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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Develop an Electricity Integrated Resource Planning Framework and to Coordinate and Refine Long-Term Procurement Planning Requirements.	Rulemaking 16-02-007

RULING OF ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE SEEKING COMMENT ON POLICY ISSUES AND OPTIONS RELATED TO RELIABILITY

This ruling seeks input from parties about how to address emerging electricity market issues in the near-to-medium term that may affect overall electric system reliability. Comments on these topics from parties are invited by no later than December 20, 2018, with replies due by no later than January 14, 2019.

1. Description of Reliability Policy Considerations

In their initial comments on the individual integrated resource plans (IRPs) filed by load-serving entities (LSEs) in this proceeding in August 2018, several parties indicated concern about the potential for inadequate attention to near-medium-term reliability challenges due to the IRP process thus far focusing primarily on greenhouse gas (GHG) emissions outcomes for 2030. To date, the IRP process has been focused on designing and implementing the planning framework that will be used to evaluate the emissions, reliability, and cost impacts of various future scenarios in the electricity sector. Thus far, the focus has been on the long-term planning aspects. However, as several parties have pointed out from the beginning of the IRP design process, and more recently in

LSE IRPs and/or comments in response to the IRP filings in September 2018, there may be nearer-term challenges that need to be addressed in the context of consideration of electric sector planning and the particular activities planned (or not planned) by the LSEs.

The comments of both the California Large Energy Consumers Association (CLECA) and Southern California Edison (SCE), in its IRP, stood out for their focus on these near-medium-term reliability issues. CLECA pointed out a number of issues that could benefit from closer coordination between this IRP proceeding and the resource adequacy proceeding (R.17-09-020). In particular, as CLECA notes, the resource adequacy program is currently undergoing some significant changes. A multi-year framework is under consideration for local resource adequacy requirements, and some parties are proposing it for all types of resource adequacy products. The Commission is also considering a central buyer proposal.

In addition, as CLECA also points out, the resource adequacy positions of the LSEs, in their individual IRP filings, are often heavily redacted owing to the market-sensitive nature of disclosing the near-term contracting positions. Further confounding analytical questions, CLECA points out that the Commission has authorized procurement of resource adequacy resources outside of either proceeding. The California Independent System Operator (CAISO) is continuing to exercise its authority for backstop procurement, but it is unclear how those efforts are reflected in the IRP analysis.

More central, perhaps, to the IRP context, are the questions surrounding flexible resource adequacy, and the need for near-to-medium-term renewable integration resources.

SCE addresses these questions more directly in its IRP, proposing that the Commission develop a trigger mechanism under which, when certain conditions are met, the LSEs would be automatically authorized to undertake reliability-based procurement, such as the acquisition of storage resources.

Comments from other parties point out the need for the Commission to address comprehensively not only the long-term GHG emissions, reliability, and cost implications of the LSE resource portfolios, but also those aspects in the near-to-medium term.

We have the comments of parties in this proceeding and the resource adequacy rulemaking, but we also note that similar themes have emerged in other venues as well. Reliability and market structure issues feature prominently in the Commission's California Customer Choice Project, an ongoing public inquiry into the many changes occurring in California's electricity sector.[1] The CAISO Department of Market Monitoring has been noting concerns in the energy markets as well, including not only with respect to California generation resources, but also related to import trends.[2] The CAISO itself is also looking into potential issues of system market power.

In broad brush terms, California is currently entering an era of tighter generation supplies than we have experienced in recent years. On an environmental policy basis, there is a desire to minimize the need to run thermal generation units, especially those in disadvantaged communities, and potentially

[1] *See*, for example, the Draft Gap Analysis/Choice Action Plan at 39, and 46, available at http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Utilities_and_Industries/Energy/Energy_Programs/Infrastructure/Draft%20Gap%20Analysis_Choice%20Action%20Plan%20v10-25-18%20FINAL.pdf

[2] *See*, for example, the following links for more details on observed trends in the CAISO markets: http://www.caiso.com/Documents/Presentation-SystemMarketPower-June7_2018.pdf and http://www.caiso.com/Documents/2017AnnualReportonMarketIssuesandPerformance.pdf

retirement them altogether, if possible, to meet our ambitious GHG targets. Once-thru-cooling (OTC) thermal units have mostly retired or are in the process of retiring. And, the availability of imports is on the decline.

While we have abundant in-state and imported renewable resources, resources available to integrate those renewables are constrained in multiple ways. Thermal generation resources are on the decline, either for environmental and environmental justice reasons or because of their economics in the current market environment. Hydroelectric resources are finite. Storage resources, though becoming more abundant, are still expensive and limited in size and availability. The system is becoming more "right-sized" with less excess capacity.

Because of this supply situation, it becomes harder and harder to avoid questions of whether our market structure is equipped to meet our electric resource needs, in light of ambitious GHG goals. Though we will take up Senate Bill (SB) 100 policy implementation in the next cycle of IRP, currently-available analysis suggests that in the near and medium term it will be prohibitively expensive to squeeze all fossil fuels out of the sector, and that some thermal generation units are likely still to be needed to balance the system.

It is also the case that the retail side of the electric market is changing in California in major ways. Instead of three large electricity providers serving the vast majority of customers, we now have approximately 44 LSEs, most of whom are entering the procurement process for the first time in the past several years. Load shares of retail electric providers are also sufficiently disaggregated such that one LSE is unlikely to procure the entirety of output from larger thermal generators. IOUs also face over-capacity situations due to load migration to

other providers. Smaller LSEs are facing difficulties contracting for small shares of capacity from various generation owners.

Finally, in certain local geographic areas, specific resources are needed in specific locations, due to load pockets and transmission constraints. Market consolidation also means that relatively few owners control the generation assets in each geographic area.

All of this adds up to more and more buyers of fewer and fewer necessary resources, and from fewer and fewer sellers, to support grid reliability. At some point in the near future, if it has not occurred already, this may lead to a situation where certain resource owners have the ability to exercise market power, not only at the local level but also potentially at the system level. The CAISO's *2017 Annual Report on Market Issues and Performance* indicates that the CAISO system showed signs of becoming less competitive.[3] In particular, there are more hours when a small number of suppliers can be pivotal suppliers, even for system power. The CAISO currently does not have market power mitigation measures for system market power.

If, in the course of IRP analysis, the Commission and other parties begin to identify the exact resources needed to maintain reliability, this looks less like a market-oriented solution and closer to an administratively-planned one. Though the California electricity sector has always contained elements of both, the balance appears to be shifting.

Further, as the Commission is already confronting in consideration of the central buyer options for local resource adequacy, issues of cost responsibility are critical in deciding how to structure an administrative solution.

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[3] CAISO *2017 Annual Report on Market Issues and Performance,* at 251, available at http://www.caiso.com/Documents/2017AnnualReportonMarketIssuesandPerformance.pdf

With these parts of the problem in mind, the question becomes what the Commission or others such as the CAISO should be doing that we are not doing, to address the problem. We also may suffer from an inadequate understanding of the real problems. Solutions such as the trigger mechanism put forward by SCE, with some inevitable modifications, may be necessary.

2. Questions for Parties

In order to assist the Commission in identifying the full extent of the potential for reliability issues in the near-to-medium-term, parties who so desire are requested to respond to the following questions by filing comments no later than December 20, 2018. Reply comments to other parties' comments may be filed no later than January 14, 2019.

1. Does the California electricity system face a near-or medium-term reliability challenge? If so, describe how you see the nature of the problem.
2. Is the resource adequacy or the IRP proceeding (or a mix of both) the appropriate venue for addressing these types of reliability concerns? Explain your rationale.
3. Are potential solutions to the problems you describe in answer to Question 1 already under consideration? If so, where?
4. If your preferred solutions are not already under consideration, describe what else is needed, why, and where. In making your recommendations, please address issues of cost allocation, cost minimization, environmental justice, impacts on existing LSE procurement processes, ability to support achievement of state policy goals, and any other topics relevant to your recommendations.
5. Is the CAISO market structure equipped to handle the challenges you identified in response to Question 1? Why or why not?

6. Are there more global solutions available via Commission coordination with the CAISO and/or beyond the reach of the Commission on its own? What are they are how should they be addressed?
7. How can the Commission and the public monitor market behavior by generation owners? For example, offering capacity in LSE solicitations, receiving contracts in any Commission-mandated or LSE-sponsored venue, making public data on CAISO market bid prices, or requests for special designation by the CAISO. What types of reporting should be required and what types of entities should report? Should generators seeking contracts be required, via the Commission's procurement rules, to attest that they have or will offer their other available capacity into any solicitations from Commission-jurisdictional LSEs?
8. What challenges do the advent of 40+ LSEs present for near-and medium-term reliability investments, particularly to support renewable integration?
9. Provide any other information you think would be relevant to the Commission's consideration of these issues.

IT IS RULED that:

1. Parties may file and serve comments in response to this ruling and the questions in Section 2 by no later than December 20, 2018.

2. Parties may file and serve reply comments in response to this ruling and the questions in Section 2 by no later than January 14, 2019.

Dated November 16, 2018, at San Francisco, California.

/s/ LIANE M. RANDOLPH	/s/ JULIE A. FITCH
Liane M. Randolph Assigned Commissioner	Julie A. Fitch Administrative Law Judge