

**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 JOINT MOTION OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION,
CALPINE CORPORATION, INDEPENDENT ENERGY PRODUCERS ASSOCIATION,
MIDDLE RIVER POWER, LLC, NRG ENERGY, INC., SAN DIEGO GAS & ELECTRIC
COMPANY (U 902-E), SHELL ENERGY NORTH AMERICA (US) L.P., AND
WESTERN POWER TRADING FORUM FOR ADOPTION OF A SETTLEMENT
AGREEMENT FOR A “RESIDUAL” CENTRAL PROCUREMENT ENTITY
STRUCTURE FOR RESOURCE ADEQUACY**

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In accordance with the Rule 12.2 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”) hereby submits these comments on the *Joint Motion of California Community Choice Association, Calpine Corporation, Independent Energy Producers Association, Middle River Power, LLC, NRG Energy, Inc., San Diego Gas & Electric Company (U 902-E), Shell Energy North America (US) L.P., and Western Power Trading Forum for Adoption of a Settlement Agreement for a “Residual” Central Procurement Entity Structure for Resource Adequacy* (“Joint Settlement Agreement”) submitted on August 30, 2019.

I. INTRODUCTION.

Nine parties, referred to as the “Joint Settling Parties” herein, developed and submitted a Joint Settlement Agreement for Commission consideration and approval that would establish a residual central buyer structure under the multi-year forward Resource Adequacy (“RA”)

framework. Under the proposed structure, the central procurement entity (“CPE”) would assume a “default” role in procuring residual Local, System, and Flexible RA needs, with load-serving entities (“LSEs”) being able to continue to voluntarily self-procure RA resources to meet their share of a collective RA procurement obligation. The Joint Settlement Agreement further details the revised RA showing and waiver/penalty processes, sequencing of CPE procurement versus backstop procurement by the California Independent System Operator (“CAISO”), and a new cost allocation mechanism to address load migration. Additionally, the Joint Settlement Agreement proposes to expand the multi-year Local RA requirement to cover System and Flexible RA requirements as well on a three-year forward basis and to increase the Year 3 Local RA procurement requirement from 50%, as directed in Decision (“D.”) 19-02-022, to 75%. Altogether, in the Motion, the Joint Settling Parties argue that their Joint Settlement Agreement addresses the “known challenges” identified in D.19-02-022 for a “workable implementation solution” for the central procurement of multi-year Local RA requirements.

CESA appreciates the thoughtfulness and detail of the Joint Settlement Agreement and sees potential for the proposed residual central buyer structure to address the issues identified in D.19-02-022, with certain key modifications. Whether through the residual or full central procurement model, CESA continues to advocate for the consideration of resources that fit with the state’s clean energy goals while considering least-cost best-fit practices. In previous comments,¹ CESA recommended that the Commission should not establish a central procurement model that ensures the reliability of electrical service in California with the least-cost resources, but should also procure for resources that “[advance], to the extent possible, the state’s goals for clean energy,

¹ *Comments of the California Energy Storage Alliance on the Central Procurement Model Informal Workshop Reports* filed in R.17-09-020 on August 2, 2019.

<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M310/K226/310226194.PDF>

[reduced] air pollution, and [reduced] emissions of greenhouse gases,” in accordance with Senate Bill (“SB”) 1136. To the extent possible, clean and preferred capacity resources should be valued and procured for both reliability and “green” attributes. Such evaluations should reflect not just near-term needs, but grid needs both now and in the future. In doing so, the Commission will encourage greater linkages between the Integrated Resource Planning (“IRP”) and RA procurement processes. As solar integration needs and grid transformation continue to evolve, CESA asserts that adding storage to the system will be a no-regrets move.

In this vein, CESA’s comments focus on key modifications to the Joint Settlement Agreement to ensure that the dual goals of long-term policy alignment and near-term least-cost best-fit solutions are better incorporated into the state’s capacity and reliability planning framework, as the Commission weighs the merits of the Joint Settlement Agreement.

Specifically, CESA recommends: (1) the incorporation of SB 1136 requirements in the solicitation evaluation criteria that is part of the proposed annual pay-as-bid request for offers (“RFO”) solicitation;² and (2) that the Commission reject the increase in the Year 3 Local RA requirement to 75% of the multi-year forward requirements for Local RA. Additionally, the Joint Settlement Agreement should be modified to set the principles for the CPE entity to include market and procurement experience. Our recommendations outlined herein also apply if the Commission alternatively considers the adoption of a full central buyer structure.

² See Senate Bill No. 1136 Section 380(b) of the Public Utilities Code.
https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB1136

II. NEW OR HYBRID RESOURCE DEVELOPMENT WITH PREFERRED ATTRIBUTES SHOULD BE VALUED IN THE ANNUAL CPE PAY-AS-BID SOLICITATION.

The Joint Settlement Agreement proposes to maintain LSE self-procurement authority by allowing LSEs to voluntarily procure and “show” self-procured RA capacity, thereby reducing the collective RA requirement and reducing a LSE’s share of the collective RA requirements. In preserving self-procurement authority, the Joint Settlement Agreement argues that it facilitates the ability of LSEs to invest in local preferred resources.³ CESA agrees that the showing process for LSE procurement ensures that resources procured for both reliability and other attributes (*e.g.*, lower greenhouse gas [“GHG”] emissions, greater distributed energy resource [“DER”] deployment) will be “selected” or “counted for” for RA purposes, even if they are not the least-cost reliability resource. With this showing structure for LSE self-procured capacity resources, CESA believes that LSEs will have greater incentives to procure for least-cost, best-fit resources that address the potential risk of over-procurement or stranded capacity under alternative central buyer structures and that preserve an appropriate level of control over a LSE’s portfolio or resources.

However, CESA is concerned that the Joint Settlement Agreement has structured the centralized RFO process for residual RA needs to only focus on least-cost procurement of reliability resources at or below the soft-offer cap set for the Capacity Procurement Mechanism (“CPM”).⁴ The detailed evaluation criteria are not provided, though the Joint Settlement Agreement describes how the CPE should take into “account” other factors such as state energy policy objectives.⁵ Without a clear set of evaluation criteria to focus on the “best-fit” aspects of

³ Joint Settlement Agreement at 5.

⁴ Joint Settlement Agreement at 11.

⁵ Joint Settlement Agreement Appendix A Term Sheet at 3

RA procurement, there is a risk of bifurcated procurement whereby preferred resources are procured via LSE-specific solicitations and programs and supplemental reliability resources are procured if needed via least-cost-only oriented centralized residual procurement. As the Commission pursues the state's decarbonization goals, greater linkages between reliability- and policy-based resource planning is needed to identify resources that can cost-effectively address both objectives, where possible. This is where SB 1136 comes in. By explicitly incorporating SB 1136 language and requirements in a binding way in the centralized RFO evaluation criteria for residual RA procurement, CESA believes that the Commission can be better assured that centralized residual RA procurement also accounts for the full range of benefits and costs, not just the least-cost reliability resources. In so doing, the Commission can incentivize new or hybrid energy storage resource development that incrementally and cost-effectively advances the state's decarbonization goals while also addressing reliability needs.

III. THE YEAR 3 REQUIREMENT FOR THE MULTI-YEAR LOCAL RA REQUIREMENTS SHOULD BE MAINTAINED AT 50%.

The Joint Settlement Agreement proposes to increase the Year 3 Local RA requirement under the multi-year framework to 75%,⁶ up from 50% as adopted in D.19-02-022. CESA opposes this aspect of the Joint Settlement Agreement given that the Joint Settling Parties did not contain factual and legal considerations for the Commission to weigh the merits of this aspect of the settlement proposal, in accordance with Rule 12.1. In adopting D.19-02-022, the Commission prudently set an appropriate balance to increase certainty and stability for capacity resources in the near term by adopting 100% requirements in Years 1 and 2 and to address over-procurement risks by adopting a lower 50% Year 3 requirement, especially in light of year-to-year variations in local

⁶ Joint Settlement Agreement at 10.

needs due to load forecast uncertainty and new generation and transmission investments.⁷ Furthermore, pursuant to the Commission's stated criterion for a workable implementation solution to provide opportunity and investment in procurement of local preferred resources,⁸ the proposed higher Year 3 requirement at 75% would reduce the opportunity for new preferred resources to address residual procurement needs by locking more resources over the full three forward years without the opportunity to compete for Year 3 needs. However, the Joint Settlement Agreement does not justify this proposed change at all.

Given that the Joint Settling Parties did not identify factual or legal error of D.19-02-022, CESA opposes this aspect of the Joint Settlement Agreement. The Commission should maintain the Year 3 requirement for Local RA at 50% and should not modify the Commission's decision on this matter unless presented with material facts or evidence, which, procedurally, would be more appropriately addressed through a Petition for Modification in accordance with Rule 16.4.

IV. THE CENTRAL PROCUREMENT ENTITY SHOULD BE AN EXPERIENCED ENERGY BUYER.

The Joint Settlement Agreement does not identify or designate an entity to serve as the CPE and instead merely sets the "principles" for an appropriate entity to be one that is competitively neutral, independent, and creditworthy.⁹ In determining the appropriate "viable" entity to play the CPE role, CESA believes that market experience with purchasing capacity and assessing bids as well as the advanced ability to understand grid needs are important qualifications for the designated CPE entity. Without this trait, the central buyer structure may fail to ensure

⁷ D.19-02-022 at 26-27 and Finding of Fact 9.

⁸ D.19-02-022 at Order 5.

⁹ Joint Settlement Agreement at 9.

“cost-effective and efficient coordinated procurement” and not address the Commission’s pursuit of CPE candidates that have the resources, knowledge, and experience to procure local reliability resources efficiently and effectively.¹⁰ In addition to reducing risks for LSEs and ratepayers around excess RA procurement, CESA provided numerous points and arguments on this matter, and current records have shown that two years is sufficient time for deploying some energy storage systems. With a proposed expansion to fully System RA, this expansion of Year 3 forward procurement seems even more alarming and unnecessary. Given this, CESA strongly urges a modification to the Joint Settlement Agreement to consider market experience as an additional criterion for the designated CPE entity.

V. CONCLUSION.

CESA appreciates the opportunity to submit these comments to the Joint Settlement Agreement and looks forward to working with the Commission and stakeholders in this proceeding.

Respectfully submitted,



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Date: September 30, 2019

¹⁰ D.19-02-022 at 14 and Order 5.