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To: Evelyn Kahl, CalCCA (evelyn@cal-cca.org)
CC Song, Clean Power Alliance (ccsong@cleanpoweralliance.com)
Deb Emerson, Sonoma Clean Power (demerson@sonomacleanpower.org)
Melissa Brandt, East Bay Community Energy (mbrandt@ebce.org)
Erica Brown, PG&E (Erica.Brown@pge.com)
Rhett Kikuyama, PG&E (Rhett.Kikuyama@pge.com)
Lisa Wan, PG&E (Lisa.Wan@pge.com)
Noelle Formosa, PG&E (Noelle.formosa@pge.com)

cc: R.19-11-009 Service List

Subject: CESA's informal comments for the Central Buyer Working Group

Re: CESA's Informal Comments on the Working Group on LCR Compensation Mechanism and Treatment of Existing Contracts

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Dear Working Group Co-Leads:

The California Energy Storage Alliance (CESA) appreciates the opportunity to participate in the Working Group and offers our informal comments to the questions posed in Decision (D.) 20-06-002, issued by the California Public Utilities Commission (Commission) on June 17, 2020. In addition to our responses, CESA offers a high-level comment on some key clarifications needed to establish a common understanding of the new central buyer framework for Local Resource Adequacy (RA) procurement, which has raised a number of questions and created uncertainty from industry on the implication of this decision on existing contracts as well as on future resource procurement. Our informal comments can be summarized as follows:

- To balance cost-effectiveness and resource effectiveness considerations, the Central Procurement Entity (CPE) Request for Offers (RFO) should identify multiple portfolios of bid and shown resources.

- The Local Capacity Requirements (LCR) Reduction Compensation Mechanism should consider premiums related to being closer-to-load, siting in disadvantaged communities (DACs), greenhouse gas (GHG) emissions reduction, and market power mitigation.

- To balance transparency with confidentiality of market-sensitive information, the local premium for shown resources should be calculated based on base assumptions of a resource class that can be customizable to reflect the specific project value and benefits.

- The compensation mechanism should not preclude an LSE from both bidding or showing a resource since the effectiveness of many resources will not be able to be ascertained until an actual resource portfolio is constructed and aggregated from the CPE RFO bids.

- Unless substantiated otherwise, a year-to-year adjustment to the local compensation mechanism should not be established and may not be needed.

- The CPE RFO evaluation criteria should mirror the premium factors in the local compensation mechanism, link to IRP-identified future long-term procurement needs in local or sub-local areas, and adhere to the loading order and SB 1136 statutory requirements to the greatest extent possible.

- The working group should consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective Local RA requirements.

- The working group should clarify and discuss the implications of the CPE buying all RA attributes if selected.

<u>**Responses**</u>

1. **How should the mechanism address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources?**

CESA is unclear on how the CPE framework will address the aforementioned concerns while balancing cost effectiveness. For example, it is unclear if the CPE will use local effectiveness and use limitations as the binding, initial screening criteria for evaluating resources bid into the RFO and then consider resource costs and benefits, or if the bids will be assessed comprehensively for effectiveness, limitations, costs, and benefits. If the former, CESA is concerned that the CPE RFO will over-select a resource portfolio that includes a substantial portion of existing fossil generation. Rather, CESA favors an approach where the CPE RFO considers identifying multiple portfolios of bid and shown resources that, on one end, considers effectiveness as the binding, initial screening criteria and, on the other end, more heavily considers preferred attributes while ensuring effectiveness. Several portfolios could be presented in between these extremes to identify the least-cost best-fit resources that meet reliability needs while advancing decarbonization objectives. This approach would be akin to the transmission alternative portfolios created by the California Independent System Operator (CAISO) in their Transmission Planning Process (TPP).

2. How granular the premium should be (e.g., should different premiums be developed for different types of preferred resources, for new versus existing resources, and/or for sub areas, individual local areas, or TAC-wide local areas)?

CESA generally supports granularity to the premium of the LCR reduction compensation mechanism and proposes the following premiums for consideration in the working group:

- **Closer-to-load premium:** Percentage premium should be considered to recognize the value-add of RA resources that are located closer to load, thus minimizing line losses and offering direct customer or community benefits. Some line loss factor for resources connected at different service levels could be established to support distribution-connected and customer-sited Local RA preferred or storage resources that are shown.

- **DAC premium:** For local preferred or storage resources in DAC areas as defined, some administratively-set percentage premium could be applied to such shown resources. This could be reflected in some administratively-set calculation of the pollution burden faced by DAC customers, particularly from local criteria pollutants, which have yet to be adequately reflected in a systematic fashion in the IRP or RA settings.

- **GHG emissions reduction premium:** For local preferred or storage resources that are already being modeled as needed in the IRP to reduce GHG emissions and local pollutants, the GHG mitigation price from the IRP models for the applicable planning year should be factored into the premium applied to shown resources.

- **Market power mitigation premium:** For certain constrained areas with major market power issues, some premium could be applied to new local preferred or storage resources that mitigate these market power impacts with the addition of new supply resources. This premium would recognize the value provided by new-build resources that face disadvantages in the CPE RFO (compared to existing, already built and depreciated resources) due to the cost of new entry of resources.

3. **How to make the premiums as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices.**

CESA agrees that premiums should protect market-sensitive information. One way to balance transparency with the need for confidentiality would be to consider base class-specific premiums that are broadly applicable to all resources within that class. For example, energy storage resources as an asset class may have common premiums that are broadly applicable to all project types, with differences depending on whether they are hybridized with generation, interconnected in front of the meter or behind the meter, or reflect a technology with different performance capabilities. Even with these base assumptions of a resource class, however, the premiums should be customizable to reflect the specific project value and benefits. A one-size-fits-all premium may undercut the incremental value-add of certain projects. CESA looks forward to discussing whether and how any customizable premium could be considered.

4. **Whether the compensation mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation (or require potential revisions to the iterative process), due to the complexity of overlaying both of these mechanisms into the bid evaluation process.**

The compensation mechanism should not preclude an LSE from both bidding or showing a resource. CESA agrees that overlaying both of these mechanisms is complex and not preferable, but the compensation mechanism and bid evaluation criteria should generally mirror each other. As CESA understands it, the major difference between bidding or showing a resource depends on the resource effectiveness in meeting the local need, which determines whether a resource warrants 1-for-1 crediting. Even with resource effectiveness factors published in the CAISO's Local Capacity Technical Report, the effectiveness of many resources will not be able to be ascertained until an actual resource portfolio is constructed and aggregated from the CPE RFO bids. For example, in certain constrained local areas, the resource effectiveness of energy storage will not be known in advance of the RFO until all eligible resources are submitted as bids in the RFO and sufficient generation is made available in the resulting portfolio. A generation-heavy portfolio from one LSE may then address the charging limitations of a storage-heavy portfolio from another LSE. Precluding an LSE from both bidding and showing options in order to claim the compensation mechanism would thus be unreasonable and not lead to the identification of the least-cost best-fit portfolio, as directed by D.20-06-002.

5. **How to best adjust the local compensation from year to year to account for changes in the effectiveness of the resource reducing the local requirements.**

Unless substantiated otherwise, CESA opposes a year-to-year adjustment to the local compensation mechanism. None of CESA's proposed premiums suggested for inclusion in the LCR reduction compensation mechanism are subject to change over time. Meanwhile, resource effectiveness considerations are already factored in the CPE RFO, which are run on a three-year forward basis such that any changes in resource effectiveness factors would determine whether a local resource is selected or just credited as a shown resource. CESA sees no need to add an additional changing variable in the local compensation mechanism, which only adds to the regulatory uncertainty of the Local RA value and compensation for a particular resource. Already, the CPE structure has introduced a significant level of uncertainty where new resources are not guaranteed to be selected as part of a least-cost best-fit portfolio in the long term.

6. **How should the CPE incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred resources in instances in which price differentials are relatively small?**

CESA believes that many of the premiums added to the LCR reduction compensation mechanism should be mirrored in the bid evaluation criteria for the CPE RFO. CESA generally supports the selection criteria included in D.20-06-002 at 52-53 and adds further perspective on how the criteria could be enhanced:

- **Future needs in local and sub-local areas:** This is the criterion where CESA sees potential to link IRP-identified future long-term procurement needs with the short-term forward procurement of the RA Program. Depending on the scope and modeling conducted in the new IRP proceeding (R.20-05-003), CESA believes that this is an area where the specific GHG adder price identified in the Reference System Portfolio could be added to the evaluation of existing fossil generation versus new preferred resources. If the IRP is able to conduct such locational assessments, the GHG mitigation price identified in the IRP could be incorporated here as a benefit for preferred or storage resources. In the interim, the system-level GHG mitigation price for three years ahead could be used in the RFO in alignment with the three-year forward requirements for Local RA.

- **Local effectiveness factors:** CESA seeks clarification from the CAISO in terms of how energy durations and charging limitations would be assessed in the RFO and translated to a Local RA value, specifically as it applies to storage. For example, this criterion appears to introduce a deviation from the current RA counting conventions for storage where long-duration storage or storage hybridized with generation may have Local RA capacity values and commensurate compensation that is not limited to the four-hour capacity convention for storage resources.

- **Resource costs:** This criterion is straightforward, so CESA has no further comment at this time.

- **Operational characteristics of the resources:** It is unclear how these characteristics will be reflected in the RFO in an administratively efficient fashion. Operational assumptions as identified in the IRP and as required under RA availability and performance obligations should instead be used to consider how resources may impact GHG emissions, reliability, etc.

- **Location of the facility:** As noted above, a premium should be attributed to preferred or storage resources that are located in disadvantaged communities.

- **Costs of potential alternatives:** This criterion is straightforward, so CESA has no further comment at this time.

- **GHG adders:** If the GHG mitigation benefits for future needs in local and sub-local areas (as noted above) is incorporated, this criterion may be duplicative. If not, then GHG adders should be added to the

- **Energy-use limitations:** To the degree that this criterion is duplicative of local effectiveness factors, particularly for energy storage resources, consideration of energy-use limitations may not be needed. Even for all other resources, energy-use limitations may be addressed in Track 3 proposals and should generally be reflected in the RA requirements for resources. Already, imports and certain demand response resources (*i.e.*, DRAM) have some level of energy requirements that may be duplicative of this criterion.

- **Procurement of preferred resources and energy storage:** D.20-06-002 cites previous statutory language that makes clear that the loading order should be adhered to. Statutory changes pursuant to Senate Bill (SB) 1136 also sets this preference for clean RA resources. Some administratively-set "tolerance band" for bid prices (*e.g.*, 10%) could be established to encourage the selection of preferred or storage resources, even if the net prices exceed existing fossil generation by a "minor" amount.

Given the above, CESA requests that the working group also come to agreement on the specific evaluation criteria to be used in the CPE RFO. A stakeholder process to assess and develop these criteria will play an important role in advancing the intent of the Commission decision to ensure local reliability but also to advance preferred resources in line with the state's policy goals. Otherwise, CESA fears that the CPE RFO will be a black box that makes it unclear to stakeholders on how and why certain resources were selected. Notably, one area of ambiguity in the decision is around how dispatch rights to the CPE, even as an optional term, will factor into bid selection.

7. **In addition, please provide any informal comments on the treatment of existing contracts, including whether any proposed local capacity requirement reduction compensation mechanism should be applied to existing contracts and for what period of time.**

    CESA does not have a response at this time but may offer comments in the future.

<u>**General Comments & Questions**</u>

D.20-06-002 presents a number of substantial changes to the Local RA procurement paradigm that has raised a number of questions among industry in terms of how this would impact existing contracts and future procurement. While the working group is tasked with developing an LCR reduction compensation mechanism, stakeholders may also benefit from level setting and establishing a common understanding of the CPE structure as a threshold matter. This exercise may streamline working group discussions.

1. **The working group should consider pathways to maintain the load forecast adjustment process that is specific to an LSE and reflected in their pro rata share of the collective Local RA requirements.**

    D.20-06-002 at 27 explained that new local demand-side resources that are not integrated in the CAISO market would have its load impacts flow into the California Energy Commission (CEC) load forecast and thus reduce the overall local needs. CESA finds this problematic and significantly dilutes (if not eliminates) the incentive for any given LSE to develop load-modifying programs. Prior to this decision, CESA understands that the load forecast adjustment process was specific to an LSE. Instead of the decision's approach discussed in "theory", CESA recommends that the working consider how LSE-specific load adjustment processes can be maintained, which would in effect reduce the pro rata share of load that any given LSE would be subject to for the overall Local RA requirements. This is reasonable given that LSE-specific load forecasting is already done today and is not expected to change.

2. **The working group should clarify and discuss the implications of the CPE buying all RA attributes if selected.**

   As CESA understands it, based on the 2019 working group report, resources that are bid and selected in the CPE RFO will count on a 1-for-1 basis to the collective Local RA requirements and would also count fully toward the system- or TAC-wide System and Flexible RA value for all applicable LSEs. While local attributes are the most valuable based on reported average prices, the purchase of all RA attributes by the CPE raises a number of questions and concerns. First, System and Flexible RA requirements are only needed on a one-year forward basis at this time, so it is unclear whether the CPE would be purchasing all RA attributes on a similar three-year forward basis as done for Local RA. Second, this would raise concerns about whether and how an LSE will be fully credited for procured for the purpose of System and Flexible RA. Clarifications on the impact to System and Flexible RA in the working group would be helpful.

Conclusion

CESA appreciates the opportunity to provide these informal comments and hope these responses are helpful. Please do not hesitate to reach out if you have any follow up questions or would like to discuss further.

Sincerely,

Jin Noh
Senior Policy Manager
CALIFORNIA ENERGY STORAGE ALLIANCE (CESA)
jnoh@storagealliance.org