

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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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)

**OPENING COMMENTS OF THE
CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES ON
THE PROPOSED DECISION REFINING THE RESOURCE ADEQUACY PROGRAM**

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For: CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES

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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.

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THE PROPOSED DECISION REFINING THE RESOURCE ADEQUACY PROGRAM**

The Center for Energy Efficiency and Renewable Technologies (CEERT) respectfully submits these Opening Comments on the Proposed Decision of Administrative Law Judges (ALJs) Chiv and Allen “Refining the Resource Adequacy Program” (“Proposed Decision”), mailed in this proceeding (R.17-09-020) on November 21, 2018. These Opening Comments are timely filed and served pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure and the instructions accompanying the Proposed Decision.

**I.
THE PROPOSED DECISION MUST BE MODIFIED TO
COMPLY WITH RECENTLY ENACTED LEGISLATION**

CEERT is profoundly disappointed with the Proposed Decision – not so much for what it does, although CEERT has issues with some aspects of the Proposed Decision – but more for what it fails to do. Specifically, the Proposed Decision does not recognize the fundamental transformation of the electric grid that is underway, particularly as it pertains to resource adequacy (RA). The electric grid is rapidly evolving from a traditional top-down centralized architecture dominated by central-station fossil-fired generating resources to a distributed architecture dominated by decentralized non-generating and hybrid resources that do not utilize fossil fuels.

This change was reflected in the recently enacted Senate Bill 1136 (Hertzberg) (SB 1136) which made changes to Public Utilities (P.U.) Code Section 380.¹ As such, the design of the RA program must adapt to this grid of the future. However, the record in this proceeding has not been developed to deal with this fact. This issue must be acknowledged and a determination must be made by the Commission for how to embark on the significant revisions to local RA procurement.

The Proposed Decision does not comply with the current language of P.U. Code Section 380 or the mandates of recently enacted SB 1136. SB 1136 (Hertzberg) states:

“Existing law requires the commission, in consultation with the Independent System Operator, to establish resource adequacy requirements for all load-serving entities, as defined, in accordance with specified objectives, including that the resource adequacy requirements facilitate development of new generating capacity and retention of existing generating capacity that is economic needed.

“This bill would revise this objective to require that the resource adequacy requirements also facilitate development of new nongenerating and hybrid capacity and retention of existing nongenerating and hybrid capacity that is economic and needed.

“Existing law regarding resource adequacy requires each load-serving entity to maintain physical generating capacity adequate to meet its load requirements, including peak demand and planning and operating reserves, deliverable to locations and at times as may be necessary to provide reliable electric service.

“This bill would require the commission, in establishing resource adequacy requirements, to 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.”²

However, the Proposed Decisions contradicts both the existing requirements of P.U. Code Section 380 and the changes to it created by this new law. In ordering that the “distribution utilities shall serve as the central buyer for their respective distribution service areas[,]” the Commission overlooks two (2) subsections of P.U. Code Section 380 in favor of another and SB

¹ P.U. Code Section 380 requires the establishment of resource adequacy (RA) requirements for all load-serving entities (LSEs).

² SB 1136.

1136.³ Specifically, the Proposed Decision strips local Load-Serving Entities (LSEs) of any authority to address local reliability issues as California moves to a grid with a distributed architecture performed by preferred resources.⁴ These local LSEs have, or are gaining, the resources, knowledge and experience to deal with local reliability issues in a manner consistent with the policy mandates contained in P.U. Code Section 380 and SB 1136.

The Proposed Decision places the distribution utility in the role of monopoly procurement agent for local reliability.⁵ However, it makes no mention of the distribution utility's much more important future role as aggregator, dispatcher, and settlement agent for a disparate portfolio of clean, distributed hybrid resources to provide local reliability in times where these local areas are at least partially isolated from the system as a whole. The long-term objective should be to have the distribution utility, acting as the distribution system operator, dispatch and financially settle the local RA products during contingency events that require dispatch optimization within the applicable load pocket separately from the overall system optimization.

The Proposed Decision appropriately finds the use of the California Independent System Operator's (CAISO's) existing one- and five-year studies to be a reasonable input to inform multi-year local RA requirements.⁶ However, the Proposed Decision would have the monopoly central buyer procuring resources to meet that need relying on the Commission's existing counting rules and the CAISO's existing optimization algorithms to guide that procurement, dispatch those resources in real time, and existing protocols to financially settle customer contracts to supply RA services. The CAISO'S dispatch algorithm assumes that all generators have the characteristics of large, completely dispatchable fossil-fired synchronous generators which no longer applies.

³ Proposed Decision, at pp. 16-17.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*, at p. 27-28.

The CAISO is totally and singularly focused on providing wholesale electricity in monopoly control of dispatch and financial settlement which contradicts the objectives of SB 1136 that the new RA requirements are to facilitate development of new nongenerating and hybrid capacity from customer actions that balance provision of local RA capacity to the local area with productive consumption of electric energy by the customer. Lastly, CAISO has neither the situational awareness of local conditions under these contingency conditions nor the bandwidth to deal with innumerable, changing collections of small, use-limited hybrid inverter-based resources that do not mimic the characteristics of fossil-fueled generators. That is the future role of the distribution utility acting as the Distribution System Operator for the constrained local area. Given the new multi-year procurement obligation in this Proposed Decision that begins in 2020, it will be a minimum of five plus years for RA procurement to even begin to become aligned with current law.

It is quite understandable that this recent legislative direction that recognizes the need for fundamental change in RA to deal with the reality of the grid of the future needs to be developed through a lengthy and robust process at the Commission. The Proposed Decision needs to recognize this principle before it embarks on significant changes to current RA architecture without any consideration of these changes.

II. CONCLUSION

For the reasons detailed above, it is CEERT's position that the Proposed Decision requires certain needed modifications. CEERT, therefore, request that the changes described above and embedded Appendix A hereto (Proposed Findings of Fact, Conclusions of Law, and Ordering Paragraphs) be included in the Commission's Final Decision.

December 11, 2018

Respectfully submitted,

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FOR: CENTER FOR ENERGY EFFICIENCY
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APPENDIX A

THE CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDERING PARAGRAPHS FOR THE PROPOSED DECISION ON REMAINING ISSUES

The Center for Energy Efficiency and Renewable Technologies (CEERT) proposes the following modifications to the Findings of Fact, Conclusions of Law, and Ordering Paragraphs in the Proposed Decision of ALJs Chiv and Allen refining the RA Program and mailed in R.17-09-020 (RA) on November 21, 2018 (“Proposed Decision”).

Please note the following:

- A page citation to the Proposed Decision is provided in brackets for each Finding of Fact, Conclusion of Law, or Ordering Paragraphs for which a modification is proposed.
- Added language is indicated by **bold type**; removed language is indicated by **bold strike-through**.
- A new or added Finding of Fact, Conclusion of Law, or Ordering Paragraph is labeled as “**NEW**” in **bold, underscored** capital letters.

PROPOSED FINDINGS OF FACT:

2. [61] The distribution utilities are the central buyer candidates with the resources, knowledge and experience to procure local reliability resources ~~on behalf of all LSEs~~ without excessive delay.

3. [61] Critical objectives in developing a multi-year local RA framework include accounting for increased load migration, **developing preferred resources alternatives to fossil fired generation** ensuring necessary resources are procured in an orderly manner, ~~and~~ reducing procurement deficiencies that lead to costly out-of-market RA procurement, **and reducing concentration of polluting resources in disadvantaged communities.**

4. [61] **LSEs within each distribution utility service territory should be allowed to self procure their own RA resources consistent with the guidelines in this Decision. ~~A full procurement approach allows the central buyer to secure a portfolio of the most effective~~**

~~local resources, adapt to load uncertainty and migration, and ensure sufficient capacity is procured to meet local needs over a multi-year duration.~~

14. [62] Proposals that state that RA attributes should remain bundled and that LSEs should receive credit for procured **local**, system or flexible capacity, based on coincident load shares, are reasonable and consistent with the current RA program.

15. [63] It is important for the central buyers to include dispatch rights in their solicitations ~~as an optional term for bidders to include.~~

16. [63] It is reasonable ~~for to treat~~ local DR resources **to potentially be hybridized with storage resources and to receive and contract term value equivalent to generation resources as is currently done in the year ahead timeframe**, based on the applicable three-year period of the most recent load impact protocol studies after any Energy Division adjustments.

17. [63] There is insufficient record support at this time to adopt a proposal to require the central buyers to **always** procure dispatch rights along with the local RA products. **However, the long-term objective is to have the distribution utility, acting as the distribution system operator, dispatch and financially settle the local RA products during contingency events that require dispatch optimization within the applicable load pocket separately from the overall system optimization.**

36. [65] The Commission supports facilitating transparency in the RA contracting process. A proposal to disclose all resources used to satisfy an LSE's RA obligation in the previous year, **including, without disclosing** the number of megawatts associated with the resource, is a reasonable first step towards promoting transparency. **The long-term objective is publication of all costs and contract terms and conditions of all approved contracts as is common practice for governmental contracts.**

[NEW] The electric grid is rapidly evolving from a traditional top down centralized architecture dominated by central station fossil fired generating resources to a distributed architecture dominated by decentralized nongenerating and hybrid resources that do not utilize fossil fuels. **The RA architecture must adapt to this grid of the future. The record in this proceeding has not been developed to deal with this fact. This situation must be at least acknowledged at this juncture and room needs to be made for these fundamental**

changes before embarking on the significant revisions to local RA procurement contemplated by this proceeding.

PROPOSED CONCLUSIONS OF LAW:

2. [66] The central buyer should be required to engage in ~~full~~ procurement of local resources within their respective service areas **while allowing LSEs to self-procure their own share of such resources.**

7. [66] RA attributes should remain bundled throughout the solicitation process and LSEs should receive credits for **local**, system or flexible capacity procured during the local RA or backstop processes.

9. [66] Local DR resources should be **allowed to hybridize with storage resources and counted at the combined capacity value at equivalent value and contract term as fossil resources** based on the applicable three-year period of the most recent load impact protocol studies after any Energy Division adjustments.

10. [66] The central buyers should include dispatch rights in their solicitations ~~as an optional term that bidders are encouraged to include~~. **The long-term objective is to have the distribution utility, acting as the distribution system operator, dispatch and financially settle the local RA products during contingency events that require dispatch optimization within the applicable load pocket separately from the overall system optimization.**

13. [67] To guide the selection of local resources, the central buyers should evaluate resources using the least-cost best-fit methodology and including the following criteria: (1) future needs in local and sub-local areas, (2) local effectiveness factors, (3) resource costs, (4) operational characteristics of the resources, (5) location of the facility, (6) costs of potential alternatives, ~~and~~ (7) greenhouse gas adders, **and (8) impact on disadvantaged communities.**

[NEW] Publication of all prices, quantities and contract terms and conditions of all approved contracts is the ultimate goal.

[NEW] Senate Bill 1136 (Hertzberg), recently passed by the Legislature and signed by the Governor mandates the development of nongenerating and hybrid resources to phase out the nearly exclusive reliance on large central fossil fired generation for local capacity RA requirements. No record of how to accomplish this transformation exists in this

proceeding. However, this transformation needs to be explicitly acknowledged and steps taken in this proceeding to allow this transformation to take place expeditiously.

PROPOSED ORDERING PARAGRAPHS:

2. [69] The central buyer shall engage in **full** procurement of **additional** local resources within their respective distribution service areas **after inclusion of local resources procured by LSEs in their local area.**

7. [69-70] The central buyers shall conduct a transparent, competitive, all-source solicitation for multi-year local resource adequacy (RA) procurement with the following requirements:

- (a) Any existing local resource that does not have a contract, any new local **preferred** resource that can be brought online in time to meet solicitation requirements, or any load serving entity (LSE) or third-party with an existing local RA contract may bid into the solicitation **and receive value and contract length equivalent to that received by the marginal supplier in solicitation.**
- (b) If an LSE-procured local resource is not selected by the central buyer, the local resource may still count towards the LSE's **local**, system or flexible RA obligations, if applicable.
- (c) RA attributes shall remain bundled and LSEs shall receive credits for any system or flexible capacity procured during the local RA or backstop processes, based on coincident load shares, as is currently done with Cost Allocation Mechanism (CAM) resources.
- (d) CAM resources and local Demand Response (DR) resources shall reduce the local RA amount that the central buyer must procure.
- (e) The distribution utilities shall bid their own resources into the solicitation process at their levelized fixed costs.
- (f) The central buyers shall include dispatch rights in their solicitations **as an optional term that bidders are encouraged to include. The long-term objective is to have the distribution utility, acting as the distribution system operator, dispatch and financially settle the local RA products during contingency events that require dispatch optimization within the applicable load pocket separately from the overall system optimization.**

8. [70] Local Demand Response (DR) resources **are allowed to hybridize with storage resources and** shall be counted **together** based on the applicable three-year period of the most recent load impact protocol studies after any Energy Division adjustments, ~~as is the current practice~~ for determining the qualifying capacity value of DR resources on a one-year ahead timeframe.

9. [70] A proposal to require the central buyers to procure dispatch rights along with the local resource adequacy (RA) products is not adopted at this time. The central buyers are strongly encouraged to procure dispatch rights along with the RA capacity whenever doing so is in the financial interest of all ratepayers. **The long-term objective is to have the distribution utility, acting as the distribution system operator, dispatch and financially settle the local RA products during contingency events that require dispatch optimization within the applicable load pocket separate from the overall system optimization.**

10. [70-71] To guide the selection of local resources by the central buyers, the central buyers shall evaluate resources using the least-cost best-fit methodology, as adopted in Decision 04-07-029. The least-cost best-fit methodology employed shall include the following selection criteria:

- (a) Future needs in local and sub-local areas;
- (b) Local effectiveness factors, as published in the California Independent System Operator's Local Capacity Requirement Technical Studies;
- (c) Resource costs;
- (d) Operational characteristics of the resources (efficiency, age, flexibility, facility type);
- (e) Location of the facility (with consideration for environmental justice);
- (f) Costs of potential alternatives; **and**
- (g) Greenhouse Gas adders; **and**
- (h) Impact on renewable curtailment caused by pre-contingency dispatch.**

22. [74] Early each calendar year, Energy Division shall post a summary list of the resources listed on each LSE's monthly resource adequacy plans for the previous year. The disclosed information shall include scheduling resource ID, **assigned NQC**, scheduling coordinator ID or counterparty, zonal location, and local area (if applicable).