



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

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Order Instituting Rulemaking to Oversee the  
Resource Adequacy Program, Consider  
Program Reforms and Refinements, and  
Establish Forward Resource Adequacy  
Procurement Obligations.

R.23-10-011

**OPENING COMMENTS OF THE  
CALIFORNIA COMMUNITY CHOICE ASSOCIATION  
ON ORDER INSTITUTING RULEMAKING**

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ON ORDER INSTITUTING RULEMAKING**

The California Community Choice Association<sup>1</sup> (CalCCA) submits these comments in response to the *Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations*<sup>2</sup> (OIR), issued on October 19, 2023, pursuant to Rule 6.2 of the Commission’s Rules of Practice and Procedure<sup>3</sup> and the directives provided by the OIR.

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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, Ava Community Energy, Central Coast Community Energy, Clean Energy Alliance, Clean Power Alliance, CleanPowerSF, Desert Community Energy, Energy For Palmdale’s Independent Choice, Lancaster Energy, Marin Clean Energy, Orange County Power Authority, 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.

<sup>2</sup> *Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations*, Rulemaking (R.) 23-10-011 (Oct. 12, 2023): <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M520/K576/520576484.PDF>.

<sup>3</sup> State of California Public Utilities Commission, Rules of Practice and Procedure, California Code of Regulations Title 20, Division 1, Chapter 1 (May 2021): <https://webproda.cpuc.ca.gov/-/media/cpuc-website/divisions/administrative-law-judge-division/documents/rules-of-practice-and-procedure-may-2021.pdf>.

## I. INTRODUCTION

The California Public Utilities Commission's (Commission) resource adequacy (RA) program is critical to ensuring load-serving entities (LSE) procure the resources needed to maintain reliability in the California Independent System Operator (CAISO) balancing authority area (BAA). The RA program is at an inflection point, where the RA market is becoming increasingly challenging to procure enough capacity to meet compliance obligations and the program itself is in the midst of major reform. California is currently experiencing an apparent RA supply deficiency, making it difficult, if not impossible, for every LSE to meet its RA requirements.<sup>4</sup> As basic economics would predict, these conditions have resulted in exorbitant prices, making reliably serving California's electricity customers more expensive, undermining affordability, disproportionately impacting disadvantaged customers, and potentially adversely affecting electrification. Prices doubled from 2019 to 2021, and the 2023-2024 market price benchmark is now \$15.23 per kilowatt (kW)-month.<sup>5</sup> Moreover, CalCCA analysis of public capacity transaction data in the Federal Energy Regulatory Commission (FERC) Electronic Quarterly Reports (EQR) shows the highest observed prices reached over \$60/kW-month in September 2021.<sup>6</sup>

This supply and demand imbalance can only be resolved by bringing new RA resources online. The Commission, LSEs, and resource developers are in the process of doing this through

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<sup>4</sup> See Section II. An in-depth analysis of the RA supply stack and prices can be found in CalCCA's whitepaper titled *California's RA Supply Problem*: <https://cal-cca.org/resource-adequacy/>.

<sup>5</sup> Per the Commission's *2021 Resource Adequacy Report* (March 2023), at 29, and *Calculation of the Market Price Benchmarks for the Power Charge Indifference Adjustment Forecast and True Up* (Oct. 2, 2023): <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/community-choice-aggregation-and-direct-access/calculation-of-mpb-2023-2024-final.pdf>. Between September 2019 and September 2021, the weighted average price for September RA increased by over 100 percent from \$4.08/kW-month to \$8.62/kW-month, and continued to rise as the Commission's 2023-2024 RA market price benchmark is \$15.23 per kW-month.

<sup>6</sup> CalCCA analysis of capacity transactions in FERC Electronic Quarterly Reports: <https://eqrreportviewer.ferc.gov/>.

the Integrated Resource Planning (IRP) proceeding, R.20-05-003. The Commission has ordered 18,800 megawatts (MW) of new resource procurement from 2019 through 2028. LSEs have also planned for a combined over 50,000 MW of planned resource additions by 2035 in their Integrated Resource Plans. It will take time, however, for this procurement to come online and cover the RA need with sufficient excess. This will be made even more difficult as electrification is pursued to meet climate policy objectives to reduce energy emission intensity. In addition, the industry is still facing supply chain challenges, interconnection delays, and permitting issues. Until those challenges are met holistically, RA supply will remain tight, and prices paid by LSEs and ultimately ratepayers will remain high.

During this interim period, LSEs risk RA non-compliance and penalties despite best efforts to procure even if willing to pay any price. A local RA Central Procurement Entity (CPE) has struggled to meet its obligations for two years running. RA imports have declined due to stringent energy requirements and competition for RA across the West is growing. Counting rules for hydro may also result in stranded RA supply. At the same time, the Commission and LSEs are in the process of developing and testing the slice-of-day (SOD) compliance tools for the reformed RA program that will be in place for RA compliance in 2025.

It is against this backdrop that the Commission should prioritize the following five scope items related to RA program refinement in this proceeding:

- **24-Hour SOD Framework (Scope Item 4 in the OIR)** – The Commission should prioritize this scope item to allow time to resolve any outstanding issues identified by Energy Division or stakeholders prior to the first SOD compliance year;
- **Unforced Capacity (UCAP) Methodology (Scope Item 5 in the OIR)** – The Commission should prioritize this scope item and expand it to include an assessment of the counting rules for hydroelectric resources to ensure RA capacity is not stranded during above-normal hydro years;

- **RA Compliance and Penalties (Scope Item 7 in the OIR)** – The Commission should prioritize this scope item given the current lack of RA supply making it more difficult for LSEs to comply with their requirements and more likely LSEs will need to pay exorbitant prices to obtain scarce supply;
- **Revisiting the CPE Model (New)** – The Commission should include a revisit of the CPE model within the scope of this proceeding because under the current model, a higher amount of local area deficiencies has occurred than when there was not a CPE; and
- **RA Import Bidding Rules (New)** – The Commission should revisit the maximum non-resource specific import RA bid price in light of new information about RA import trends within California and capacity trends west-wide.

Prioritizing these topics in the scope of this proceeding will help the Commission maintain a reliable and affordable RA program as the RA supply stack is bolstered and as the transition to SOD occurs.

## **II. BACKGROUND**

### **A. The RA Supply and Demand Balance Makes it Difficult, if not Impossible, for Every LSE to Meet Its RA Requirements**

The RA supply available within the CAISO BAA for 2023 through 2026 appears, on a forecast basis, inadequate to meet the RA program compliance requirements. Even if there are disagreements with the inputs and assumptions of this “stack” analysis (see Figure 1), any reasonable changes are likely to conclude that at a minimum, the RA market is razor thin.<sup>7</sup> The recent Joint Agency Reliability Planning Assessment by the California Energy Commission (CEC) and the Commission, which is based on an hourly analysis of anticipated supply and

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<sup>7</sup> The stack analysis focuses on the sufficiency of supply to enable load-serving entities to comply with RA program requirements and does not analyze the likely sufficiency of energy to meet Summer 2023 needs.



projected demand, roughly substantiates this conclusion.<sup>8, 9</sup> When the stack analysis is viewed in the context of regulatory dynamics and Western market constraints, the razor-thin margin becomes a material supply deficiency.

A wide range of factors have contributed to the current circumstances in which there is insufficient RA supply to meet the RA program compliance requirements. These factors include:

- Weather conditions are more extreme, making load more volatile and impacting generation output (e.g. reducing generation due to high ambient temperatures).
- Hydro resource availability has declined under drought conditions.
- New resources are delayed due to permitting, interconnection, and supply chain challenges.
- The entire Western region is constrained, reducing the availability of imports to California<sup>10</sup> and risking increased exports of California resources to meet other Western region requirements (e.g., Western Resource Adequacy Program (WRAP)).
- The Commission’s reduction in effective load carrying capacity values reduced reliance on wind and solar resources to meet RA requirements.
- The Commission’s increase in planning reserve margins (PRM) to 16 percent and then 17 percent, with a 20-22.5 percent “effective” PRM for investor-owned utilities (IOUs), increased RA requirements.

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<sup>8</sup> The *Joint Agency Reliability Planning Assessment, SB 846 Quarterly Report ad AB 205 Report*, issued on February 9, 2023, assessed hourly supply sufficiency across each year between 2023-2032. Here we focus on the Joint Agency results during critical hours in the month of September 2023-2026 using their assumption that new resources are based on ordered procurement with a delay rate of 40 percent. This assessment differs from the CalCCA assessment above because it focuses on hourly supply sufficiency, rather than RA sufficiency for compliance purposes. Despite these differences, which tend to present a more positive view of supply, the assessment shows a very tight supply margin, for Hour 19 in September – arguably the most challenging hour to meet.

<sup>9</sup> Figure 1 was developed using publicly available data sources including the CEC’s Integrated Resource Policy Report, the NQC list, CAISO outage data, and the Investor-Owned Utilities’ Excess Resource Reports. A detailed list of sources and an explanation of how they were used to develop the stack and to compare the results of the stack to the Joint Agency Reliability Planning Assessment is included in CalCCA’s RA White Paper: [https://cal-cca.org/wp-content/uploads/2023/09/CalCCA-Stack-Analysis-2023-2026-updated-9\\_15\\_23.pdf](https://cal-cca.org/wp-content/uploads/2023/09/CalCCA-Stack-Analysis-2023-2026-updated-9_15_23.pdf).

<sup>10</sup> Historical RA import data from the CAISO demonstrates that the amount of imports in year-ahead RA showings declined from 5,900 MW in 2020 to 3,600 MW in 2022. RA imports from unspecified declined from 4,300 MW to 1,300 MW over the same period. Historical year-ahead RA data: <http://www.caiso.com/Documents/HistoricalYearAheadResourceAdequacyAggregateData.xlsx>.

- The lack of transparency into IOU “incremental” procurement to meet the effective PRM as well as actions taken by the California Department of Water Resources (CDWR) obscures whether those resources could have provided RA to an LSE with a compliance obligation or simply cannibalized the existing RA resource stack, reducing supply for other LSEs.
- Unnecessarily restrictive requirements for energy imports under the Commission’s RA program reduced the availability of imports to the Commission-jurisdictional RA market.

The result of these contributing factors is shown in Figure 1 below,<sup>11</sup> in which demand for RA is projected to exceed the available supply through 2026.

*Figure 1*

<b>September NQC</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
1 CAISO 1-in-2 Load	46,829	47,475	47,987	48,487
2 Reserve Margin (16% in '23, 17% after)	7,493	8,071	8,158	8,243
<b>3 Total RA Demand</b>	<b>54,322</b>	<b>55,546</b>	<b>56,145</b>	<b>56,730</b>
4 2023 NQC List	48,373	46,883	46,883	46,883
5 Event-Based Demand Response	1,090	980	955	978
6 Imports	6,000	6,000	6,000	6,000
7 Estimate of Contracted Resources	-	7,297	9,168	9,409
8 Thermal Derates from 2023 NQC List	(700)	(700)	(700)	(700)
9 Remove Diablo from Planning	-	-	(2,280)	(2,280)
10 OTC, Retired or Contracted by DWR	-	(3,692)	(3,692)	(3,692)
11 Excess IOU Procurement for Higher Effective PRM	(968)	(1,700)	(1,700)	-
12 Retention for Substitution	(619)	(619)	(619)	(619)
<b>13 Total RA Supply</b>	<b>53,176</b>	<b>54,448</b>	<b>54,014</b>	<b>55,978</b>
14 Surplus Supply (Deficit) [Assuming Loss of Diablo]	(1,146)	(1,098)	(2,131)	(752)

The RA supply deficiency can be anticipated to prevent collective compliance by CAISO LSEs despite their best efforts to procure and willingness to pay exorbitant prices.

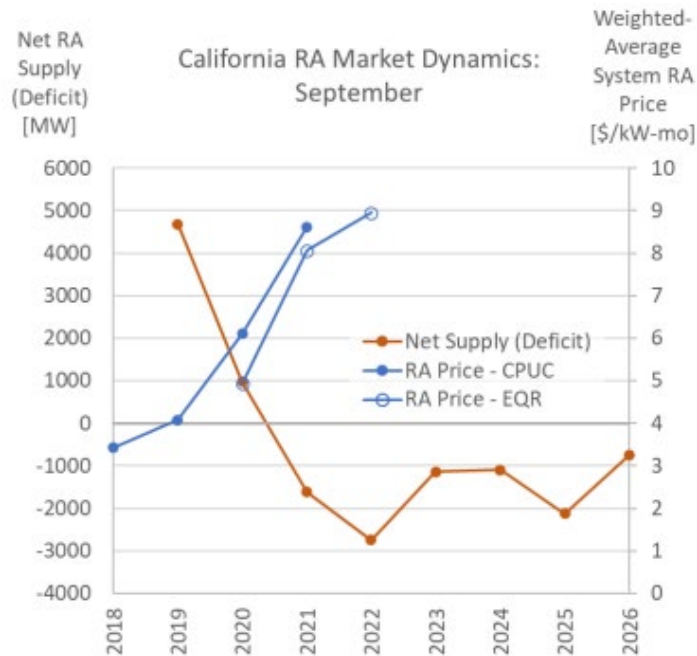
## **B. The Shortage of RA has Capacity Prices at All-Time Highs**

As basic economics would predict, the conditions described in Section II.A. are ripe to produce exorbitant prices, making reliably serving California’s electricity customers more expensive. Between September 2019 and September 2021, the net RA supply decreased by 6

<sup>11</sup> A detailed list of sources and an explanation of how they were used to develop the stack is included in *California’s Constrained Resource Adequacy Market: Ratepayers Left Standing in a Game of Musical Chairs* (Updated Sept. 15,2023): [https://cal-cca.org/wp-content/uploads/2023/09/CalCCA-Stack-Analysis-2023-2026-updated-9\\_15\\_23.pdf](https://cal-cca.org/wp-content/uploads/2023/09/CalCCA-Stack-Analysis-2023-2026-updated-9_15_23.pdf).

gigawatts<sup>12</sup> while the weighted average price for September RA increased by over 100 percent from \$4.08/kW-month to \$8.62/kW-month, as shown in Figure 2.<sup>13</sup> CalCCA analysis of public capacity transaction data in the Federal Energy Regulatory Commission (FERC) Electronic Quarterly Reports (EQR) shows that the weighted-average price for capacity delivered to the CAISO system continued to rise in 2022.

Figure 2



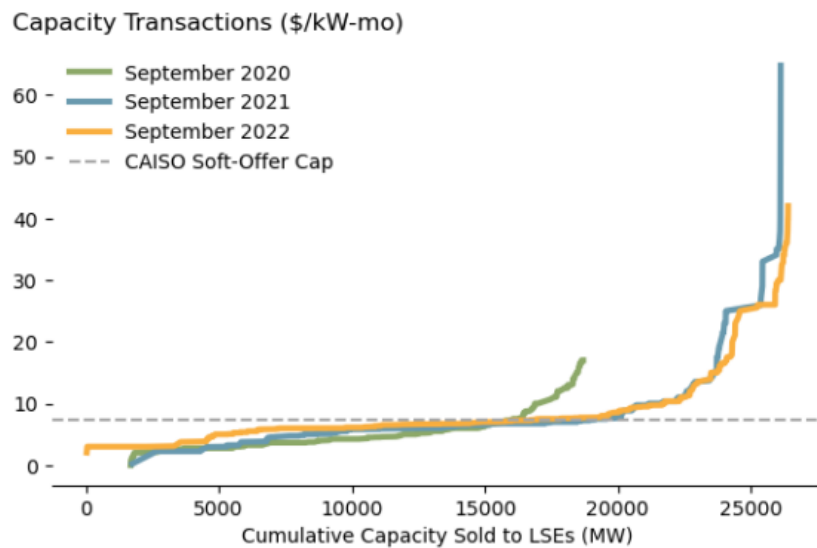
Importantly, detailed transaction-level data from the FERC EQRs shows that the rise in average capacity prices is primarily driven by a growing share of transactions at extremely high prices, as shown in Figure 3. In September 2020, a time with excess RA supply, around 2,600

12 CalCCA estimated the net RA supply in September for 2019-2022 using assumptions similar to the 2023 RA Stack in Figure 1. Key differences include the use of a 15 percent PRM, load forecasts from the CED 2019 and CED 2021, NQC lists from the relevant year, event based demand response from the relevant year, historical import RA from the relevant year, and no excess IOU procurement for higher effective PRM.

13 2021 Resource Adequacy Report (Apr. 2023), at 29: [https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-hsomepage/2021\\_ra\\_report\\_040523.pdf](https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-hsomepage/2021_ra_report_040523.pdf).

MW of RA capacity was purchased by California LSEs at prices above \$7.34/kW-month,<sup>14</sup> the CAISO’s recently proposed soft-offer cap for the capacity procurement mechanism (CPM).<sup>15</sup> In contrast, more than 7,100 MW and 9,600 MW were purchased at prices above \$7.34/kW-month in September 2021 and September 2022, times with an RA deficit.<sup>16</sup> The highest observed prices rose from \$17/kW-month in September 2020 to over \$60/kW-month in September 2021 and over \$40/kW-month in September 2022.<sup>17</sup>

Figure 3



LSEs faced with a responsibility to meet their RA obligation at any cost are being met with generators only willing to sell at prices five to eight times higher than the CAISO soft-offer cap. The lack of sufficient capacity available to meet RA needs is clearly driving up costs for

<sup>14</sup> RA price data collected from the Commission's 2018-2021 Resource Adequacy Reports: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-power-procurement/resource-adequacy-homepage>.

<sup>15</sup> June 30, 2023 straw proposal for CAISO soft offer cap: <http://www.caiso.com/InitiativeDocuments/StrawProposal-CapacityProcurementMechanismEnhancementsTrack2.pdf>.

<sup>16</sup> CalCCA analysis of capacity transactions in FERC Electronic Quarterly Reports: <https://eqrreportviewer.ferc.gov/>.

<sup>17</sup> *Id.*

California electricity customers. These high costs erode affordability, disproportionately affect disadvantaged customers, and could undermine the State's efforts to promote electrification.

### III. RECOMMENDED SCOPE PRIORITIZATION AND CLARIFICATIONS

#### A. The Commission Should Prioritize 24-Hour SOD Framework Scope Item to Allow Time to Resolve Any Outstanding Issues Identified by Energy Division or Stakeholders Prior to the First SOD Compliance Year

CalCCA supports including the 24-hour SOD Framework within the scope of this proceeding. Decision (D.) 22-06-050 adopted the 24-hour SOD program to restructure the RA program in a manner that provides grid reliability at all times of the day.<sup>18</sup> The Commission and LSEs are in the process of developing and testing the 24-hour SOD compliance tools during the 2024 test year. D.23-04-010 requires the Commission to submit a report summarizing test year activities by February 1, 2024.<sup>19</sup> It is extremely likely that the test year will reveal elements that require modification and areas for improvement. This proceeding is the opportunity to make those necessary modifications and improvements before the first SOD compliance year in 2025.

The February 1, 2024 report should do three things in addition to identifying any issues associated with the compliance tools. *First*, the Commission should issue its own evaluation of whether LSEs in aggregate can meet their requirements with the RA-eligible resources available under the new requirements and counting rules. Stakeholders should have an opportunity to comment on this assessment and submit their own analyses for comparison.<sup>20</sup> As described in Section II, the current RA market has marginal RA supply relative to the estimated system requirement, which could inhibit the ability of LSEs to meet their requirements and do so in a

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<sup>18</sup> D.22-06-050, *Decision Adopting Local Capacity Obligations for 2023-2025, Flexible Capacity Obligations for 2023, and Reform Track Framework*, R.21-10-002 (June 23, 2022): <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M488/K540/488540633.PDF>.

<sup>19</sup> D.23-04-010, *Decision on Phase 2 of the Resource Adequacy Reform Track*, R.21-10-002 (Apr. 6, 2023) at O¶ 19: <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M505/K753/505753716.PDF>.

<sup>20</sup> CalCCA has prepared its own analysis for this purpose.

cost-effective manner even without the implementation of a new compliance framework. An assessment of resource sufficiency will inform RA market dynamics under SOD and allow the Commission to take additional actions if necessary to modify the RA program to ensure reliability and customer affordability.

*Second*, the Commission should perform an assessment of the benefits of hourly transactability under SOD. This assessment is important because the inability for LSEs to shape their portfolios to their hourly requirements could create artificial scarcity in the already extremely tight RA market, impeding compliance and cost-effective procurement. An assessment of the extent to which hourly transactability would alleviate some supply tightness would help inform the need for the Commission to allow LSEs to trade their RA obligations on an hourly basis to allow LSEs to more effectively shape their procurement to match their obligations.

To perform this evaluation, the Commission should evaluate LSEs' test year showings to identify how closely individual LSEs met their individual requirements. The Commission should then aggregate LSE showings and compare those to the aggregate SOD requirement. The Commission should conclude the assessment by comparing the individual results to the aggregate results. If the aggregate results show better compliance than the individual results, then efficiencies could be gained with the ability for LSEs to transact on an hourly basis under SOD.

*Third*, the Commission should present a draft PRM and effective PRM calibrated for SOD for the 2025 RA year with an opportunity for stakeholder review and comments. Including a draft PRM and effective PRM calibration in the February 1, 2024 report will allow time for stakeholders to review and comment and for Energy Division to make any necessary adjustments early in 2024. To calibrate the effective PRM, Energy Division should use the same methodology it uses for the PRM. D.23-06-029 adopted a 17 percent PRM and a 1,700 to 3,200

MW effective PRM for RA year 2024 and 2025.<sup>21</sup> While the effective PRM was based on a MW target rather than a percentage, the Decision indicates that the effective PRM target MW range translated to a percentage of roughly 4-6.5 percent.<sup>22</sup> It should be noted that the effective PRM may be less under SOD on a percentage basis than it is under the current RA structure. This is due to the fact that resource counting is more accurate to the anticipated output of the resource thus eliminating the counting of resources in RA Net Qualifying Capacity (NQC) in hours in which they are not expected to produce any output.

The Commission should aim to provide the 2025 PRM and effective PRM as early as possible in 2024 so that LSEs have certainty about their requirements for the first SOD compliance year. This report on the PRM and effective PRM should be accompanied by a proposal for increased transparency about what is procured by the IOUs for the effective PRM. This should include by resource ID if applicable (or the intertie for a non-resource specific import) the product purchased, the duration of the contract, the quantity purchased, when the contract began negotiation and the date it was entered into. This will provide stakeholders a better understanding of what portion of the RA supply stack was used for the effective PRM and whether those resources could have otherwise served to meet LSE compliance obligations.

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<sup>21</sup> D.23-06-029, *Decision Adopting Local Capacity Obligations for 2024-2026, Flexible Capacity Obligations for 2024 and Program Refinements*, R.21-10-002 (June 29, 2023): <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M513/K132/513132432.PDF>.

<sup>22</sup> *Id.* at 24-25.

**B. The Commission Should Prioritize the Exploration of a UCAP Counting Methodology and Expand This Scope Item to Include an Assessment of the Counting Rules for Hydroelectric Resources to Ensure RA Capacity is Not Stranded During Above-Normal Hydro Years**

**1. UCAP**

CalCCA supports the Commission including UCAP in the scope of this proceeding. The Resource Adequacy Availability Incentive Mechanism (RAAIM) is ineffective at incenting substitute capacity to replace RA capacity on outage.<sup>23</sup> Several reasons could contribute to RAAIM's ineffectiveness including but not limited to sellers incorporating the risk of RAAIM charges into capacity pricing,<sup>24</sup> scheduling coordinators' payments and charges balancing each other out, or too many resources or outage types receiving RAAIM exemptions. Additionally, given the high RA prices presented in Section II.B., it is logical to assume sellers would rather sell substitute capacity as RA than use it to avoid RAAIM charges.

Given these shortcomings, the Commission should evaluate UCAP as an alternative method for incentivizing resource availability. Including forced outages in the counting rules creates incentives for generators to conduct planned maintenance to prevent unplanned, forced outages. It also informs the market of generators' historical availability so that entities can procure resources that are most reliable.

The proceeding should consider whether special considerations need to be made to make UCAP compatible with SOD. Whether or not a UCAP methodology needs to be specifically tailored to SOD can be informed by evaluating how forced outage trends vary by hour.

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<sup>23</sup> CAISO RA Enhancements Fifth Revised Straw Proposal (July 7, 2020), at Appendix 8.3.

<sup>24</sup> Even if sellers were not pricing RAAIM risks into their contracts, RAAIM has a dead band such that the highest RAAIM penalty is in the \$4 per kW-month range. This is well below the current PCIA market price benchmark at \$15.23 per kW-month. Therefore, even if a resource sold RA at the market price benchmark and then never offered to the CAISO, they would still net roughly \$11/kw-month.



## 2. Hydro Resource Counting

When considering how to account for resource availability in resources' Qualifying Capacities (QC), the Commission should also evaluate the counting rules for hydroelectric resources to ensure RA capacity is not stranded during above-normal hydro years. D.20-06-031 allows a hydro resource to count its capacity in one of two ways.<sup>25</sup> First, a hydro resource can choose to count based on its maximum generating capability. Second, a hydro resource can choose to count based on an exceedance methodology with more weight placed on dry hydro years. Because the second option is more conservative, hydro resources that elect this option receive a RAIM exemption, meaning they will not be subject to charges for availability less than their NQC. The second option derates the amount of capacity from hydroelectric facilities to account for water available for use at the facility. Adding the second option improved the counting rules for hydro resources by accounting for the potential impacts drought may have on hydro availability.

The RA program lacks a process, however, to check whether availability assumed in the year-ahead (YA) timeframe is consistent with actual availability in the month-ahead (MA) timeframe. Lacking such a process could result in stranded RA supply when a hydro resource uses the second option for QC counting in the YA, but then has an above-average hydro year between the YA RA showings and the MA RA showings in the summer months. The Commission should therefore include within scope an assessment of the need for a process to determine which hydro counting methodology best represents the availability of the resource once hydro conditions for the RA month are known.

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<sup>25</sup> D.20-06-031, *Decision Adopting Local Capacity Obligations for 2021-2023 Adopting Flexible Capacity Obligations for 2021, and Refining the Resource Adequacy Program*, R.19-11-009 (June 25, 2020): <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M342/K083/342083913.PDF>.

Hydro conditions from 2022 to 2023 demonstrate how the changes in precipitation levels year to year impact the availability of capacity. In 2022, available water was at historic lows. The RA showing process had the YA RA showing for 2023 occurring in October 2022. At that point in time, the CDWR reported snow-pack levels at zero percent of normal.<sup>26</sup> Without knowing that the 2022-2023 precipitation season would be record-setting, the amount of hydroelectric generation for RA was likely assumed to be at very low levels for the YA showing process.

As of June 14, 2023, CDWR reported that the water content of snowpack for the State was at 333 percent of normal.<sup>27</sup> In addition to the snowpack, rain has helped to fill reservoirs prior to the snow melt placing many of California’s reservoirs above their historical average as early as March. With conditions better known in June, significant amounts of hydroelectric generation in and out of state could likely have been made available between the YA RA showings and the MA RA showings for the summer months. It is unclear if this increased capacity was made available in the MA, however, because the QC of hydro resources would not reflect 2023 hydro conditions if sellers used the exceedance methodology that looks at historical availability weighted towards dry hydro years. The Commission should therefore include in scope an evaluation of hydro counting rules to ensure they reflect availability as more information about hydro conditions for the year are known.

**C. The Commission Should Prioritize the RA Compliance and Penalties Scope Item Given the Current Lack of RA Supply Making it More Difficult for LSEs to Comply with Their Requirements and More Likely LSEs Will Need to Pay Exorbitant Prices to Obtain Scarce Supply**

The OIR indicates that under the RA Compliance and Penalties scope item, the Commission will “consider modifications to the RA penalty structure and other ways to incent

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<sup>26</sup> See <https://cdec.water.ca.gov/reportapp/javareports?name=STORSUM.202303>.

<sup>27</sup> *Id.*

compliance with RA requirements” and “[i]dentify potential opportunities to increase the availability of RA resources.”<sup>28</sup> CalCCA supports these objectives and recommends the Commission prioritize this scope item in the proceeding.

As described in Section II, system RA has become very scarce, impacting the collective ability for LSEs to comply with the aggregate system RA obligation and resulting in dramatic price increases. Because of this, the system RA market is beginning to look more and more like the local RA market at the outset of the RA program for which the Commission determined that a waiver process was necessary due to the potential for sellers to exercise market power<sup>29</sup> There is no such structure in place for system RA.

Given the realities associated with the supply scarcity in the system RA market, the Commission should explore within this proceeding compliance mechanisms that incent compliance without exposing LSEs and their customers to exorbitant RA prices and penalties that do not incent RA procurement where reasonable efforts have been made to meet obligations. Such an outcome will result in the most reliable and affordable RA program possible under current market conditions. For these reasons, CalCCA supports the prioritization of the RA Compliance and Penalties scope item within this proceeding.

**D. The Commission Should Include a Revisit of the CPE Model within the Scope of this Proceeding Because the Current Model has Produced More Deficiencies in Local Procurement Than When LSEs Had Individual Obligations**

**1. Background**

D.20-06-002 adopted a “hybrid” central procurement entity (CPE) framework for local RA in Pacific Gas and Electric Company (PG&E) and Southern California Edison Company’s

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<sup>28</sup> OIR at 5.

<sup>29</sup> D.06-06-064, *Opinion on Local Resource Adequacy Requirements*, R.05-12-013 (June 29, 2006): [https://docs.cpuc.ca.gov/PublishedDocs/WORD\\_PDF/FINAL\\_DECISION/57644.PDF](https://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_DECISION/57644.PDF).

(SCE) service areas beginning with the 2023 RA compliance year.<sup>30</sup> Under this framework, LSEs in PG&E and SCE’s territories no longer receive local RA allocations. Instead, CPEs are required to meet the local RA obligations through its own procurement or through “self-shown” 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 CAISO backstop mechanisms if procurement costs are deemed unreasonably high. D.22-03-034<sup>31</sup> and D.23-06-029<sup>32</sup> made various refinements to the hybrid CPE structure related to self-showings, reporting, and timeline, but the overall structure of the CPE adopted in D.20-06-002 largely remains.

Since the adoption of the hybrid CPE structure, the CPEs have completed local RA procurement for two RA years, 2023 and 2024. The PG&E CPE was over 40 percent short of its 2023 local obligation, with its largest shortfall equaling 4,485.12 MW of its 11,056 MW November 2023 obligation.<sup>33</sup> The PG&E CPE was nearly 40 percent short of its 2024 local obligation, with its largest shortfall equaling 4,428.66 MW of its 11,543 MW December 2024 obligation.<sup>34</sup> When individual LSEs procured their own local RA, deficiencies were much smaller. In 2018, the RA compliance year prior to the Commission’s consideration of a CPE, the PG&E Transmission Access Charge (TAC) area experienced a 1,071.76 MW total deficiency

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<sup>30</sup> D.20-06-002, *Decision on Central Procurement of the Resource Adequacy Program*, R.17-09-020 (June 12, 2020).

<sup>31</sup> D.22-03-034, *Decision on Phase I of the Implementation Track: Modifications to the Central Procurement Entity Structure*, R.21-10-002 (Mar. 17, 2022): <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M460/K580/460580209.PDF>.

<sup>32</sup> D.23-06-029.

<sup>33</sup> Advice Letter 6706-E, Pacific Gas and Electric Company (“PG&E”) Central Procurement Entity (“CPE”) Annual Compliance Report 2022 Annual Compliance Report (Sept. 19, 2022) at Attachment A – PG&E CPE Aggregate Procurement Summary (2022 PG&E CPE Compliance Report): [https://www.pge.com/tariffs/assets/pdf/adviceletter/ELEC\\_6706-E.pdf](https://www.pge.com/tariffs/assets/pdf/adviceletter/ELEC_6706-E.pdf).

<sup>34</sup> Advice Letter 7027-E, Pacific Gas and Electric Company (“PG&E”) Central Procurement Entity (“CPE”) 2023 Annual Compliance Report (Advice Letter 7027-E), at Attachment 2: [https://www.pge.com/tariffs/assets/pdf/adviceletter/ELEC\\_7027-E.pdf](https://www.pge.com/tariffs/assets/pdf/adviceletter/ELEC_7027-E.pdf).

due to sub-area constraints while individual LSEs deficiencies totaled only 72.23 MW. The challenges PG&E experienced are a function of the challenging RA market conditions created by the supply and demand balance described in Section II above and the hybrid CPE structure itself that is not effective with tight supply conditions.

## 2. Changes Since Adoption of the Local RA CPE

The RA market has changed significantly since the Commission originally considered the need for a CPE and adopted the hybrid CPE structure. The Commission originally considered the need for a CPE in R.17-09-020, where the Commission stated:

RA program reforms necessary to maintain reliability while reducing *potentially costly backstop procurement*. These...may include central buyers, a multi-year procurement framework for Local RA (and associated cost allocation), as well as other proposals to address out-of-market procurement and increase transparency.<sup>35</sup>

At the time of the R.17-09-020 Scoping Memo, backstop procurement was considered a costly alternative to LSE procurement or central buyer procurement that should be relied upon only as a last resort due to its price. The CAISO's central procurement mechanism (CPM) procures backstop capacity up to a soft-offer cap of \$6.31 per kW-month.<sup>36</sup> This backstop cost is now significantly less expensive than the prices LSEs and CPEs experience in the market. The CAISO's soft-offer cap is now lower than the local and system 2024 market price benchmarks (MPBs). The Commission's recently updated MPBs for local RA range from \$8.60 per

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<sup>35</sup> *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge*, R.17-09-020 (Jan. 8, 2018), at 6-7 (Emphasis added):  
<https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M205/K706/205706239.PDF>.

<sup>36</sup> The CAISO soft-offer cap would allow a supplier to file with the FERC to obtain a higher price if they can prove their costs are above the soft offer cap. To date, no entity has done so.

kW-month to \$9.52 per kW-month and the MPB for system RA is \$15.23 per kW-month.<sup>37</sup> Data from the FERC Electronic Quarterly Reports (EQR) show prices often exceed the MPBs, with the highest observed price in September 2021 reaching \$60 per kW-month. The Commission was well-intentioned in its desire to avoid costly alternatives to procurement, but because market conditions have shifted so dramatically, what was once considered a costly alternative is no longer the most expensive option.

The Commission ultimately deemed local RA CPEs necessary in D.18-06-030 because:

[A] central buyer system – for at least some portion of local RA – is the solution most likely to provide cost efficiency, market certainty, reliability, administrative efficiency, and customer protection.<sup>38</sup>

Again, current market realities, exacerbated by the hybrid structure of the CPE, challenge this conclusion for each of the Commission’s desired outcomes:

- Cost Efficiency: The hybrid CPE structure is not cost-efficient under the current supply conditions because suppliers can avoid transacting for the only RA product with protection against excessive costs.<sup>39</sup> The CPE has utilized the local RA waiver when prices are deemed too high.<sup>40</sup> The result has been local resources seeking higher system RA prices and not selling to the CPE (or offering above the prices for which the CPE would receive a waiver).
- Market Certainty: The hybrid CPE structure has decreased market certainty because the Commission gives the CPEs until August prior to the compliance year to complete their local RA procurement, leaving the LSEs with little information about what will be allocated to them as they pursue their own system RA needs.

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<sup>37</sup> *Calculation of the Market Price Benchmarks for the Power Charge Indifference Adjustment Forecast and True Up* (Oct. 2, 2023): <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/community-choice-aggregation-and-direct-access/calculation-of-mpb-2023-2024-final.pdf>.

<sup>38</sup> D.18-06-030, *Decision Adopting Local Capacity Obligations for 2019 and Refining the Resource Adequacy Program*, R.17-09-020 (June 21, 2018), at 32:

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M216/K634/216634123.PDF>.

<sup>39</sup> The local RA product is the only RA product with a waiver. The Commission adopted a waiver to protect against market power in D.06-06-064.

<sup>40</sup> Advice Letter 7027-E at Attachment E.

- Reliability: When most if not all RA capacity is needed to meet the system RA requirement, the local RA CPEs provide little reliability benefit. This is because LSEs will procure local RA capacity for their system needs anyway. This is evidenced by the fact that although the CPE was over 40 percent short of its local requirement for 2022 and 2023, the CAISO did not backstop for a local RA deficiency in either case. This suggests local reliability is being provided by the other LSEs who are procuring for system reliability.
- Administrative Efficiency: The hybrid CPE does not appear to be more administratively efficient than obtaining and validating local RA showings from individual LSEs. Under the hybrid CPE framework, The CPEs must administer RFOs, conduct bi-lateral procurement, and evaluate self-showings. Independent evaluators must evaluate and report on CPE procurement. LSEs must provide justifications for not showing local RA to the CPE. The Commission must still validate showings from individual LSEs and evaluate CPE showings and reports, individual evaluator reports, and LSE justifications. The hybrid CPE framework appears to add several steps without reducing any other steps.
- Customer Protection: Customer protection is not achieved under the hybrid CPE framework because when system RA is scarce, suppliers can avoid the only RA market with customer protection provisions – the local RA market with a waiver – in favor of selling in the system RA market that does not have the same customer protections.

D.18-06-030 also found that a central entity must balance “...economic procurement criteria with other essential state policies, such as greenhouse gas emissions reductions targets and consideration of impacts on disadvantaged communities.”<sup>41</sup> This balance is particularly important in local areas because there is a significant amount of gas resources in the CAISO locally constrained areas that must currently be procured for local RA to meet the local reliability need. To meet state policy goals, however, the dispatch of these resources must be reduced. This reduction will come from either competing non-emitting resources in the local areas or build-out of the transmission system to alleviate the local constraint. CalCCA has advocated for a review of these alternatives in the IRP proceeding,<sup>42</sup> and the Commission has taken the first step to

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<sup>41</sup> D.18-06-030 at 33.

<sup>42</sup> *California Community Choice Association’s Comments on Administrative Law Judge’s Ruling Seeking Comments on Staff Paper on Procurement Program*, R.20-05-003 (Dec. 12, 2022), at 46-48: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M499/K887/499887293.PDF>.

doing so in its October 5, 2023 Ruling on the 2023 PSP.<sup>43</sup> In the context of the local RA CPE, it is worth noting that without the incentive to procure local RA, LSEs are less likely to develop non-emitting alternatives in locally constrained areas if doing so is more expensive.<sup>44</sup> Alignment of incentives in the variety of regulatory proceedings that oversee procurement is critical to arrive at resources that meet reliability and policy goals affordably.

### 3. Proposed Scope Addition

Because of the revealed flaws in the hybrid CPE model and the challenging RA market conditions that will likely persist for several years to come, the Commission should include within the scope of this proceeding a revisit of the CPE model. The Commission should not simply invite proposals to refine the existing hybrid CPE structure. Instead, the Commission should invite parties to submit proposals for wholesale structural changes to the CPE model. Given the supply and demand balance for system RA has become similar to that of local RA, the Commission and stakeholders need to think about alternatives to a CPE that could achieve reliability, allow LSEs to have their procurement autonomy, and ensure customers receive reliability in a cost-effective manner.

In addition, the schedule in the OIR should be revised to direct the Energy Division to issue the report assessing the overall effectiveness of the CPE structure in conjunction with proposals submitted into this proceeding on January 19, 2024.<sup>45</sup> D.22-03-034 at Ordering Paragraph (O¶) 21 authorizes Energy Division to submit a report on the overall effectiveness of

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<sup>43</sup> *Administrative Law Judge's Ruling Seeking Comment on Proposed 2023 Preferred System Plan and Transmission Planning Process Portfolios*, R.20-05-003 (Oct. 5, 2023), at 37-40: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M520/K522/520522241.PDF>.

<sup>44</sup> The Local Capacity Requirement Reduction Compensation Mechanism (LCR-RCM) was intended to incent LSEs to procure new preferred resources in local areas by reflecting the premium of local RA over system RA. Now that there is no local RA premium, the LCR-RCM continues to be a well-intentioned but inadequate incentive mechanism.

<sup>45</sup> See D.22-03-034 at O¶ 21.



the CPE structure in 2024. Issuing the report along with party proposals will allow parties to evaluate the RA CPE proposals within the context of how the existing CPE has worked so far.

**E. The Commission Should Revisit the Maximum Non-Resource Specific RA Import Bid Price in Light of New Information about RA Import Trends Within California and Capacity Trends West-Wide**

**1. Background**

California has historically depended on its strong interconnection to resources across the Western Interconnection to meet customer demand, particularly on hot summer days. The Commission's RA program allows LSEs to contract with resources imported from outside of the state to meet their RA obligations. As described in Section II.A., structural shifts in the RA market, including increased load growth, retirements of generation, and reductions in the portion of solar plant capacity that contributes to RA, have made it challenging for LSEs to meet their obligations. At the same time, RA has become a priority issue in other parts of the West as other regions experience load growth, retire aging coal plants, and turn to resources like solar for future needs. This shift in many western states has resulted in a net-peak load concerns much like those in California, making it ever more difficult to import firm energy over all of the availability assessment hours at a price take bid.

D.20-06-028 modified eligibility rules for non-resource-specific RA imports to count towards RA such that the energy from non-resource-specific imports must be bid in at levels between negative \$150/ megawatt-hour (MWh) and \$0/MWh or self-scheduled into the CAISO day-ahead and real-time markets during the availability assessment hours.<sup>46</sup> In R.21-10-002, CalCCA proposed revisions to these rules to allow up to a maximum bid price based upon

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<sup>46</sup> D.20-06-028, *Decision Adopting Resource Adequacy Import Requirements*, R.17-09-020 (June 25, 2020), at O¶ 2: <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M342/K516/342516267.PDF>.

estimated costs of the typical marginal resource.<sup>47</sup> This proposal intended to attract additional RA capacity to California in light of the supply insufficiencies described in Section II.A. and the increased importance placed on RA across the West while establishing bid prices that would not have the “fantom supply” issue that caused the Commission to adopt the current stringent bidding rules.

## **2. New Information Since the Adoption of D.23-06-029**

D.23-06-029 found insufficient record to replace the current maximum import RA bid price or to determining whether modifying the maximum RA bid price would increase the volume of imports rather than just reducing the RA price of imports. D.23-06-029 concludes that should information arise as to why the current RA import bidding requirements warrant modification and Energy Division should present that information to the Commission and stakeholders for consideration.<sup>48</sup>

Since this conclusion was made, additional information has emerged, making this issue ripe for reconsideration. The CAISO has posted historical YA RA showings data from 2019 through 2022 that points to a potential adverse impact the D.20-06-028 bidding rules have had on RA availability.<sup>49</sup> The YA RA showings data presented in Table 1 below demonstrates that since the Commission adopted the existing RA import bidding rules in 2020, year-ahead non-resource specific RA imports have steadily declined, from 4,331 MW in 2020 to 1,333 MW in 2022.

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<sup>47</sup> *California Community Choice Association’s Proposals in Response to Assigned Commissioner’s Amended Scoping Memo and Ruling*, R.21-10-002 (Jan.19, 2023), at 22-25:

<https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M501/K418/501418731.PDF>.

<sup>48</sup> D.23-06-029.

<sup>49</sup> The CAISO is expected to update this data to include 2023 once the 2024 year-ahead showing process concludes.

<http://www.caiso.com/Documents/HistoricalYearAheadResourceAdequacyAggregateData.xlsx>.

While resource specific imports for RA have increased, their increase has not made up for the reduction in non-resource specific imports of RA.

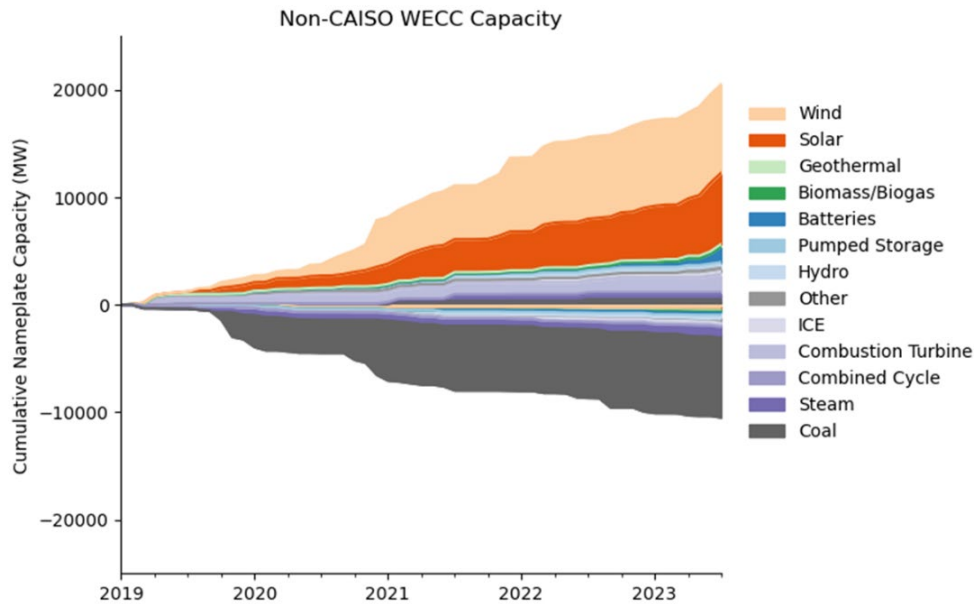
*Table 1: Aggregate Import RA Showings (MW)*

<b>Year</b>	<b>Non-Resource Specific Imports (ITIE)</b>	<b>Resource Specific Import (TG)</b>	<b>Total</b>
2019	4,155.24	1,642.22	5,797.46
2020	4,331.41	1,586.31	5,917.72
<b>June 2020</b>	<b>D.20-06-028 Bidding Rules Go into Effect</b>		
2021	2,237.63	2,159.89	4,397.52
2022	1,333.31	2,244.56	3,577.87

While the Commission’s intent with D.20-06-028 was to prevent speculative supply, there is no evidence to conclude that the decline in shown RA imports is only attributable to speculative supply. This decline could also be attributed to suppliers being unwilling to take the risk of selling energy into the CAISO market at a loss as the bidding requirements of D.20-06-028 may necessitate or suppliers being able to sell to buyers outside of California for their capacity needs who are not subject to D.20-06-023.

In the broader west, capacity characteristics are changing and may result in additional competition for RA capacity. As shown in Figure 4, non-CAISO Western Electricity Coordinating Council (WECC) has experienced significant amounts of coal retirements between 2019 and 2023. Coal has largely been replaced with intermittent resources like wind and solar.

Figure 4



Data Source: EIA Form 860M from January 2019-July 2023

How these changes will affect the supply and demand balance in the non-California WECC region depends on capacity accreditation, RA demand, and other factors. Understanding these shifts is an important consideration for assessing the future availability of RA imports into California. Monitoring and planning require transparent load and resource data, along with metrics compatible across subregions. These reliability assessments and metrics will be especially important as utilities in WECC retire their aging thermal fleet and shift toward more solar.

### 3. Proposed Scope Addition

In light of this new information pointing to downward trends in the availability of RA imports to California and increased demand for capacity across the West, the Commission should expand the scope of this proceeding to include consideration of the maximum non-resource specific RA import bid price to ensure it provides the right incentives for out of state supply to provide RA to California. This proceeding should investigate the driver of the decline in the number of imports shown since 2020.

**IV. CONCLUSION**

For all the foregoing reasons, CalCCA requests that the Commission prioritize the scope items identified herein.

Respectfully submitted,

A handwritten signature in blue ink that reads "Evelyn Kahl". The signature is written in a cursive style with a large initial 'E'.

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

November 8, 2023