

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

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

Rulemaking 21-10-002

**COMMENTS OF PENINSULA CLEAN ENERGY, SAN JOSÉ CLEAN ENERGY,  
AND CALIFORNIA ENERGY STORAGE ALLIANCE ON THE DECISION  
ADOPTING LOCAL CAPACITY OBLIGATIONS  
FOR 2023 - 2025, FLEXIBLE CAPACITY OBLIGATIONS FOR 2023, AND  
REFORM TRACK FRAMEWORK**

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California Energy Storage Alliance, San José Clean Energy and Peninsula Clean Energy (“Joint Parties”) offer these comments pursuant to Rule 14.3. of the Rules of Practice and Procedure.

**I. Introduction: The Hourly Obligation Trading proposal should be adopted.**

Hourly Obligation Trading is a simple mechanism to help keep energy and regulatory costs affordable. The Hourly Obligation Trading mechanism will deliver improved utilization of renewable generation and energy storage in ensuring system reliability and least cost compliance with 24-hour slice Resource Adequacy (RA) obligations. The Commission should adopt this hourly obligation trading proposal to facilitate market efficiency, improved reliability, carbon reduction, and ratepayer savings.

An Hourly Obligation Trading option will enable trading between electric Load Serving Entities (LSE) who either have too much RA capacity or insufficient RA capacity in certain hours. Under the 24-hour framework, LSEs buy and trade RA resources in “strips” of resource

generation capacity across the full 24 hours. These RA strips from all the resources in an LSE's RA portfolio are unlikely combine to match load obligations in all hours exactly, leading to excess in some hours and likely shortfalls in others. An LSE with a small shortfall in a subset of hours has three options to address such shortfalls:

- 1) Procure a "strip" of RA capacity to meet the few hours of RA shortfall. A strip of 24 hours will result in overprocurement in all other hours the resource generates in. This overprocurement creates market inefficiency, tightens the RA market, and increases market power of generators, driving higher costs. To the extent this overprocurement is of gas resources, this dynamic will also undermine climate goals by artificially supporting carbon emitting resources.
- 2) Procure storage capacity. However, without the hourly excess generation in other hours required to charge the storage to meet 24-hr RA obligation this option merely shifts the shortfall from one set of hours to another. Furthermore, current supply chain and interconnection challenges may further hinder the amount of use-limited and storage resources necessary to meet RA needs in a cost-effective manner in the medium term.
- 3) Match the subset of hourly shortfalls with excess generation in those hours held by another LSE. However, this option is only possible if a mechanism exists to allow this matching. The Hourly Obligation Trading mechanism is designed to fill this gap.

The failure to adopt an Hourly Obligation Trading mechanism would force LSEs to rely only on the first two options. This will predictably drive up already sky-rocketing RA costs and undermine cost-effective reliance on zero-carbon RA resources. Without such a mechanism, California will be unable to optimize the value of existing and new clean resources at least cost.

## **II. The Proposed Decision Mischaracterizes the Hourly Obligation Trading Proposal.**

The Proposed Decision errs in dismissing the Hourly Obligation Trading Proposal based on concerns about resource unbundling and concerns about outage substitution, cost allocation, backstop procurement, and implementation. None of these issues apply to the hourly obligation trading proposal.

The Proposed Decision and some party comments erroneously conflate the Hourly Obligation Trading proposal with Hourly Resource Trading. However, these two proposals are fundamentally distinct. The concerns raised in the Proposed Decision and in party comments only apply to hourly *resource* trading constructs. In fact, the Joint Parties developed the Hourly Obligation Trading proposal specifically to avoid the potential issues raised in the Proposed Decision about resource trading.

The Hourly Obligation Trading concept is a simple approach to allowing LSEs to shape their hourly portfolios. LSEs contract to assume additional RA obligations from other LSEs. The assuming LSE would report their expanded obligation on RA templates submitted to the CPUC and in RA plans submitted to CAISO. From that point forward for that compliance year, all CPUC and CAISO compliance responsibilities would belong to the assuming LSE, indistinguishable for the LSE's native load obligation. The LSE that gave up the obligation would have no further responsibilities for meeting the traded obligation. (Any financial arrangements, such as indemnification for penalties for example, would be a contractual matter between the two LSEs, but neither CAISO or the CPUC would need to be involved in any way.). All LSE and generator responsibilities would be unchanged from those that would apply under the 24-hour proposal for native load.

Importantly, there would be no changes needed for resource substitution nor would there be any resource "unbundling." The responsibility for outage substitution, cost allocation, and backstop procurement would flow to the LSE with the RA obligation precisely as it does for native load obligation. In addition, generators contracts would be unaffected by this mechanism. Only LSEs would be able to engage in these trades, leading to a far simpler market.

Finally, the Proposed Decision errs in rejecting the Hourly Obligation Trading system without substantial evidence in the record to demonstrate that the claimed issues actually have merit. We note the CAISO comment cited expressly conflates the "hourly generation and/or load obligation trading" as if they are the same proposal. CAISO present no analysis or evidence to support its claims, but instead offers only two conclusory statements. Good policy requires decisions that are grounded in actual evidence and solid analysis, but the treatment of the hourly load obligation trading proposal in the Proposed Decision falls short of this standard.

### **III. Hourly Obligation Trading would be Simple to Implement.**

Hourly Obligation Trading mechanism would be simple to implement, since each trade would be reported only as a single line on each LSE's RA showing. The trade would appear as an addition to assuming LSE's obligation, while it would appear as a line of debits to be subtracted from the obligation of the LSE giving up the obligation. Similarly, the two LSEs would report the modifications of their obligations to CAISO on their RA plans. Thus, all trades would sum to zero, since for every obligation credit, there must be a corresponding debit. (If an LSE claimed a reduction in load but the counter party failed to report the corresponding increase, the load reduction would be void, and the regular consequences for shortfalls would apply. Any dispute would be between the parties to the failed showing.). Once the CPUC and CAISO confirm corresponding RA credits and debits between LSEs, no further mechanisms would be required.

Adding a single line to reflect an obligation trade is not markedly more complex than adding the additional resources contract that an LSE would need to procure to meet an hourly shortfall if the Hourly Obligation Trades were not available. Any LSE with a shortfall in a few hours will have to report something to fill that shortfall. Whether it is an obligation trade or a resource contract does not matter significantly in terms of the complexity of the RA showing.

Furthermore, the CPUC already uses obligation trades in the Cost Allocation Mechanism (CAM) program. In fact, CAM transfers RA obligations from the benefiting LSEs to the IOU, and then has the IOU show CAM resources to meet the transferred obligations. This is the same structure that the Hourly Obligation Trading mechanism would use.<sup>1</sup> The CAM program uses this structure for the same simplicity reasons that led the Joint Parties to develop the Hourly Obligation Trading proposal: to address concerns about RA substitution and backstop responsibilities. The CPUC will already need to convert this CAM RA transfer program to a 24-hour RA accounting system regardless. The Hourly Obligation Trading proposal roughly would

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<sup>1</sup> PG&E's novel argument that Public Utilities Code § 380 would prohibit a Load Obligation Trading system ignores the fact that LSEs already meet their obligation to "maintain physical generating capacity and electrical demand response adequate to meet its load requirement" through load obligation transfers to other LSEs that operate this capacity today. Thus, this mechanism would be legal under Public Utilities Code § 380 just as the CAM program is.

simply expand this mechanism to be used by other LSEs other than the IOUs to realize the benefit of added customer cost savings and carbon reductions, rather than limiting this mechanism only to transfers from benefitting LSEs to IOUs in the CAM program. Since unbundled LSEs now serve almost 50% of load, and more than 50% of load in PG&E service territory, this approach benefits ratepayers by maximizing the value of clean resources and avoiding redundant procurement in an already constrained, high-cost RA market.

#### **IV. The Failure to Implement Some Form of Shaping Mechanism Will Drive up Costs and Undermine Affordability.**

The lack of an Hourly Obligation Trading scheme will drive up costs in at least two distinct ways. First, for example, if two LSEs with small shortfalls in different hours do not have a mechanism to match single resources capable of meeting both needs, then both LSEs will need to procure separate resources to meet their respective shortfalls. In the near term, supply chain and interconnection challenges may limit the amount of storage available in the market, potentially forcing LSEs to turn to gas resources, driving up costs through duplicative procurement. This will in turn tighten the RA market, increase market power of gas generators, and undermine decarbonization.

In the current context, the Hourly Obligation Trading mechanism provides an important tool as a hedge against short term delays in the deployment of storage. Under the Proposed Decision, storage would be the main option for portfolio shaping, but Hourly Obligation Trading offers an alternative tool that would also enable further storage development by capturing the system diversity benefit between storage and variable generation.

The lack of an Hourly Obligation Trading mechanism will eliminate any system diversity benefit between energy storage and generation resources, if the generation and storage resources are in the portfolios of different LSEs. At the system level, solar and storage, for example, have greater system benefit jointly than the sum of their individual contributions because solar can charge storage for future dispatch, which in turn meets specific time of day needs that solar cannot. This diversity benefit represents real economic, reliability and carbon reduction value. If there is no mechanism for LSEs to match charging needs for storage in their portfolios with excess generation in the hours in other LSE portfolios, then the system diversity benefit cannot be captured and is eliminated from the market. Trading whole strips of generation will not solve

this problem if the LSE with excess solar only have excess in a subset of the solar generation window. Any trade of a full strip would then open a *new* open position and compliance obligation for that LSE, which no LSE will be willing to do. This represents a significant inefficiency and lost opportunity which will drive up procurement costs and ultimately ratepayer costs.

The Commission takes affordability and ratepayer impacts seriously. Thus, it is imperative that the Commission make the effort to implement the proposed cost-saving mechanism that will also accelerate the state's carbon reduction potential. This is doubly true for a simple accounting mechanism that is closely related to existing mechanisms the Commission will have to modify regardless to accommodate the CAM program. The CPUC can implement and enforce the proposed Load Obligation Trading mechanism by enforcing the RA filing obligations of LSEs recording a credit or debit in the same way they enforce native load RA filings today.

**V. Conclusion.**

The Hourly Load Obligation Trading proposal is a simple mechanism that will create significant rate payer and carbon savings by facilitating market efficiencies in the 24-hr RA compliance program. The Commission should recognize that the Hourly Load Obligation Trading Proposal as proposed by the Joint Parties is a fundamentally different mechanism from any hourly resource trading proposal. The Joint Parties urge the Commission to adopt the proposal in the Final Decision. However, if the Commission believes there are factual or analytical questions to be resolved, as an alternative, the questions can be addressed in further work streams to develop an analytically sound record.

Respectfully submitted,  
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ATTACHMENT A  
TO  
**COMMENTS OF PENINSULA CLEAN ENERGY, SAN JOSÉ CLEAN ENERGY,  
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**PROPOSED CHANGES TO FINDINGS OF FACT,  
CONCLUSIONS OF LAW AND ORDERING PARAGRAPHS**

**FINDINGS OF FACT**

None.

**CONCLUSIONS OF LAW**

None.

**ORDERING PARAGRAPHS**

27. The following workstreams are adopted for further development of the 24-hour framework:

- (1) Workstream 1. Develop 24-hour framework compliance tools:
  - a. Resource Adequacy (RA) Resource Master Database to be coordinated with California Independent System Operator (CAISO).
  - b. Load-Serving Entity (LSE) Showing Tool (template to be used by the LSE to make its filing to the Commission), including the ability to transact obligations hourly, and Commission Verification Tool (tool to be used by Energy Division to verify compliance), including the ability to verify hourly transactions.
  - c. LSE Requirement Database to be coordinated with the California Energy Commission (CEC). This will utilize outputs generated by the CEC's load forecast proposal, including a dry run filing that may inform any necessary changes.
  - d. Cost Allocation Mechanism (CAM) process and RA allocation to consider availability and capability of CAM-eligible resources and LSEs' load share during those slices.

**New Order:**

LSEs shall be permitted to transact load obligations on an hourly basis under the 24-hour framework.