

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

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

Rulemaking 19-11-009
(Filed November 7, 2019)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE ON THE
PROPOSED DECISION ON TRACK 3.A ISSUES: LOCAL CAPACITY
REQUIREMENT REDUCTION COMPENSATION MECHANISM AND
COMPETITIVE NEUTRALITY RULES**

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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”) hereby submits these comments on the *Proposed Decision on Track 3.A Issues: Local Capacity Requirement Reduction Compensation Mechanism and Competitive Neutrality Rules* (“PD”), issued on October 23, 2020 by Administrative Law Judge (“ALJ”) Debbie Chiv.

I. INTRODUCTION.

The Commission issued Decision (“D.”) 20-06-002 on June 17, 2020 in Rulemaking (“R.”) 17-09-020 to adopt a hybrid central procurement framework to meet Local Resource Adequacy (“RA”) requirements, addressing a number of “known challenges” identified in D.19-02-022. To support preferred and energy storage resource development, D.20-06-002 also adopted a Local Capacity Requirement (“LCR”) Reduction Compensation Mechanism (“RCM”) for any shown preferred and energy storage resources, with a working group process directed to develop one.¹ Specifically, D.20-06-002 expressly explained this mechanism in order to not “discourage [load-serving entities (“LSEs”)] from procuring local preferred and energy storage resources – and it could do so in a manner that ensures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value, and (2) only compensating LSEs for additional costs of

¹ D.20-06-002 at Finding of Fact (“FOF”) 12 and Conclusion of Law (“COL”) 88.

procuring resources close to load rather than simply extending market power premiums to these LSEs.”²

With this context in mind, CESA is deeply concerned with certain key aspects to the PD around the eligibility for the LCR RCM being limited to only new preferred and energy storage resources with a contract executed on or after the issuance date of D.20-06-002, or June 17, 2020. Contrary to the PD’s explanation of its original rationale in D.20-06-002, this aspect of the PD will actually discourage new preferred and energy storage resource development. The impact of this determination will be extremely disruptive to a number of recently-contracted resources that are just now coming online or will do so in the coming years – many of which are being counted on to provide critical and near-term reliability capacity such as in response to the System RA procurement directive from D.19-11-016. In sum, our comments are summarized as follows:

- The LCR RCM should apply to all existing and new preferred resources, energy storage, and hybrid resources that integrate new energy storage.
- Hybrid capacity that integrates new energy storage must be considered alongside preferred and energy storage resources in transitioning to a clean RA fleet in line with statute.
- Eligibility for the LCR RCM to span the life of the contract is reasonable, but the premium, if awarded, should last through the life of the contract.
- Least-cost best-fit selection criteria warrants further discussion and review.

II. THE LCR RCM SHOULD APPLY TO ALL EXISTING AND NEW PREFERRED RESOURCES, ENERGY STORAGE, AND HYBRID RESOURCES THAT INTEGRATES NEW ENERGY STORAGE.

In determining that only new preferred and energy storage resources with contracts executed on or after June 17, 2020, the PD pointed to the Commission’s “original rationale” and the concerns around the “unintended consequences that may result from giving a large volume of existing resources a new local premium option when the resource may not have been procured at a premium in the first place.”³ Specifically, the Commission’s analysis points to approximately

² D.20-06-002 at 41.

³ PD at 19.

7,100 MW of non-Cost Allocation Mechanism (“CAM”) existing preferred and energy storage resources in the service territories of Pacific Gas and Electric Company (“PG&E”) and Southern California Edison Company (“SCE”) as potentially leading to “unintended consequences” that are not quite defined or elaborated upon.

CESA strongly urges the Commission to reconsider this definition of eligibility for the LCR RCM as well as the cut-off date for eligibility. First, nothing within guidance or orders from D.20-06-002 suggests that “new” is defined as resources on a going-forward basis, effective June 17, 2020. Many recent procurement decisions and contracts could reasonably be expected as “new” given that they have only recently been contracted and are currently in the process of coming online – *i.e.*, they are not built yet or have been operational for a few months or a couple of years at most. The vast majority of energy storage resources procured pursuant to Assembly Bill (“AB”) 2514 and in response to various capacity needs (*e.g.*, Moorpark, Aliso Canyon, Moss Landing) are only now coming online in 2019 and 2020, with another tranche of projects expected to come online in the 2021-2023 timeframe pursuant to D.19-11-016. Energy storage is still a new and maturing market where such disruptions can be detrimental to their viability unless they are able to receive some pre-determined credit via the LCR RCM. It is thus also unreasonable to assume that recently-procured but “existing” preferred and energy storage resources represent an “extension” of market power premiums by granting them LCR RCM eligibility since this new resource procurement is intended to mitigate and reduce the market power impacts of existing generators that they are aiming to replace.⁴

Not only are these proposed eligibility rules disruptive to this “new” resource procurement, they also create risks to projects that were procured to address critical, near-term reliability needs, such as to address the Aliso Canyon natural gas moratorium and retirements in the Moorpark, Goleta, and Moss Landing areas. Similarly, a number of recent new resource procurements have been made pursuant to D.19-11-016 to address System RA capacity shortfalls identified for the 2021-2023 period, with some resource procurement such as those made in the Oakland Clean Energy Initiative (“OCEI”) suddenly being precluded from the LCR RCM. In each case and many others, significant amounts of new energy storage was procured prior to June 17, 2020 that would

⁴ For example, Resolution E-4919 approved new energy storage procurement in 2018 that mitigate the need for more expensive backstop procurement in local subareas and compared favorably in cost-benefit analysis over backstopped options. *See* Resolution E-4919 at 28 and 36-37.

have their project financial viability impacted as well as their likelihood of successful completion and deployment. Even as the Commission contemplated a central procurement structure for more than 1.5 years, LSEs and new resource developers could not have expected that the specific hybrid model would be what the Commission would have landed upon when executing contracts with LSEs, especially with the residual model being one supported by a large number of parties as evidenced by the Joint Settlement Agreement submitted into R.17-09-020. Resource procurement and contracting could not wait until the Commission decided upon a CPE structure, where contracts were executed with one assumption for Local RA value but are now being precluded from eligibility from the LCR RCM to have upfront certainty about their retention of that Local RA value.

To ensure that these critically needed energy storage resources are brought online on time with minimal disruption, these “new” resources should also be included as eligible for the LCR RCM. Specifically, given their nascency and near-term importance to reliability, the Commission should grant LCR RCM eligibility for all preferred and energy storage resources regardless of their contract execution date, as originally proposed in the CalCCA Option 2 proposal, modified to include hybrid storage resources that integrates new energy storage (as discussed further in the next section).

III. HYBRID CAPACITY THAT INTEGRATES NEW ENERGY STORAGE MUST BE CONSIDERED ALONGSIDE PREFERRED AND ENERGY STORAGE RESOURCES IN TRANSITIONING TO A CLEAN RA FLEET IN LINE WITH STATUTE.

CESA is disappointed to see a consistent oversight among LSEs and the Commission on the consideration of hybrid capacity that integrates new energy storage (*e.g.*, gas-plus-storage) in the same class as preferred and energy storage resources when making RA-related policy, such as LCR RCM eligibility. Specifically, the PD agreed with CalCCA’s proposal for the definition of new preferred or energy storage resources to include all resources, other than fossil-based resources.⁵ CESA opposes this definition and recommends that the PD be modified to include hybrid capacity that integrates new energy storage in the same class; otherwise, the LCR RCM would be in violation of statute and fail to incentivize new resource procurement in projects that have measurable reliability and environmental benefits.

⁵ PD at 21.

First, and most importantly, Senate Bill (“SB”) 1136 modified Public Utilities Code (“PUC”) Section 380 to read: “[i]n establishing resource adequacy requirements, the commission 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.” Hybrid gas-plus-storage capacity can meet these two-fold needs. In addition, PUC Section 380 requires that the Commission “[f]acilitate development of new generating, nongenerating, and hybrid capacity and retention of existing generating, nongenerating, and *hybrid capacity* that is economic and needed” [emphasis added]. Hybrid gas-plus-storage capacity is thus explicitly called out in support of new clean RA resource development, such that their exclusion in the same “preferred class” of resources for RA purposes should be rectified.

Second, while the statutory requirements should be sufficient, CESA adds that hybrid capacity of gas paired with storage has significant potential to lower greenhouse gas (“GHG”) emissions and reduce local pollutants in disadvantaged communities (“DACs”), all while addressing the CAISO’s needs for contingency reserves in local areas without turning on the co-located gas units in many cases and calls for resources that can deliver energy not only at the single system peak but also in all subsequent hours.⁶

To this end, the Commission should correct this error and ensure that hybrid capacity that integrates new energy storage is also considered eligible for the LCR RCM pursuant to this PD but also on a going-forward basis for all RA policy decisions.

IV. ELIGIBILITY FOR THE LCR RCM TO SPAN THE LIFE OF THE CONTRACT IS REASONABLE BUT THE PREMIUM, IF AWARDED, SHOULD LAST THROUGH THE LIFE OF THE CONTRACT.

In line with the Commission’s intent to encourage new resource procurement, CESA urges the Commission to reconsider the decision to not award the LCR RCM for the life of the contract. While eligibility for the life of the contract for new preferred and energy storage contracts is appreciated, as modified based on our comments in the above sections, the lack of LCR RCM

⁶ See Attachment 1 of *Comments of the California Energy Storage Alliance to the Ruling of Assigned Administrative Law Judge Seeking Comment on Proposed Preferred System Portfolio and Transmission Planning Process Recommendations* filed on January 31, 2019 in R.16-02-007. <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M263/K645/263645344.PDF>

compensation for the life of the contract⁷ unreasonably reduces long-term RA contract certainty and new resource procurement incentives, likely disincentivizing their procurement and contracting as sellers will find it difficult to finance these projects with such Local RA value uncertainty. Already, the effectiveness factors will come into play and potentially reduce the megawatts of capacity that would be eligible for the LCR RCM compensation, such that incentives will be there to encourage the procurement of the “right” type of resources. The risk of the loss of the LCR RCM compensation, however, will create unbearable levels of contracting risk. Given this, CESA recommends that the Commission modify this aspect of the LCR RCM.

V. **THE LEAST-COST BEST-FIT SELECTION CRITERIA WARRANTS FURTHER DISCUSSION AND REVIEW.**

Beyond the LCR RCM, CESA has concerns with the uncertainties around the LCBF selection criteria as adopted in D.20-06-002. Even as guidance is cited from past Commission decisions and some specifics are shared on the methodology,⁸ the Commission has yet to discuss, further clarify, or provide additional transparency as to how the LCBF selection criteria of the Central Procurement Entity (“CPE”) Request for Offers (“RFO”) will generate a portfolio that meets the reliability need at least cost while advancing the state’s decarbonization goals. One of CESA’s major concerns are around whether the CPE RFO will result in portfolios that are more heavily weighted toward the least-cost portion of the LCBF selection criteria.

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, contrary to the state’s decarbonization goals and the Commission’s stated rationale to continue to encourage new local preferred and energy storage resource procurement. 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

⁷ PD at 22.

⁸ D.20-06-002 at FOF 20, COL 13 and 15, and OP 14.

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”).

The application of effectiveness factors is especially unclear, leading to uncertainties around how different resources could be derated for their capacity attributes and contributions. For an LSE contracting for energy storage, the project would face uncertainty to the net qualifying capacity (“NQC”) that would be counted for the underlying resource, which is subject to the makeup of the rest of the portfolio, location-specific factors, etc. In addition, CESA has questions related to how effectiveness factors may introduce a deviation from the current RA counting conventions for energy 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. For instance, if a resource has a 1.5x effectiveness factor, it is unclear whether the resource would be limited to the four-hour capacity counting rules or would be able to capture 1.5 times its four-hour capacity counting rules. These details must be clarified to guide local procurement decisions.

Without more detail on the CPE RFO selection criteria and how it will play out in practice, there is still a substantial amount of uncertainty around whether the hybrid centralized procurement framework will ensure new resource procurement is encouraged while meeting reliability objectives. Some of this may be addressed through the LCR Criteria Working Group, but this will only touch on one aspect of the selection criteria, with the overall selection process and criteria still being relatively ambiguous and opaque. Nothing in D.20-06-002 or in the Commission’s Scoping Memo for R.19-11-009 suggest that clarification will be provided on this matter. As such, CESA recommends further action from the Commission to allow for discussion and stakeholder input to provide clarity before the CPE is set to launch in the near future.

VI. CONCLUSION.

CESA appreciates the opportunity to submit these comments on the Track 3A PD and looks forward to working with the Commission and stakeholders in this proceeding.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Alex J. Morris".

Alex J. Morris
Executive Director
CALIFORNIA ENERGY STORAGE ALLIANCE

Date: November 12, 2020

Attachment 1:
CESA's Proposed Modifications to the Findings of Fact,
Conclusions of Law, and Ordering Paragraphs

CESA's Proposed Modifications to the Findings of Fact, Conclusions of Law, and Ordering Paragraphs

Findings of Fact:

~~6. Applying the Option 2 proposal to existing preferred and energy storage resources departs from our stated rationale for an LCR RCM and undermines the hybrid framework by injecting uncertainty into the CPE framework without sufficient opportunity to evaluate the consequences.~~

7. It is reasonable to ~~apply the issuance date of D.20-06-002 as the starting date to~~ qualify for the LCR RCM for **all new** preferred and energy storage resources, **as well as hybrid capacity that integrates new energy storage.**

Conclusions of Law:

COL 2. CalCCA's Option 2 proposal should be adopted, with modifications, to apply ~~only to new~~ **all** preferred resources or energy storage resources, **as well as hybrid capacity that integrates new energy storage.**

COL 4. The issuance date of D.20-06-002 should be adopted as the starting date to qualify for the LCR RCM for new preferred and energy storage resources.

Ordering Paragraphs:

3. California Community Choice Association's Option 2 local capacity requirements (LCR) reduction compensation mechanism (RCM) is adopted to apply to ~~new~~ **all** preferred resources and ~~new~~ energy storage resources, **as well as hybrid capacity that integrates new energy storage** with modifications, as follows:

(a) The central procurement entity (CPE) may accept or reject the shown local resource if more cost-effective resources are available.

(b) The CPE shall apply the effectiveness criteria to shown resources in the same way the criteria is applied to bid resources.

(c) If selected, the load-serving entity (LSE) shall be paid up to the showing price without annual adjustment for

effectiveness. The pre-determined local price is calculated as follows:

Year 1: Use the weighted average price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both system and local RA; subtract system Resource Adequacy (RA) price from local RA price and multiply by effective MW.

Subsequent Years: Use the weighted average price from the last four quarters of Energy Division PCIA responses for system RA and the most recent weighted average price reported in the CPE solicitation results (prior year's results) for local RA price; subtract system RA price from local RA price and multiply by effective MW.

(d) The price shall be differentiated by local area or sub-local area, unless higher-level aggregation is required to mask individual resource prices.

(e) For a resource eligible for the LCR RCM, if the resource elects to show for the LCR RCM, the resource cannot also provide a bid into the CPE solicitation. If a resource eligible for the LCR RCM elects to bid into the CPE solicitation, it still has the option to show for no compensation.

(f) ~~A new~~ **All** local preferred or energy storage resource may be eligible for the LCR RCM up to the life of the resource's original contract **and be receive compensation if selected for the life of the resource's contract, subject to effectiveness factor adjustments.**

(g) A shown resource that qualifies for the LCR RCM shall have a 3-year commitment where the start date may be any year within the 3-year forward compliance period.

(h) A shown resource shall be documented through a confirm under the Edison Electric Institute Master Agreement.

4. ~~Any new~~ **All** preferred resource or energy storage resource, **as well as hybrid capacity resource that integrates new energy storage, with a contract executed on or after June 17, 2020** shall be eligible for the local capacity requirement reduction compensation mechanism.