

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

Order Instituting Rulemaking to  
Oversee the Resource Adequacy  
Program, Consider Program  
Refinements, and Establish Annual  
Local and Flexible Procurement  
Obligations for the 2019 and 2020  
Compliance Years.

Rulemaking 17-09-020  
(Filed September 28, 2017)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE  
PROPOSED DECISION REFINING THE RESOURCE ADEQUACY PROGRAM**

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In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”)<sup>1</sup> hereby submits these comments on the *Proposed Decision Refining the Resource Adequacy Program* (“PD”), issued by Administrative Law Judges Chiv and Allen on November 21, 2018.

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<sup>1</sup> 174 Power Global, 8minutenergy Renewables, Able Grid Energy Solutions, Advanced Microgrid Solutions, AltaGas Services, Amber Kinetics, American Honda Motor Company, Inc., Avangrid Renewables, Axiom Exergy, Boston Energy Trading & Marketing, Brenmiller Energy, Bright Energy Storage Technologies, Brookfield Renewables, Carbon Solutions Group, Centrica Business Solutions, Clean Energy Associates, Consolidated Edison Development, Inc., Customized Energy Solutions, Dimension Renewable Energy, Doosan GridTech, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, EDF Renewable Energy, ElectrIQ Power, eMotorWerks, Inc., Enel X North America, Energport, ENGIE, E.ON Climate & Renewables North America, esVolta, Fluence, Form Energy, GAF, General Electric Company, Greensmith Energy, Ingersoll Rand, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Iteros, Johnson Controls, KeraCel, Lendlease Energy Development, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Power Development, LLC, Magnum CAES, Mercedes-Benz Energy, NantEnergy, National Grid, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, NGK Insulators, Ltd., NRG Energy, Inc., Parker Hannifin Corporation, Pintail Power, Primus Power, Quidnet Energy, Range Energy Storage Systems, Recurrent Energy, Renewable Energy Systems (RES), Semptra Renewables, Sharp Electronics Corporation, SNC Lavalin, Southwest Generation, Sovereign Energy, Stem, STOREME, Inc., Sunrun, Swell Energy, Tenaska, Inc., True North Venture Partners, Viridity Energy, VRB Energy, WattTime, Wellhead Electric, and Younicos. The views expressed in these Comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (<http://storagealliance.org>).

## I. INTRODUCTION.

The Commission started this Resource Adequacy (“RA”) proceeding (R.17-09-020) by identifying several key trends to inform potential RA reforms, including the recent out-of-market procurement of resources for local reliability, the growth in Community Choice Aggregators (“CCAs”), and the transition from the gas fleet to more variable generation. Due in part to recent backstop procurement of local resources needed for the 2018 RA year, the Commission focused Track 1 and Track 2 of this proceeding on potential solutions, such as a multi-year Local RA program and central buyer concepts, to reduce the need for backstop procurement, instead of relying on the RA construct to ensure the procurement and contracting of resources needed to meet the Commission-jurisdictional grid’s System, Local, and Flexible RA requirements.<sup>2</sup> The Track 1 Decision approved development of a multi-year Local RA program and central buyer concept and provided guidance for Track 2 to develop the framework specifics and implementation details. In this PD, the Commission proposes changes to have distribution utilities serve as the central procurement entity for their respective distribution service areas and to adopt requirements for implementation of three-year local procurement to begin for the 2020 compliance year.

CESA has concerns about several aspects of the PD and recommends the Commission delay implementation of such a significant re-design of the RA program to 2021. This one-year delay should allow broader consensus and resolution regarding key areas of concern as well as a more reasonable implementation schedule. While recognizing the urgency to avoid further backstop procurement of gas generators to meet Local RA needs, CESA notes that recent transmission and energy storage procurement authorized under Resolution E-4909 and approved through Resolution E-4949 highlights how the Commission has stopgap measures available to

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<sup>2</sup> *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge*, issued on January 18, 2018, pp. 3-4. <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M205/K706/205706239.PDF>

avoid or minimize the need for backstop procurement, at least until the specifics and details of the multi-year and central buyer framework are developed. The nature and materiality of the RA market, along with major potential transitions and changes in the state’s regulated investor-owned Utilities (“IOUs”) also highlight the need to scrutinize the options for the role of central buyer in light of recent events.<sup>3</sup> Other recent changes in the RA program, such as the timing of a CCA’s ability to launch vis-à-vis the CCA’s procurement of full RA portfolios, are likely to directionally address some RA risk of retirement needs.

As highlighted below in our comments, CESA flags several important areas of concern under the proposed framework from the PD that warrant a delay in implementation of the multi-year and central buyer framework. CESA recommends that key issues raised herein and the one-year delay be added to a revised PD. Specifically, these key additions should include further discussion on determining the appropriate central buyer, determining how parties can better know how to buy and self-supply capacity such as energy storage to meet their local needs (*e.g.*, through more detailed studies), developing the appropriate solicitation parameters by which the central buyer would procure Local RA resources, and specifying the appropriate percentages of multi-year forward procurement that is also aligned and compliant with Senate Bill (“SB”) 1136 (Hertzberg, 2018) directives.

CESA believes the nature of the RA design expressed in the PD may lead to ongoing retention of resources that otherwise would retire. CESA believes the Commission should ensure LSEs have options to avoid procurement of resources they reasonably can avoid, yet no such ‘cure

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<sup>3</sup> Some IOUs may have evolving views regarding the use of their procurement groups, and other high urgency matters, such as fire liability risks, may materially affect a utility’s preference to serve in the central buyer role.

pathway’ is explicitly detailed in the PD, as CESA reads it. CESA believes that these matters require further record development and consideration of the appropriate solution.

In these comments, CESA summarizes its recommendations as follows:

- The multi-year and central buyer framework should be targeted for implementation in the 2021 RA year to further evaluate the appropriate central buyer entity and continue to explore the merits of the residual procurement model.
- The Commission should continue to leverage, in appropriate ways, its authority to mitigate any near-term reliability issues through directed procurement of energy storage solutions, hybridization or other tools.
- More granular locational information is needed to support effective Local RA procurement by load-serving entities (“LSEs”).
- The Commission should systematically direct considerations of preferred alternative resources prior to finalizing any multi-year RA contracts.
- Further clarification and details are needed into the evaluation and selection criteria for the centralized competitive solicitation.
- The Year 3 requirement should be lowered to avoid locking in undesired resources in perpetuity and to allow for implementation of SB 1136 and fleet transformation.

**II. THE MULTI-YEAR AND CENTRAL BUYER FRAMEWORK SHOULD BE TARGETED FOR IMPLEMENTATION IN THE 2021 RA YEAR TO FURTHER EVALUATE THE APPROPRIATE CENTRAL BUYER ENTITY AND CONTINUE TO EXPLORE THE MERITS OF THE RESIDUAL PROCUREMENT MODEL.**

The PD reasons that the distribution utility would be suitable as the central buyer because this designation would allow for implementation by the 2020 compliance year. Based on this reasoning, the PD rules out a third-party special purpose entity (“SPE”) and the California Independent System Operator (“CAISO”) to play this central buyer role, since it would take time to make the appropriate changes – *i.e.*, legislation needed for the SPE and tariff changes for the

CAISO as the central buyer, respectively – whereas the distribution utilities already have established expertise in procurement.<sup>4</sup>

Given the potential changes in roles and financial pressures facing some utilities, it seems prudent to delay implementation of an IOU-managed central buyer concept, at least for one year. In this year, the Commission can get clarity about evolving utility financial strengths, and preferences for roles and responsibility.<sup>5</sup> CESA is not necessarily opposed to a distribution utility serving as the central buyer, but CESA does oppose a rushed implementation when conditions are uncertain and other near-term tools can be used. Similar to how the CAISO has effectively ruled itself out,<sup>6</sup> it appears that some distribution utilities may not want this role either, which may be tied to some of the aforementioned financial concerns and risks. A greater understanding as to the reasons why the distribution utilities do not want this role may shine a light on whether they are the appropriate central buyer and if readying them for this role within a year is viable.

Delaying by a year will not necessarily cause material harm. CESA believes the Commission has tools and precedent for directing near-term procurements that can limit market power of some local resources while still ensuring reliability in a cost-reasonable manner. This solution set includes the rapid deployment of energy storage and other preferred alternatives. CESA also believes RA changes designed to ‘fill up’ RA portfolios of CCAs before they launch, along with better information and familiarity regarding the location of ‘needed’ resources, can inform procurement in ways that may mitigate retirement risks in upcoming years. The PD should

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<sup>4</sup> PD, pp. 14-15.

<sup>5</sup> *Ibid*, p. 15. The Commission finds that there is insufficient evidence at this time around the financial concerns of the distribution utilities to use this as the basis of ruling out them as the central buyers. However, CESA finds the lack of evidence to be precisely the reason why the Commission should develop the record on how the financial stability of the distribution utilities could impact their taking on the central buyer function.

<sup>6</sup> *Ibid*, p. 14.

thus be modified to delay implementation of the multi-year and central buyer frameworks until the 2021 RA year to afford this additional time in this proceeding. It would be imprudent to rush implementation of such a significant change to the RA program.

Finally, an implementation delay, while creating little risk, may allow for further exploration of a residual procurement approach, which may provide more choice to LSEs in securing the capacity they desire while also ensuring capacity resources that are needed are retained.<sup>7</sup> For example, a delay to 2021 could allow greater consideration of a “third-party non-governmental entity” as the central buyer entity, or could provide time to assess how market prices and RA market conditions, which are known to be tightening, are lessening the retirement risks prompting this PD. A delay also reduces risks of over-procurement, which is known to be a challenge of the multi-year aspect of the PD. Further, the PD proposes a very tight timeline (*i.e.*, solicitations from July-September 2019 and RA showings by October 2019) to be able to refine the details of the central buyer framework and implement the framework in time for the 2020 RA year.<sup>8</sup> In particular, CESA believes some of the details around the centralized request for offers (“RFO”) criteria will be a highly debated topic that will take time in this proceeding before full implementation is possible. Details regarding how existing contract language is mapped into any new rules will also take significant time. Furthermore, the proposed schedule in the PD leaves little time for LSEs to procure their residual System and Flexible RA deficiencies since the final cost allocation mechanism (“CAM”) credits are not completed until late September or October.<sup>9</sup>

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<sup>7</sup> Comments to the *Administrative Law Judge’s Ruling Requesting Comments on the Proposal of Southern California Edison*, issued on October 5, 2018.

<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M230/K951/230951520.PDF>

<sup>8</sup> PD, p. 54.

<sup>9</sup> *Ibid*, p. 55.

Instead, CESA recommends that 2019 be viewed as a transition year to the multi-year and central buyer framework to better align and potentially adjust the RA timeline.

**III. THE COMMISSION SHOULD CONTINUE TO LEVERAGE, IN APPROPRIATE WAYS, ITS AUTHORITY TO MITIGATE ANY NEAR-TERM RELIABILITY ISSUES THROUGH DIRECTED PROCUREMENT OF ENERGY STORAGE SOLUTIONS, HYBRIDIZATION OR OTHER TOOLS.**

One of the reasons why CESA does not see a need to implement the multi-year and central buyer frameworks in the 2020 RA year is because mechanisms exist to avoid or mitigate backstop procurement to address Local RA deficiencies. As demonstrated through the successful and cost-effective procurement of transmission and energy storage alternatives in the Moss Landing and South Bay local areas, Pacific Gas and Electric Company (“PG&E”) was able to successfully minimize the need for backstop procurement to a limited number of years through transmission solutions approved in the 2017-2018 Transmission Plan and through energy storage procurements authorized and approved through Resolutions E-4909 and E-4949. The Oakland Clean Energy Initiative (“OCEI”), meanwhile, helped avoid retention of a reliability-must run (“RMR”) resource and was jointly addressed by both IOU and CCA actions. In response to Aliso Canyon reliability issues, the Commission explored a portfolio of solutions, including energy storage, that even leveraged the Self-Generation Incentive Program (“SGIP”). Ad hoc energy storage procurements that could be managed by the local area’s LSE(s) could be extended through 2019 and 2020 to address any near-term reliability issues that arise from the desire to avoid or minimize costly backstop procurement of Local RA resources while the Commission and stakeholders work to stabilize and reform the RA program with sustainable and long-term changes by implementing the multi-year and central buyer frameworks. Newer LSEs are also learning more about sub-local needs and may naturally procure to address these needs satisfactorily (*e.g.*, through locating new resources or pooling with other LSEs to procure ‘needed’ resources). The prospect of these actions



may also discipline existing resources from excessively leveraging market power, so ratepayers may benefit.

If criteria are needed to guide in these Commission-directed actions, parties could consider the template proposed in SCE's 2018 LSE Plan in the Integrated Resources Planning ("IRP") proceeding (R.16-02-007), in which SCE laid out a Reliability Threshold Mechanism to address critical reliability conditions, which may stem from the unplanned economic retirement of gas generation resources or various 'unplanned' events,<sup>10</sup> but may not be addressed through the RA program. While allowing for reasonable input from stakeholders and determinations regarding who should do the procurement and what the specific reliability thresholds should be, this concept as an interim measure could be used to address any near-term concerns while still procuring for alternative solutions that are more cost-effective or desired than backstop measures. CESA believes that this approach gives optionality to the system and is prudent while yielding the additional time needed to create and implement major changes in the RA program, if any.

#### **IV. MORE GRANULAR LOCATIONAL INFORMATION IS NEEDED TO SUPPORT EFFECTIVE LOCAL RA PROCUREMENT.**

While CESA understands that studies can highlight the need for generation in some areas as well as the effectiveness of resources in other areas to address needs, CESA believes further exploration on information sharing is needed so that LSEs have the ability to procure a portfolio of resources to meet their needs without reliance on backstop, if they so choose. A concern with the central buyer model is that LSE-procured capacity may be deemed sub-optimal for meeting local needs, even if bid at zero into the centralized RFO. This highlights an issue where capacity presumed to address local needs may not count as expected. This in turn highlights that locational

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<sup>10</sup> *Integrated Resource Plan of Southern California Edison Company (U 338-E)*, filed on August 1, 2018, pp. 126-134.

needs may not be sufficiently clear to LSEs in some time-frames. By developing and providing more granular and specific locational need information in a timely manner, some of the concerns around multi-LSE planning and the need for central buyer frameworks can be addressed. Otherwise, without this level of information, LSEs and project developers may be developing new-build resources that do not address the underlying need and could lead to inefficient over-procurement. Such granular locational information into local and sub-local capacity needs may also support a better functioning residual procurement mechanism because the residual needs could be very low, allowing for more consideration and adoption of the residual procurement model. So long as LSEs can reasonably know where to locate resources and how and where to direct developers to build projects, LSEs should have the better ability to solve local needs themselves.

**V. THE COMMISSION SHOULD SYSTEMATICALLY DIRECT CONSIDERATIONS OF PREFERRED ALTERNATIVE RESOURCES PRIOR TO FINALIZING ANY MULTI-YEAR RA CONTRACTS.**

As the Commission develops the details around the multi-year Local RA framework, CESA recommends that the Commission retain and exercise its ability to direct any considerations of preferred alternative solutions prior to finalizing any multi-year Local RA contract, if it finds such alternative procurement to be feasible and in the interest of the state's clean energy, environmental, and disadvantaged community goals. This capability should be explicitly detailed in any decision regarding the central buyer market structure.

If structured correctly, the centralized RFO should be able to procure resources with the desired reliability and environmental characteristics, but there may be instances where it is in the ratepayer's and state's interest to direct the procurement of Local RA resources with these characteristics directly, as was done through Resolution E-4909. Resources like energy storage

have demonstrated the ability to be procured quickly and to be able to meet grid reliability needs, as evidenced by the Resolution E-4909 procurements as well as the Resolution E-4791 procurements to mitigate grid reliability issues stemming from the moratorium on the Aliso Canyon natural gas storage facility. CESA finds it reasonable and prudent to have a ‘safety valve’ if bids in the centralized RFO are limited and/or insufficient.

**VI. FURTHER CLARIFICATION AND DETAILS ARE NEEDED INTO THE EVALUATION AND SELECTION CRITERIA FOR THE CENTRALIZED COMPETITIVE SOLICITATION.**

While CESA understands that IOU procurement groups responsibly procure for least-cost, best-fit (“LCBF”) portfolios, CESA has some concerns about the centralized RFO being a ‘black box’. These concerns persist despite details provided in the PD that Local RA resources will be procured to address future RA needs in local and sub-local areas, be applied local effectiveness factors, take into account resource costs as well as costs of potential alternatives, account for the operational characteristics of the resources, factor in location of the facility with consideration for environmental justice, and apply greenhouse gas (“GHG”) adders.<sup>11</sup> These criteria are no doubt helpful, but non-IOU LSEs face the risk of duplicative procurement or unexpected costs. The qualitative and quantitative benefits of supporting disadvantaged communities and how RA procurement will align with long-term resource planning done in the IRP can be further specified.

Furthermore, the ‘loading order concept’ expressed in SB 1136 should be explicitly addressed in the PD, including how the Commission should “facilitate development of new generating, non-generating, and hybrid capacity and retention of existing generating, non-generating, and hybrid capacity that is economic and needed.”<sup>12</sup> The centralized RFO evaluation

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<sup>11</sup> PD, p. 41.

<sup>12</sup> Public Utilities Code Sections 380(b) and 380(b)(1).

[https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=201720180SB1136](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB1136)

and selection criteria should thus explicitly define how the RA program achieves the state’s clean energy and GHG goals, which could be accomplished through a ‘loading order’ in selecting Local RA resources, and/or some additional value ‘boost’ in the best-fit portion of the LCBF criteria, such as through the GHG adder or the environmental justice considerations as proposed in the PD. The materiality of RA contracts is such that it may be useful to have the IOUs detail their RFO process and allow for input prior to launching any solicitation. In cases of newer RFOs, such as with the Integrated Distributed Energy Resources (“IDER”) proceeding (R.14-10-003), feedback from stakeholders identified key enhancements or glitches in the RFO process, which can serve as an instructive example for the centralized RFO process to follow.<sup>13</sup>

**VII. THE YEAR 3 REQUIREMENT SHOULD BE LOWERED TO AVOID LOCKING IN UNDESIRE RESOURCES IN PERPETUITY AND TO ALLOW FOR IMPLEMENTATION OF SB 1136 AND FLEET TRANSFORMATION**

CESA understands the conceptual financeability goals in establishing a three-year multi-year Local RA requirement. Three years of financing may make it worthwhile to not retire, but CESA remains concerned that the three-year market structure may be insufficient for new or replacement resources, which could otherwise replace existing resources. Even if LSEs want to retire or no longer use a resource, the three-year requirement may mean an LSE is obligated to pay for an undesired resource three years out. CESA believes that two-year contracts, rather than three-year contracts, may still sufficiently serve to retain resources but could avoid retaining resources to such a degree that new market entrants (*e.g.*, via independent actions or from procurement authorizations from the IRP) are effectively blocked. A way to address this concern is to lower or eliminate the third-year procurement need. Specifically, the Commission could set a 50% Year 3

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<sup>13</sup> See D.16-12-036 Orders 5 and 9.  
<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M171/K555/171555623.PDF>

requirement, which is on the low end of what parties have proposed<sup>14</sup> and would allow for resources to always have a two-year contract, if truly needed, to ensure retention and ongoing maintenance.

Consider that a resource seeking to enter the market in Year 3 would only be able to access a one-year contract (for Year 3) via the multi-year concept. This seems unlikely to be sufficient to develop a new resource. Instead, the three-year approach will mostly ‘lock-in’ capacity that otherwise could retire because it is not preferred. If an LSE had no obligations to pre-contract for undesired Year 3 capacity, however, it might work to avoid the undesired capacity and could have two or more years to accomplish this. This flexibility also supports compliance with SB 1136. This bill directed several changes to the RA section of the Public Utilities Code, explicitly stating how RA “shall ensure the reliability of electrical service in California while advancing, to the extent possible, the state’s goals for clean energy, reducing air pollution, and reducing emissions of greenhouse gases.”<sup>15</sup> SB 1136 explicitly lists the development or retention of generating, non-generating and hybrid resources as possible tools to use. Combined with the previously stated “clean energy, reducing air pollution, and reducing emissions” goals, it seems that energy storage, hybrids of energy storage with other generating assets, clean generation, or distributed energy resources (“DER”) are effective options. Lowering the Year 3 requirement in order to prevent over-retention of undesired plants is a step to effectuating SB 1136.

Since LSEs can procure to higher levels, it also seems reasonable to lower the Year 3 floor so that new entrants can come in, with SB 1136 criteria better shaping the Year 3 fleet. Another version of a loading order for RA could involve a Year 3 requirement to cap percentages of a

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<sup>14</sup> PD, p. 29.

<sup>15</sup> Public Utilities Code Sections 380.

[https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=201720180SB1136](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB1136)

portfolio that is non-preferred (e.g., at 50%). Such a percentage may be based on IRP plans to support a transition to the future grid, rather than retention of a non-preferred portfolio of resources. In other words, if an LSE has been allocated a 100 MW Local RA need in Year 3 and must procure 50% of it upfront, it will need to limit procurement of non-preferred resources to 25 MW or could alternatively hybridize a resource, in line with the order expressed in SB 1136. Since procurement can be lumpy, this cap may lead an LSE to ‘take the leap’ of procuring a new resource rather than trying to procure small amount of a larger resource, which can lead to market power concerns and transaction costs. For energy storage and hybridization, which can come online quickly, this approach is very viable and will not create undue reliability risks.

#### **VIII. CONCLUSION.**

CESA appreciates the opportunity to submit these comments to the PD and looks forward to working with the Commission in this proceeding.

Respectfully submitted,



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