement that will be allocated to LSEs and whether any of the resources procured in the first or supplemental solicitations extend beyond 2024. The SCE CPE largely provided this information in its Annual Compliance Report.¹⁵ This new information should be provided in the updated compliance report and continue to be provided in compliance reports for future years. LSEs and the CAISO would benefit from this additional transparency in advance to assess the status of CPE procurement efforts. LSEs need to be able to forecast the amount of system and flexible credits expected from CPE procurement in order to plan their own procurement. Additionally, LSEs would benefit from information about the CPE's intent to defer procurement to the CAISO as the backstop authority as LSEs are subject to backstop credit and costs.

¹⁵ SCE Advice Letter 4626-E.

Further, the CPE should provide the reason behind any procurement deferred to the CAISO backstop, especially if the CPE forgoes procurement of a significant portion of the local obligation. If a CPE defers to the CAISO CPM authority, without understanding why the CPE deferred to the CAISO's backstop authority, it is unclear whether resources will be available to the CAISO to CPM and if the CAISO backstop mechanisms will be able to procure and allocate to fill the need under a relatively short timeframe. For example, if the CPE deferred to the CAISO backstop because bids into the CPE's solicitation were unreasonably high, the CAISO may be able to CPM local resources to meet the requirement. However, if the CPE deferred to CAISO backstop because not enough resources were offered into the solicitation, the CAISO may not be able to CPM local resources to meet the requirement because resources are being used to meet other obligations. This is critical because unlike the CPUC self-showing option where an LSE can retain the system and flexible RA value for their own needs, the CAISO CPM procures all attributes meaning that an LSE can only offer a resource in the CAISO CPM if they have sufficient resources without the resource offered to meet their own system and flex RA needs.

Requiring greater transparency around CPE procurement efforts would provide LSEs, the CAISO, and other stakeholders the ability to assess and understand how the current CPE structure is functioning. This assessment is required to determine if the current structure will result in sufficient procurement of local resources to maintain system reliability and whether it will place significant pressure on CAISO backstop mechanisms with relatively little time for such procurement and allocation to occur. While a review of existing confidentiality provisions may be necessary to determine if they are sufficient to protect confidential information related to

CPE procurement,¹⁶ adequate public information is key for all parties to understand the local RA procurement landscape.

E. If the CPE Fails to Meet the Modified Timeline, the Commission Should Consider a Waiver of System and Flexible RA Penalties for LSEs with Shortfalls Resulting from the Uncertainty Created by CPE Procurement of Local RA

While the modifications proposed in Section D would provide LSEs the ability to more closely estimate the procurement performed on their behalf and system and flexible RA credits they can expect to receive resulting from procurement, significant uncertainty remains around if the CPE will be able to meet their full procurement obligation by the June timeframe. This impacts the amount of system and flexible RA LSEs will need to procure. If the CPE does not meet its full local RA obligation by June 2022, the Commission should consider waiving system and flexible RA penalties for LSEs whose procurement was impacted by CPE procurement shortfalls. The uncertainty created by the failed CPE procurement impacts LSEs' ability to comply with their procurement requirements. While the CPE does not face RA penalties for deferring procurement to CAISO's backstop authority, LSEs face penalties of up to \$26.64/kW-month under the tiered penalty structure adopted in D.21-06-029. Given the uncertainties with CPE procurement for 2023, when assessing penalties for system and flexible RA deficiencies, the Commission should consider the role that the failed CPE procurement played in the ability of LSEs to procure resources given the uncertainty around the amount of system and flexible credits they will receive from CPE procurement.

¹⁶ *Comments of Pacific Gas and Electric Company (U 39 E) On The Order Instituting Rulemaking To Oversee The Resource Adequacy Program*, Nov. 1, 2021.

F. Within Phase Three of the Implementation Track, the Commission Must Evaluate the Effectiveness of the Current CPE Structure

Progress made on CPE procurement thus far has highlighted challenges with the hybrid framework adopted in D.20-06-022, calling into question its effectiveness into the future. Indeed, the CPE efforts for 2023 have resulted in the procurement of *less than half* of the requirement in some months. Within the current CPE contracts, the provider of a self-shown resource takes on risk if the resource experiences an outage in a month shown during the annual RA showing. Without sufficient understanding of such risks, including indemnifications and consequences of CPE contract termination, parties may be hesitant to enter into such an agreement. The LCR RCM is at most \$1.78/kW-month,¹⁷ indicating only a small premium for local resources. Further, the LCR RCM is not available to all resources, diminishing the benefit of showing those resources to the CPE even further. To mitigate against this uncertainty, LSEs are unlikely to offer local resources to the CPE if they risk being unable to meet their system obligation, especially if the solicitation process remains cumbersome and unlikely to reach reasonable agreements for self-showing.

The Commission must perform a comprehensive review of the CPE framework within Phase Three of the Implementation Track to consider whether wholesale modifications to the CPE framework is warranted. CPE was designed in an environment in which local was constrained and system was not significantly constrained, leading to the assumption that local would be at a premium to system resources. With the changes in those assumptions, the Commission should investigate whether the circumstances leading to the conclusion that CPE was necessary are still relevant. The Commission should examine whether the current scarcity of

¹⁷ See Local Capacity Requirement Reduction Compensation Mechanism: <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/resource-adequacy-compliance-materials/lcr-rcm-prices.pdf>.

both system and local are better addressed by LSE based procurement or by shifting the CPE framework to a residual model as contemplated by the parties in the CPE settlement that was ultimately rejected in favor of the hybrid structure. Considering such changes in Phase Three will allow the Commission and parties to evaluate the effectiveness of the CPE following the first year of RA compliance under the hybrid structure.

IV. CONCLUSION

For all the foregoing reasons, CalCCA respectfully requests consideration of the proposals herein and looks forward to an ongoing dialogue with the Commission and stakeholders.

Respectfully submitted,



Evelyn Kahl
General Counsel and Director of Policy
CALIFORNIA COMMUNITY CHOICE
ASSOCIATION

December 13, 2021