

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



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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

R.17-09-020

**JOINT MOTION OF CALIFORNIA COMMUNITY CHOICE ASSOCIATION, CALPINE CORPORATION, INDEPENDENT ENERGY PRODUCERS ASSOCIATION, MIDDLE RIVER POWER, LLC, NRG ENERGY, INC., SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E), SHELL ENERGY NORTH AMERICA (US) L.P., AND WESTERN POWER TRADING FORUM FOR ADOPTION OF A SETTLEMENT AGREEMENT FOR A
“RESIDUAL” CENTRAL PROCUREMENT ENTITY STRUCTURE FOR RESOURCE ADEQUACY**

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Date: August 30, 2019

**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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In accordance with Article 12 of the Commission’s Rules of Practice and Procedure, California Community Choice Association, Calpine Corporation, Independent Energy Producers Association, Middle River Power, LLC, NRG Energy, Inc., San Diego Gas & Electric Company, Shell Energy North America (US) L.P., and the Western Power Trading Forum (together, the “Settling Parties”) file this joint motion for adoption of the “Settlement Agreement” attached hereto as Attachment A.¹ The Settlement Agreement establishes a residual central buyer structure to

¹ Counsel to CalCCA is authorized to sign this Joint Motion on behalf of each of the Settling Parties.

resolve issues respecting central procurement of Resource Adequacy (“RA”) under the multi-year forward procurement structure adopted in D.19-02-022 (February 21, 2019).

In accordance with the construct proposed in the Settlement Agreement, the Resource Adequacy-Central Procurement Entity (“RA-CPE”) will assume a “default” role in procuring local, system and flexible RA capacity to meet the residual of a three-year forward procurement obligation that is not met by individual LSEs.

The Settlement Agreement adopts a “residual” RA-CPE structure to enable load-serving entities (“LSE”), at their option, to continue to procure RA resources to meet their share of a collective RA procurement obligation. The RA-CPE will be responsible for the residual RA procurement obligation after RA resources are “shown” by LSEs to the RA-CPE. The Settling Parties request that the Commission adopt the residual central buyer structure described in the Settlement Agreement as the policy of the Commission, which may be refined over time.

If adopted, the Settlement Agreement will advance the Commission’s stated preference for a central buyer framework, reduce the need for California Independent System Operator (“CAISO”) backstop procurement, preserve LSE self-procurement autonomy, maintain and enhance a liquid and robust bilateral capacity market, and preserve a meaningful role for the State in ensuring reliability. A detailed description of the terms and conditions of the Settlement Agreement is provided in Section II.F. below.

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I. BACKGROUND

In D.18-06-030 (June 21, 2018) (“Track 1 Decision”), the Commission concluded that a central buyer structure for multi-year local RA procurement should be implemented. In its Track 1 Decision, the Commission directed parties to propose central buyer structures for multi-year local RA in a separate track (Track 2) of the proceeding. Track 1 Decision at p. 54, Ordering Paragraph No. 11.

In D.19-02-022 (“Track 2 Decision”), the Commission considered multiple proposed central buyer solutions, but elected to delay implementation of a central buyer structure to allow additional time for a series of workshops to be held to identify workable central buyer and central procurement structure proposals. The Commission directed parties to conduct a minimum of three workshops over a six-month period to “identify workable central buyer and central procurement structure proposals.” Track 2 Decision at p. 45, Ordering Paragraph No. 3.

The Track 2 Decision provided that a “workable implementation solution” for the central procurement of multi-year local RA must include, but is not limited to, the identity of a viable central buyer, the scope of procurement (e.g., full, residual), implementable cost allocation mechanism (e.g., how costs will be tracked and recovered), oversight mechanisms, other procurement details (e.g., resources to be included, selection criteria), market power mitigation tools, and necessary modifications to the RA timeline. Track 2 Decision at p. 45, Ordering Paragraph No. 4. The Track 2 Decision further provided that a workable implementation solution shall specifically address “known challenges” to the local RA program, including (1) costly out-of-market RA procurement due to local procurement deficiencies, (2) load migration and equitable allocation of costs to all customers, (3) cost effective and efficient coordinated procurement, (4) treatment of existing local RA contracts, (5) opportunity for and investment in

procurement of local preferred resources, and (6) retention of California’s jurisdiction over procurement of preferred resources. Id. at p. 45, Ordering Paragraph No. 5.

In accordance with the Commission’s directive, three stakeholder workshops were held in April and May 2019 to consider issues related to central buyer and central procurement structure proposals. At the conclusion of each workshop, a draft workshop report was circulated by the workshop facilitator. Final workshop reports were submitted on July 17, 2019. Comments on the workshop reports revealed that progress was achieved toward a better understanding of potential workable central buyer solutions. No consensus was reached, however, as to a single, preferred central buyer solution.

Based on the foundation established through the workshop process, the Settling Parties met several times to discuss a possible central buyer structure to satisfy the policy goals identified by the Commission and developed in greater detail by the workshop participants. The Settling Parties reached agreement on a “residual” central buyer structure that provides the opportunity for LSEs to continue to meet all or a portion of their own local, system and flexible capacity requirements, while providing a RA-CPE with responsibility for ensuring that the collective RA procurement requirement is satisfied on a three-year forward basis in lieu of individual LSEs bearing that requirement.

The Settling Parties believe that the Settlement Agreement’s agreed upon residual central buyer structure satisfies the criteria established by the Commission for a workable implementation solution. With the exception of identifying a central buyer, the Settlement Agreement resolves the issues highlighted in the Track 2 Decision: the scope of procurement by a central buyer; an implementable cost allocation mechanism; Commission oversight mechanisms; procurement details; market power mitigation tools; and necessary modifications to the RA timeline. The

Settlement Agreement establishes a residual central buyer structure as the Commission's policy, subject to future refinement. The Settling Parties believe that the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

II. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE ENTIRE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST

Rule 12.1(d) states that the Commission will not approve a settlement "unless the settlement is reasonable in light of the whole record, is consistent with law, and in the public interest." As discussed below, the Settlement Agreement meets these criteria. The Commission has consistently recognized public policy favoring the settlement of disputes to avoid costly and protracted litigation. See D.11-05-018 (May 5, 2011) at pp. 16-17. This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results. Id.

Moreover, in assessing settlements the Commission evaluates the entire agreement, and not just its individual parts:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.

Id.

The Settlement Agreement reflects an integrated resolution that advances the Commission's stated preference for a central buyer framework. The Settlement Agreement reflects a compromise among parties of diverse interests and positions. The Settlement Agreement is an indivisible package of compromises on key issues, the result of which is a workable structure that preserves individual LSE procurement autonomy while ensuring that reliability needs are met on a three-year forward basis. As is described in the sections below, the Settlement Agreement will reduce the

need for CAISO backstop procurement, maintain and enhance a liquid and robust bilateral capacity market, and preserve a meaningful role for the State in ensuring reliability. The Settling Parties urge the Commission to adopt the Settlement Agreement.

A. The Settlement Agreement Provides a Comprehensive Plan to Meet the Objectives Identified in the Track 2 Decision

The Settlement Agreement achieves a “workable implementation solution” for central procurement of RA on a “residual” basis. The “workable implementation solution” adopted in the Settlement Agreement includes the “scope of procurement” (residual, as described below); a detailed cost allocation mechanism; Commission oversight mechanisms; procurement details, including the resources to be included and selection criteria; market power mitigation tools; and necessary modifications to the RA timeline. See Track 2 Decision at p. 45. With the exception of the “identity of the central buyer,” the Settlement Agreement addresses all of these issues, as described below.

The Settlement Agreement also addresses “known challenges” to the local RA program, as directed in the Track 2 Decision. The Settlement Agreement addresses “(1) costly out-of-market RA procurement due to local procurement deficiencies, (2) load migration and equitable allocation of costs to all customers, (3) cost effective and efficient coordinated procurement, (4) treatment of existing local RA contracts, (5) opportunity for and investment in procurement of local preferred resources, and (6) retention of California’s jurisdiction over procurement of preferred resources.” Id. The Settlement Agreement addresses all of these issues through adoption of a comprehensive residual central buyer structure.

Specifically, the Settlement Agreement:

- ✓ Provides for “cost effective and efficient coordinated procurement” by:
 - centralizing the residual RA procurement obligation in the RA-CPE; and

- providing a timeline and a process through which the RA-CPE will procure resources to meet the residual RA requirement.
- ✓ Ensures against “costly out-of-market RA procurement” by:
 - requiring the RA-CPE to procure resources on a least cost basis at prices no greater than (or not unreasonably in excess of) the CAISO Soft Offer Cap (on an annualized basis) until the residual requirement is met; and
 - providing the RA-CPE with an opportunity to cure any procurement deficiency that remains after it has shown its procured resources to the Commission, the CAISO and the Energy Commission, thereby removing the need for CAISO backstop procurement.
- ✓ Provides an ex post cost allocation approach to address load migration, thus equitably distributing the RA-CPE’s RA procurement costs based on cost causation.
- ✓ Requires the RA-CPE to be independent and “revenue neutral.”
- ✓ Provides for a residual procurement model, thereby preserving LSE RA procurement options and preserving existing local RA contracts.
- ✓ Retains California’s jurisdiction over procurement of preferred resources and facilitates LSEs’ ability to “invest[] in procurement of local preferred resources” to meet the tailored needs of customers in a local area, and/or to meet customers’ low carbon goals.
- ✓ Provides the opportunity for individual LSEs to select the resources used to provide reliability for their own customers.
- ✓ By limiting RA-CPE procurement to three-year terms, the Settlement Agreement encourages individual LSEs to enter into contracts with generation resources for terms longer than 3 years, thereby encouraging investment in new resources.
- ✓ Eliminates the need for individual LSEs to make monthly RA showings, and the need for the Commission to impose penalties and/or waivers on individual LSEs.
- ✓ Expands the three-year forward procurement obligation to include system and

flexible RA capacity, as well as local RA capacity. The Settlement Agreement also increases the third year forward (Year n-3) procurement requirement for local RA from 50 to 75 percent.

Through these provisions, the Settlement Agreement provides a comprehensive structure for centralized procurement of RA on a residual basis.

B. The Settlement Agreement is Reasonable in Light of the Record

The Settling Parties participated in numerous settlement negotiation sessions to consider the positions advanced by parties in the three workshops conducted in compliance with the Track 2 Decision. Throughout these sessions the parties worked collaboratively to achieve a common understanding of the range of issues in dispute, the various options for narrowing the number of disputed issues, and opportunities to develop compromise positions that would permit resolution of the disputed issues.

The Settlement Agreement is a product of these intense settlement efforts. The specific outcomes on the issues covered by the Settlement Agreement are within the range of positions and outcomes presented by the parties during the post-Track 2 Decision workshops (and in the comments leading up to the Track 2 Decision). The number of interested parties involved in these negotiations, and the diversity of representation among the parties participating in the discussions, helped to ensure that the interests of LSEs, ratepayers, generators and other stakeholders were fully represented.

C. The Settlement Agreement is Consistent with Law

In agreeing to the terms of the Settlement Agreement, the Settling Parties considered relevant statutes, Commission decisions, and practical implementation issues. In particular, the Settlement Agreement is consistent with the provisions of Public Utilities Code section 380(i), which authorizes the Commission to consider a centralized resource adequacy mechanism. The

RA-CPE will conduct collective procurement in lieu of the individual LSE's procurement responsibilities under section 380(a), (c), (d), and (e). The Settling Parties believe that the Settlement Agreement is fully consistent with relevant statutes, Commission decisions, and public policy.

D. The Settlement Agreement is in the Public Interest

The Commission has determined that a settlement that “commands broad support among participants fairly reflective of the affected interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” meets the “public interest” criterion. See D.10-06-015 (June 3, 2010) at pp. 11-12. Here, many of the active parties in Track 2 of this proceeding have joined this motion and have signed the attached Settlement Agreement indicating that they believe the Settlement Agreement represents a reasonable compromise of their respective positions.

The Settlement Agreement represents agreement among many, but not all, of the parties that have actively participated in Track 2, including parties actively engaged in the workshop process. Through the negotiation process, the Settling Parties were able to identify preferred outcomes that, if adopted, represent an acceptable resolution.

The range of interests represented by the Settling Parties should provide the Commission with confidence, as the Settling Parties include one of the affected investor-owned utilities (“IOUs”), representatives of Community Choice Aggregators (“CCAs”), representatives of Energy Service Providers (“ESPs”), and representatives of renewable and gas-fired generators. If adopted by the Commission, the Settlement Agreement will avoid the cost of further litigation, and free up Commission resources for other proceedings.

E. The Settlement Agreement is Reasonable and Should be Adopted without Modification

Although each provision of the Settlement Agreement is discussed separately in the “summary” below, the Settlement Agreement is presented as a whole, and each provision is dependent on other provisions of the Agreement. Thus, the Settling Parties request that the Settlement Agreement be reviewed and adopted as a whole. Modification of any one part of the Settlement Agreement would harm the balance of interests and compromises achieved among the Settling Parties.

The various provisions of the Settlement Agreement reflect specific compromises among litigation positions and differing interests; in some instances the proposed outcome reflects a party’s concession on one issue in consideration for the outcome provided on a different issue. As described further in the following section, the proposed outcome on each issue is reasonable in light of the entire record. Accordingly, the Commission should consider and approve the Settlement Agreement as a whole, with no modification.

F. Summary of the Settlement Agreement’s Agreed Upon Residual Central Buyer Structure

The Settling Parties seek Commission approval of the terms set forth in the attached Settlement Agreement, as summarized below.²

1. Role of the Resource Adequacy Central Procurement Entity (RA-CPE)

The Settlement Agreement provides that the RA-CPE will assume a “default” role in planning and ensuring reliability, in coordination with the CAISO and this Commission, on a multi-year basis in the service territories of the IOUs. This means that the RA-CPE will undertake procurement of collective residual RA needs in lieu of LSEs’ RA procurement requirements, but individual LSEs may voluntarily procure RA capacity for any portion of their share of the overall RA requirement. The RA-CPE will be responsible for “residual” RA

² If there is an inconsistency or a conflict between a term in the Settlement Agreement and a term described in this “summary” section, the term in the Settlement Agreement prevails.

procurement to meet the “Collective RA Requirement.”

The RA-CPE will assume responsibility in 2021 for the 2022 RA year. In implementing the centralized procurement mechanism, the RA-CPE will assume a “Collective RA Requirement,” defined as all RA Capacity required for a period to ensure that aggregate System, Local and Flexible RA requirements, net of RA Capacity allocated through the Cost Allocation Mechanism (“CAM”) or other direct allocation mechanisms administered by the Commission.

The RA-CPE will be solely responsible to ensure the procurement of the Collective RA Requirement after LSEs have shown their procured RA capacity to the RA-CPE. On this basis, the RA-CPE serves as the procurer of “residual” Local, System and Flexible RA for the three-year forward period. The RA-CPE will exercise its authority, to the greatest extent possible, to mitigate the need for CAISO backstop procurement.

Although the Settlement Agreement does not identify or designate the RA-CPE, the Settlement Agreement provides that the RA-CPE will be a competitively neutral, independent, and creditworthy entity. The RA-CPE will coordinate with the Commission, the Energy Commission and the CAISO as provided in the Settlement Agreement.

2. Scope of RA-CPE Responsibility

The Settlement Agreement provides that the RA-CPE will annually procure the “Residual RA Requirement,” which is the RA-CPE’s Collective RA Requirement multiplied by the applicable percentage (see Table 1 below) for the year and the type of RA capacity. The RA-CPE must ensure annually, on a rolling three-year basis, that the aggregate of “Shown RA” (the RA Capacity shown by an LSE to the RA-CPE) and “RA-CPE-Procured Capacity” (RA Capacity for a particular delivery period that is deemed to have been procured by the RA-CPE) meets, but does not materially exceed, the following percentage of the Collective RA Requirement:

Table 1

Percentage of Collective RA Requirements Requirement Procured on a Multi-Year Basis

	Year n-1	Year n-2	Year n-3
System RA	100%	75%	50%
Local RA	100%	100%	75%
Flex RA	100%	75%	50%

The RA-CPE will procure all the RA Capacity (System, Local and Flexible Capacity) needed to meet the Residual RA Requirement, except and only to the extent it determines that insufficient resources meeting the RA-CPE’s procurement criteria were available at prices at (or not unreasonably in excess of) the “Soft Offer Cap,” which is the offer cap applicable to CAISO backstop procurement under the Capacity Procurement Mechanism (“CPM”) or its successor mechanism, as set forth in the CAISO tariff. The RA-CPE will procure RA-only capacity products and any maximum import capability (“MIC”) rights needed to meet the Residual RA Requirement through an annual “pay as bid” request for offer (“RFO”) process consistent with an agreed “Timeline” that is attached to and incorporated in the Settlement Agreement.

The Settlement Agreement provides that new and existing resources may participate in the RFO, subject to the terms and conditions of the Settlement Agreement. Among other issues, the RA-CPE will work with the CAISO and the Commission to identify, and will procure, a portfolio of eligible effective resources from the resources bid into the RFO that will minimize the need for CAISO backstop, meet the reliability requirements set by the North American Electric Reliability Corporation (“NERC”), the Western Electricity Coordinating Council (“WECC”), and the CAISO, and meet the Residual RA Requirement at the least cost, taking into account factors set forth in the Settlement Agreement.

Resources eligible to participate in the RA-CPE's annual RFO will be those that appear on the CAISO's Net Qualifying Capacity ("NQC") list or Effective Flexible Capacity ("EFC") list, as well as any additional "New Eligible RA Resources" that have been included on a separate list of Eligible RA Resources provided by the CAISO at the time the NQC list is published. Sellers may offer and the RA-CPE may procure RA Capacity from a resource at different monthly prices for different terms. The RA Capacity procured by the RA-CPE will be subject to all CAISO tariff provisions for RA Capacity as well as applicable Commission-approved criteria.

The RA-CPE may contract for RA products for a term of not more than three years. The RA-CPE will conduct least-cost procurement of eligible resources and thus will accept all offers at or below the Soft Offer Cap until the Residual RA Requirement has been met for each month of the delivery period. The Soft Offer Cap shall be applied on an annual basis (i.e., prices may be higher or lower than the Soft Offer Cap for individual months). The RA-CPE may procure RA Capacity at a price above the Soft Offer Cap when it deems the price to be reasonable and consistent with Commission-approved criteria, as described in the Settlement Agreement.

3. RA-CPE's Annual Showing to the Commission, the Energy Commission and the CAISO

The Settlement Agreement provides that once the RA-CPE has completed its annual procurement, all LSE "Shown RA" and RA-CPE-Procured Capacity will be shown to the Commission, the CAISO and the Energy Commission through a process to be defined through implementation. The RA-CPE's annual showing will reflect each of the twelve months of each delivery year to meet the Collective RA Requirement. Neither the RA-CPE nor LSEs will make month-ahead showings because the RA-CPE will ensure all monthly Residual RA Requirements are fulfilled in the year-ahead showing.

Following the RA-CPE showing, the CAISO will identify any collective RA Capacity deficiency for the upcoming year. Upon the CAISO's identification of a collective RA deficiency, the RA-CPE will use commercially reasonable efforts to procure additional RA capacity to eliminate the deficiency prior to the CAISO conducting backstop procurement, in accordance with the Timeline. Any deficiency not procured by the RA-CPE will be referred to the CAISO for potential backstop procurement.

Following its annual showing to the Commission and the CAISO, and following the RA-CPE's cure of any deficiency identified by the CAISO, the RA-CPE will provide the following information to each LSE:

- The weighted average price at which the RA-CPE procured each type of RA Capacity by delivery year and, if applicable, by location;
- The LSE's estimated Cost Responsibility for each delivery year; and
- The LSE's "Share of RA-CPE-Procured Capacity," which will be calculated as the cumulative MW of RA Capacity actually procured by the RA-CPE for delivery Year "n" multiplied by the "LSE's Residual," which is: (a) the LSE's forecast share of the Current Collective RA Requirement less its cumulative Shown RA; divided by (b) the Collective RA Requirement less all Shown RA.

4. Role of Individual LSEs

In establishing the RA-CPE's responsibilities for procuring the collective residual RA requirement in lieu of individual LSEs' procurement requirements, the Settlement Agreement provides that LSEs will no longer have individual procurement compliance requirements for RA Capacity. LSEs may voluntarily procure RA Capacity for any portion of their share of the Collective RA Requirement prior to the RA-CPE conducting an RFO to meet the Residual RA Requirement. There will no longer be a need for monthly showings. An LSE may annually show RA Capacity to the RA-CPE for each month of a delivery year according to the agreed

upon Timeline. LSE showings will be credited against their RA-CPE Cost Responsibility, on a MW-for-MW basis.

An LSE may cumulatively show in any year for each delivery year RA Capacity up to 100 percent of its share of the most recent forecast of the Collective RA Requirement for delivery Year “n” less its share of RA-CPE-Procured Capacity for Year “n.” LSEs may offer for sale any portion of their MIC allocation not used for Shown RA to the RA-CPE in its annual RFO process. In addition, an LSE may adjust its cumulative amount of Shown RA consistent with principles set forth in the Settlement Agreement.

5. Roles of the Commission, Energy Commission and CAISO

The Settlement Agreement provides that the RA-CPE will rely on the expertise of the CAISO, the Energy Commission, and the Commission regarding the need for RA Capacity. The Settlement Agreement establishes the following responsibilities for the Commission, the Energy Commission and the CAISO:

- The CEC will continue to develop load forecasts that will be used by the Commission to establish the Collective RA Requirement and determine individual LSE shares of the Collective RA Requirement for purposes of annual showings.
- The Commission will provide to each LSE an estimate of its individual share of the Collective RA Requirement consistent with the agreed upon Timeline.
- The Commission will continue to establish, in coordination with the CAISO, eligibility criteria for RA Capacity.
- In R.16-02-007 or a subsequent integrated resource planning (“IRP”) rulemaking, the Commission, in coordination with the Energy Commission and the CAISO, will develop a process for planning for the development of new RA resources needed for reliability.
- The CAISO will provide a list of essential reliability resources and a forecast of effectiveness factors for all resources within local capacity areas and sub-areas consistent with the agreed upon Timeline.

- The CAISO will provide a three-year allocation of MIC to LSEs, subject to CAISO-defined allocation rules, on a timeline that enables the allocation prior to the date an LSE must submit Shown RA to the RA-CPE.

6. RA-CPE Cost Allocation

Cost allocation reflects the general principle of cost causation. The agreed-upon cost allocation methodology for allocation of an individual LSE's share of RA-CPE-Procured Capacity is set forth in detail in the Settlement Agreement. In general, the Settlement Agreement provides that an LSE's "Billing Share" of RA-CPE-Procured Capacity for System and Flexible RA (the MW share of RA-CPE Procured RA attributed to an LSE for billing purposes) will be calculated monthly. An LSE's Billing Share of RA-CPE-Procured Capacity for Local RA (for each Local RA area) will be calculated monthly for January through October. An LSE's share of costs for the procurement of a type of RA-CPE-Procured Capacity will equal its Billing Share of RA-CPE-Procured Capacity MW multiplied by the total cost paid by the RA-CPE to suppliers for RA Capacity delivered for that month of procuring that type of RA Capacity for a particular delivery period and, if applicable, in a particular geographic area.

The Settlement Agreement provides that cost allocation must leave the RA-CPE "revenue neutral." The RA-CPE will bill the allocated costs to each LSE monthly in arrears. Payments will be assured using agreed upon creditworthiness requirements. The LSE will allocate its total RA-CPE cost to its customers as a part of the generation rate. For CCAs, these costs will be identified by the CCA and recovered by the IOU through a customer's monthly bill. The LSE will be responsible for balancing resulting over/under-collections throughout the year and adjusting generation rates as necessary.

If the RA-CPE fails to procure the Residual Requirement, any costs incurred by the CAISO to cure the deficiency and charged to the RA-CPE will be allocated to LSEs. If the RA-

CPE has procured the full Residual RA Requirement and the CAISO thereafter finds a collective deficiency, the costs of RA-CPE procurement, if any, in response to the CAISO's finding will be allocated to all LSEs in proportion to their shares of the Collective RA Requirement for the type of RA Capacity that was deficient.

The Settlement Agreement provides that RA-CPE formation costs, if any, will be debt financed and recovered over a ten-year period from all LSEs on an annual basis with each year's charge based on the LSE's actual System RA load share for the prior year. Ongoing administrative costs will be allocated to LSEs through a two-part allocation factor as described in detail in the Settlement Agreement.

7. Transparency

The Settlement Agreement provides that the RA-CPE will publicly report in detail all formation and annual administrative costs. RA-CPE solicitations will be publicly noticed and available and will clearly and specifically define products and volumes needed to meet the Residual RA Requirement.

The Settlement Agreement also provides that the RA-CPE will confidentially report specific prices to the Commission following the conclusion of its annual solicitation; the Commission will report publicly the average price for all products and months procured, aggregating in local RA areas or subareas where the RA-CPE procured from fewer than three sellers to prevent disclosure of individual resource price information. The RA-CPE will report the monthly volume of procurement by product and local area in absolute volumes and relative to forecast load shares following its annual solicitation. The RA-CPE report will explicitly identify import volumes. The RA-CPE also will publish actual volumes required annually on an ex post facto basis. Finally, the RA-CPE will utilize bid templates and pro forma contracts developed by the RA-CPE in consultation with the Commission and market participants.

8. Program Review

The Settlement Agreement provides that in coordination with the CAISO and the Energy Commission, the Commission will review the continuing need for the RA-CPE not later than five years following the first delivery period for the RA-CPE, with an interim assessment of effectiveness performed by the Commission not later than two years following the first delivery period of RA capacity procured by the RA-CPE.

G. General Terms and Conditions of the Settlement Agreement

The Settlement Agreement includes additional terms and conditions beyond the specific provisions addressing the residual central buyer structure. These additional terms and conditions include (but are not limited to) the following:

1. Term

The Term of the Settlement Agreement extends from the date of signing until the date of the Commission's issuance of a final, non-appealable decision addressing the Settlement Agreement, unless otherwise unanimously agreed in writing by all Settling Parties. If the Commission does not issue a decision addressing the Settlement Agreement by March 31, 2020, the Settlement Agreement will terminate unless extended by unanimous agreement in writing by all Settling Parties.

This "Term" provision recognizes the Commission's stated intention, in the Track 2 Decision, to issue a decision on the details of a central buyer structure by the end of 2019. Track 2 Decision at p. 38. The Term is intended to provide the Commission adequate time to review and act on the Settlement Agreement.

2. Residual Central Procurement Structure as Adopted Commission Policy

The Settling Parties intend that the Settlement Agreement, when approved by the

Commission, will establish the residual central buyer structure as the policy of the Commission, as may be refined over time.

3. Effect on Settling Parties

The Settlement Agreement is intended to resolve the issues respecting a central procurement structure for multi-year RA requirements identified in Ordering Paragraphs 4 and 5 of the Track 2 Decision, with the exception of the identity of a “viable central buyer.” The designation of a specific RA-CPE does not alter the commitments made by the Settling Parties through the Settlement Agreement.

4. Advocacy in Other Proceedings and before Other Agencies

The Settling Parties expressly acknowledge that they have advocated for and may continue to advocate for changes to energy policy in other proceedings and before other agencies, and that such changes could have an impact on the issues and protocols agreed upon in this Settlement Agreement. Such advocacy does not alter the commitments made by the Settling Parties through the Settlement Agreement.

5. Integrated Package

The Settlement Agreement is an integrated package. The Settling Parties agree to the Settlement Agreement as a whole rather than specific elements of the Settlement Agreement in isolation. The Settlement Agreement is indivisible and each part is interdependent on each and all other parts.

H. Implementation

Although the Settlement Agreement provides a comprehensive residual central RA procurement structure, the Settlement Agreement describes several areas in which an “implementation” process will be required to establish the precise protocols and rules under

which LSEs and the RA-CPE will operate. For example, the RA-CPE's annual solicitation process, and the criteria to be used for procurement by the RA-CPE, must be developed through an implementation process. Bid templates and pro forma contracts must be developed through an implementation process, as well.

The manner by which the RA-CPE shows procured RA capacity to the Commission, the CAISO and the Energy Commission must be developed through the implementation process. Similarly, the Commission must establish a process for disclosure of aggregated RA-CPE procurement information to the public, and disclosure of LSE-specific cost responsibility information to LSEs on a confidential basis. The Commission also must address a methodology to implement the cost allocation framework. All of these details must be addressed through an implementation process.

The Settling Parties propose that in its Decision approving the Settlement Agreement, the Commission direct the Energy Division to convene a workshop process to address implementation details arising from the Settlement Agreement. The Settling Parties propose that the Commission direct the Energy Division to hold the first implementation workshop no later than 30 days after the effective date of the Commission's Decision.

I. Summary

The Settlement Agreement achieves, with one exception, all the objectives the Commission directed parties to address in the Track 2 Decision. Consistent with Ordering Paragraph Nos. 4 and 5, the Settlement Agreement adopts a "workable implementation solution" for the central procurement of RA on a three-year forward basis. Through this comprehensive structure, the Settlement Agreement addresses the "known challenges" to the local RA program. The Settlement Agreement is reasonable and in the public interest and should be approved in its

entirety.

III. CONCLUSION

As shown herein, the Settlement Agreement is reasonable in light of the entire record, consistent with law, promotes the public interest, and should be approved by the Commission. The Settling Parties request that the Commission approve the Settlement Agreement and direct the Energy Division to initiate an implementation workshop process.

August 30, 2019

Respectfully submitted

A handwritten signature in blue ink that reads "Evelyn Lake". The signature is written in a cursive, flowing style.

Counsel to the California Community Choice
Association

On behalf of the Settling Parties named above

BN 37470763v1

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

Order Instituting Rulemaking to Oversee)	
The Resource Adequacy Program,)	Rulemaking 17-09-020
Consider Program Refinements, and)	(Filed September 28, 2017)
Establish Annual Local and Flexible)	
Procurement Obligations for the 2019 and)	
2020 Compliance Years)	
_____)	

SETTLEMENT AGREEMENT

In accordance with Article 12 of the Rules of Practice and Procedure of the Public Utilities Commission of the State of California (“Commission”), California Community Choice Association, Calpine Corporation, Independent Energy Producers Association, Middle River Power, LLC, NRG Energy, Inc., San Diego Gas & Electric Company (U 902-E), Shell Energy North America (US) L.P., and the Western Power Trading Forum (together, the “Settling Parties”) enter into this Settlement Agreement (“SA”) to advance an agreed upon “residual” central buyer structure for multi-year Resource Adequacy (“RA”) procurement. The justification for Commission approval of the SA is set forth in the *Joint Motion of California Community Choice Association, Calpine Corporation, Independent Energy Producers Association, Middle River Power, LLC, NRG Energy, Inc., San Diego Gas & Electric Company (U 902-E), Shell Energy North America (US) L.P., and the Western Power Trading Forum for Adoption of Settlement Agreement* filed concurrently herewith.

A. GENERAL RECITALS

A.1 In Decision (D.) 18-06-030 (“Track 1 Decision”) issued in the above-referenced proceeding, the Commission concluded that a central buyer structure for multi-year local

RA procurement should be implemented and directed parties to propose central buyer structures for multi-year local RA in a separate track of the proceeding.

A.2 In D.19-02-022 (“Track 2 Decision”), the Commission considered multiple central buyer solutions proposed by parties, but elected to delay implementation of a central buyer structure to allow additional time for a series of workshops to be held to identify workable central buyer and central procurement structure proposals.

A.3 The Track 2 Decision provided that a workable implementation solution for the central procurement of multi-year local RA must include, but is not limited to, the identity of a viable central buyer, the scope of procurement (*e.g.*, full, residual), implementable cost allocation mechanism (*e.g.*, how costs will be tracked and recovered), oversight mechanisms, other procurement details (*e.g.*, resources to be included, selection criteria), market power mitigation tools, and necessary modifications to the RA timeline.

A.4 The Track 2 Decision further provided that a workable implementation solution shall specifically address the known challenges to the local RA program, including (1) costly out-of-market RA procurement due to local procurement deficiencies, (2) load migration and equitable allocation of costs to all customers, (3) cost effective and efficient coordinated procurement, (4) treatment of existing local RA contracts, (5) opportunity for and investment in procurement of local preferred resources, and (6) retention of California’s jurisdiction over procurement of preferred resources.

A.5 In accordance with the direction provided in the Track 2 Decision, stakeholder workshops were held in April and May 2019 to consider issues related to central buyer and central procurement structure proposals.

A.6 The reports filed with the Commission at the conclusion of the workshops reflect progress toward a better understanding of potential workable implementation solutions.

No consensus was reached, however, as to a single, preferred central buyer solution.

A.7 In the Track 2 Decision, the Commission indicated its intent to issue a decision on a Central Buyer framework in the fourth quarter of 2019.

A.8 The Settling Parties believe that the SA's agreed upon residual central buyer structure for multi-year RA satisfies the criteria established by the Commission for a workable implementation solution. The Settling Parties request that the Commission adopt the residual central buyer structure set forth in Section B hereof to resolve the central buyer structure issue in this proceeding.

A.9 The Settling Parties further believe that the SA is reasonable in light of the whole record, consistent with law, and in the public interest. The Settling Parties recognize that there is risk involved in litigation, and that a party's filed position might not prevail, in whole or in part, in the Commission's final determination. The Settling Parties have reached a compromise that they believe is appropriate in light of the litigation risks. This SA reflects the Settling Parties' best judgments as to the totality of their positions and risks, and their agreement herein is explicitly based on the overall results achieved.

B. SETTLEMENT AGREEMENT PROVISIONS

B.1 The terms and conditions agreed to by the parties are set out in the term sheet attached as Appendix A hereto.

C. ADDITIONAL TERMS AND CONDITIONS

C.1 Performance. The Settling Parties agree to perform diligently, and in good faith, all actions required or implied hereunder, including, but not necessarily limited to, the

execution of any other documents required to effectuate the terms of this SA, and the preparation of exhibits for, and presentation of witnesses at, any required hearings to obtain the approval and adoption of this SA by the Commission. Except as set forth in Section C.9 of this SA, no Settling Party, during the Term as provided in Section C.3, will contest in this proceeding, or in any other forum, or in any manner before this Commission, the recommendations contained in this SA. It is understood by the Settling Parties that time is of the essence in obtaining the Commission's approval of this SA and that all Settling Parties will extend their best efforts to ensure its adoption.

C.2 Signature Date. This Agreement shall become binding as of the last signature date of the Settling Parties.

C.3 Term. The Settling Parties, collectively and individually, will be bound by the terms and conditions of this SA until the Commission's issuance of a final, non-appealable decision addressing the SA, unless otherwise unanimously agreed in writing by all Settling Parties. If the Commission does not issue a decision addressing the SA by March 31, 2020, the SA will terminate unless extended by unanimous agreement in writing by all Settling Parties.

C.4 Not an Admission or Concession: Because this SA represents a compromise of each of the Settling Parties' individual and respective litigation positions, the Settling Parties have entered into this SA on the basis that its approval by the Commission should not be construed as an admission or concession by any party regarding any fact or matter of law.

C.5 Residual Central Procurement Structure as Adopted Commission Policy: The Settling Parties intend that the SA, when approved by the Commission, will establish a

residual central buyer structure as the policy of the Commission, as may be refined over time.

C.6 Binding Effect on Settling Parties: The Settlement Agreement is intended to address and resolve the issues respecting a central procurement structure for multi-year RA requirements identified in Ordering Paragraphs 4 and 5 of the Track 2 Decision, with the exception of the identity of a “viable central buyer.” As to the issues resolved by the Settlement Agreement, the Settlement Agreement is binding on the Settling Parties for the Term of the Settlement Agreement as provided in Section C.3 of this SA.

C.7 Identity of the “Central Buyer”: The SA does not address the identity of the “central buyer” referenced in Ordering Paragraph No. 4 of the Track 2 Decision. If any Settling Party does not agree with the decision designating a central buyer (issued by the Commission or by some other entity with authority), the Settling Party nevertheless agrees to continue to support the SA for the Term of the SA.

C.8 Advocacy in Other Proceedings and Agencies: The Settling Parties expressly acknowledge that they have advocated for and may continue to advocate for changes to energy policy in other proceedings and before other agencies, and that such changes could have an impact on the issues and protocols agreed upon in this SA (e.g., changes to the CAISO’s CPM). Except as provided in Sections C.1 and C.3, nothing in this SA is intended to limit any such advocacy efforts.

C.9 Integrated Package: The SA is an integrated package. The Settling Parties agree to the SA as a whole rather than agree to specific elements of the SA in isolation. No individual term of this SA is assented to by any Settling Party, except in consideration of the other Settling Parties’ assents to all other terms. Thus, the SA is indivisible and each

part is interdependent on each and all other parts. If the Commission or any court of competent jurisdiction rejects, modifies, deletes from or adds to any substantive portion of this SA, in a final, non-appealable decision, each Settling Party has the right to advocate any position in this and any other proceeding, even if inconsistent with the SA.

C.10 No Reliance. No Settling Party has relied upon or presently relies upon any statement, promise, or representation by any other Settling Party, whether oral or written, except as specifically set forth in this SA. Each Settling Party expressly assumes the risk of any mistake of law or fact made by such party or its authorized representatives in agreeing to this SA.

C.11 Entire Agreement: This SA constitutes the entire agreement among the Settling Parties and supersedes all prior and contemporaneous agreements, negotiations, representations, warranties, and understandings of the Settling Parties with respect to the subject matter set forth herein. The terms and conditions of this SA may only be modified in a writing subscribed by all Settling Parties.

C.12 Non-Waiver. None of the provisions of this SA shall be considered waived by any Settling Party unless such waiver is provided in writing. The failure of a Settling Party to insist in any one or more instances upon strict performance of any of the provisions of this SA or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

C.13 Effect of Subject Headings. Subject headings in this SA are inserted for convenience only and shall not be construed as interpretations of the text.

C.14 Governing Law. This SA shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California.

C.15 Counterparts. This SA may be executed in separate counterparts by the different Settling Parties hereto with the same effect as if all Settling Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same SA. The undersigned represent that they are authorized to sign on behalf of the party represented.

**CALIFORNIA COMMUNITY CHOICE
ASSOCIATION**

BY: /s/ Elizabeth Vaughan

ITS: Executive Director

**INDEPENDENT ENERGY PRODUCERS
ASSOCIATION**

BY: /s/ Steven Kelly

ITS: Policy Director

NRG ENERGY, INC.

BY: /s/Sean P. Beatty

ITS: Regional General Counsel, West

**SHELL ENERGY NORTH AMERICA
(US) L.P.**

BY: /s/ John W. Leslie

ITS: Attorney

CALPINE CORPORATION

BY: /s/ Avis Kowalewski

ITS: Authorized Signatory and Vice President,
Governmental and Regulatory Affairs

MIDDLE RIVER POWER, LLC

BY: /s/ Joe Greco

ITS: Senior Vice President

SAN DIEGO GAS & ELECTRIC COMPANY

BY: /s/ Kendall Helm

ITS: Vice President of Customer Operations

WESTERN POWER TRADING FORUM

BY: /s/ Gregory Klatt

ITS: Attorney

APPENDIX A

CENTRAL PROCUREMENT ENTITY FRAMEWORK

TERM SHEET

**RESIDUAL RESOURCE ADEQUACY
CENTRAL PROCUREMENT FRAMEWORK
Term Sheet**

The Resource Adequacy Central Procurement Entity (“RA-CPE”) will assume a default role in ensuring reliability, in coordination with the California Independent System Operator Corporation (“CAISO”) and California Public Utilities Commission (“Commission”), on a multi-year basis in the service territories of the investor-owned utilities (“IOUs”). The RA-CPE will assume responsibility in 2021 for the 2022 Resource Adequacy (“RA”) year.

I. DEFINITIONS

- A. **“Billing Share”** means the share of RA-CPE-Procured Capacity costs attributed to a load-serving entity (LSE) for billing purposes as specified in Appendix B.
- B. **“Collective RA Requirement”** means all RA Capacity required for a delivery period to ensure that aggregate System, Local and Flexible RA requirements inclusive of any planning reserve margin for all jurisdictional LSEs are met.
- C. **“Collective RA Requirement Target”** means the product of Collective RA Requirement and the Target Percentage.
- D. **“Collective Residual RA Requirement”** means the Collective RA Requirement Target for the year and type of capacity as specified in Table 1 of Section III.B., net of Shown RA, and any collective deficiency cured by the RA-CPE.
- E. **“Cost Responsibility”** means the total cost attributed to an LSE for RA-CPE-incurred costs, including formation costs, administrative costs, RA-CPE Procured Capacity costs, cumulative deficiency costs, and collective deficiency costs as specified in Section VII and VIII.
- F. **“New Eligible RA Resources”** means those resources which have credibly demonstrated to the RA-CPE, the CAISO, and the Commission that they will meet the requirements of a resource providing RA Capacity on or before the start of the delivery period for which they are being offered or shown.
- G. **“RA Capacity”** means Local, System, or Flexible RA Capacity, as applicable, as defined by the CAISO Tariff and deemed by the Commission to be Qualifying Capacity pursuant to its rules.
- H. **“RA-CPE-Procured Capacity”** means RA Capacity for a particular delivery period that has been procured by the RA-CPE to meet the Collective Residual RA Requirement.

- I. **“Shown RA”** means RA Capacity procured and shown by an LSE pursuant to Section V.B. or administratively allocated to the LSE (e.g. Cost Allocation Mechanism (CAM) allocation).
- J. **“Soft Offer Cap”** means the offer cap applicable to CAISO backstop procurement under the Capacity Procurement Mechanism (CPM) or its successor mechanism, as set forth in the CAISO Tariff.
- K. **“Target Percentage”** means the percentage of the Collective RA Requirement that must be met for a particular type of RA Capacity and for a particular delivery period, as specified in Table 1 of Section III.B.
- L. **“Timeline”** means the timeline of events for the annual operation of the RA-CPE framework provided as Appendix A.
- M. **“Year n”** means the delivery year for RA Capacity. For example, if the RA Capacity delivery year is 2023 (Year n), then Year n-3 (2020) means the year that is three years prior to the RA Capacity delivery year 2023 (Year n). In this example Year n-2 is 2021 and Year n-1 is 2022.

II. RA-CPE ROLE

- A. The RA-CPE will implement a centralized resource adequacy mechanism under the authority delegated to the Commission pursuant to Public Utilities Code § 380(i) or any subsequently enacted statute conferring such authority.
- B. The RA-CPE, in implementing the centralized procurement mechanism authorized by Public Utilities Code § 380(i) or a subsequently enacted statute, will assume responsibility for meeting the Collective RA Requirement in lieu of the individual LSE compliance requirements contemplated by § 380(a).
- C. The RA-CPE will be solely responsible to ensure the procurement of the Collective RA Requirement and will exercise its authority to the greatest extent possible, consistent with Sections III.B. and III.C.6, to mitigate the need for CAISO backstop procurement.
- D. The RA-CPE will be a competitively neutral, independent, and credit-worthy entity.
- E. The RA-CPE will coordinate with the Commission, the California Energy Commission (“CEC”) and the CAISO as provided herein.

III. RA-CPE SCOPE OF RESPONSIBILITY

- A. The RA-CPE will annually procure the Collective Residual RA Requirement and may also procure any additional RA Capacity that is needed to cure CAISO-identified deficiencies.

- B. The RA-CPE will ensure annually, on a rolling three-year basis, that the aggregate of Shown RA and RA-CPE-Procured Capacity meets but does not materially exceed the following Target Percentages:

Table 1
Target Percentages

Product Type	Showing Year		
	Year n-1	Year n-2	Year n-3
System RA	100%	75%	50%
Local RA	100%	100%	75%
Flex RA	100%	75%	50%

The CPE will procure all the RA Capacity needed to meet the Collective Residual RA Requirement, except and only to the extent it determines that insufficient resources meeting its procurement criteria are available at prices at or reasonably in excess of the Soft Offer Cap.

- C. The RA-CPE will procure RA-only capacity products to meet the Collective Residual RA Requirement through an annual “pay as bid” request for offer (RFO) process consistent with the Timeline.
1. New and existing resources may participate in the RFO subject to the terms and conditions of this agreement.
 2. The RA-CPE will work with the CAISO and the Commission to identify, and will procure, the portfolio of eligible effective resources from the resources bid into the RFO that will:
 - a. Minimize the need for CAISO backstop procurement;
 - b. Meet the reliability requirements set by the North American Electric Reliability Corporation, the Western Electricity Coordinating Council, and the CAISO; and
 - c. Meet the Collective Residual RA Requirement at the least cost, taking into account the following factors: RFO offer prices, terms and conditions; the effectiveness of resources in addressing local area constraints and state energy policy objectives; resource performance characteristics; and other selection criteria developed and periodically reviewed by the Commission through a public process.
 3. Resources eligible to participate in the annual RFO will be those that appear on the CAISO’s Net Qualifying Capacity (NQC) list or Effective Flexible

Capacity (EFC) list, as well as any additional New Eligible RA Resources that have been included on a separate list of New Eligible RA Resources provided by the CAISO at the time the NQC list is published.

4. The RA-CPE may procure any maximum import capability (MIC) rights needed to facilitate the procurement of import RA Capacity.
 5. The RA-CPE may contract for RA products for a term of not more than 3 years.
 6. The RA-CPE will conduct least-cost procurement of eligible resources as provided in Section III.C.2.c. and thus will accept all offers at or below the Soft Offer Cap until the Collective Residual RA Requirement has been met for each month of the delivery period. The Soft Offer Cap shall be applied on an annual basis (*i.e.*, prices may be higher or lower than the Soft Offer Cap for individual months). The RA-CPE may procure RA Capacity at prices above the Soft Offer Cap when it deems reasonable and consistent with Commission-approved criteria, provided the bid is accompanied by a confidential declaration from the seller specifying why a higher price is reasonable (*e.g.*, the resource's actual costs or opportunity costs are higher than the Soft Offer Cap).
- D. Once the RA-CPE has completed its annual procurement, Shown RA and RA-CPE-Procured Capacity will be shown to the Commission, CAISO and CEC in accordance with the Timeline through a process to be defined in implementation.
1. The annual showing process will include Shown RA and RA CPE-Procured Capacity, for all twelve months of each delivery year to meet the Collective RA Requirement Target.
 2. Neither the RA-CPE nor LSEs will make additional month-ahead showings because the RA-CPE will ensure all monthly Collective Residual RA Requirements are fulfilled in the year-ahead showing.
- E. Following the RA-CPE showing, the CAISO will identify any RA-CPE cumulative or a collective deficiency, as those terms are defined in Section VII.B and Section VII.C for the upcoming year and:
1. The RA-CPE will first use commercially reasonable efforts to procure additional RA capacity procurement to eliminate any cumulative or collective deficiency prior to the CAISO conducting backstop procurement.
 2. Any deficiency not procured by the RA-CPE may be procured by the CAISO through its backstop procurement authority.
- F. The RA-CPE will allocate Cost Responsibility for its procurement to LSEs, as provided in Section VII and VIII.

IV. RA-CPE TRANSPARENCY

- A. Following its annual showing to the Commission and CAISO and its cure of any deficiency identified by the CAISO, the RA-CPE will provide the following information to all LSEs and the Commission:
1. The quantity and weighted average price for each type of RA Capacity by delivery year and, if applicable, by local area and sub area;¹
 2. The quantity and cost of RA Capacity procured by the CAISO on behalf of the RA-CPE to address a cumulative and/or collective deficiency;
 3. In detail, all formation and annual administrative costs;
 4. On a confidential, individual LSE basis, the LSE's estimated Cost Responsibility for each delivery period; and
 5. On a confidential, individual LSE basis, the LSE's estimated share of RA-CPE-Procured Capacity: the cumulative MW of RA Capacity actually procured by the RA-CPE for the delivery period multiplied by the LSE's residual ratio. The LSE's residual ratio is (a) the LSE's forecast share of the Collective RA Requirement Target, (b) less its Shown RA, (c) divided by the Collective Residual RA Requirement less any LSE Shown RA in excess of that LSE's share of its Collective RA Requirement Target. An LSE's residual ratio may not be less than zero percent (%).
- B. Monthly, the RA-CPE will report to LSEs the actual quantity and cost deviations from the annual estimates reported pursuant to subsection A.
- C. The RA-CPE will confidentially report to the Commission following the conclusion of its annual solicitation the specific prices paid for each RA Capacity contract the RA-CPE has executed. These prices will be used by the Commission in its annual Resource Adequacy Report.
- D. In March of each year, the RA-CPE will publish actual volumes required to meet the Collective Residual RA Requirement and the Collective RA Requirement Target for the prior year.
- E. RA-CPE solicitations will be publicly noticed and available and will clearly and specifically define products and volumes needed to meet the Collective Residual RA Requirement.
- F. The RA-CPE will utilize bid templates and pro forma contracts developed by the RA-CPE in consultation with the Commission and market participants in a public process.

¹ Price disclosure will be aggregated as necessary to avoid disclosure of market-sensitive information.

V. LOAD-SERVING ENTITY ROLE

- A. Consistent with Section II.B., LSEs will no longer have individual procurement compliance requirements for RA Capacity but may voluntarily procure and show RA Capacity for any portion of their share of the Collective RA Requirement, consistent with Section V.B., prior to the RA-CPE conducting an RFO to meet the Collective Residual RA Requirement.
- B. An LSE may submit Shown RA to the RA-CPE for each month of a delivery year according to the Timeline.
 - 1. An LSE's share of any RA Capacity allocated by the Commission (*e.g.*, CAM capacity) will be deemed to have been shown by the LSE.
 - 2. An LSE's Shown RA will be credited against its share of the Collective RA Requirement Target on a MW-for-MW basis and, for Local RA, by local area or subarea.²
 - 3. An LSE's Shown RA for Year n may not exceed 100% of its share of the Collective RA Requirement Target less its share of RA-CPE-Procured Capacity for Year n, as calculated by the RA-CPE pursuant to Section IV.A.5. and consistent with the Timeline
- C. An LSE may offer into the RA-CPE's annual RFO process any portion of their MIC allocation not being used to support its Shown RA.
- D. All Shown RA is committed to the RA-CPE, subject to the following exceptions:
 - 1. An LSE may substitute resources subject to approval by the RA-CPE in consultation with the CAISO
 - 2. An LSE may bilaterally transact Shown RA with other LSEs.³ The purchasing LSE assumes the rights and obligations to the RA-CPE associated with the purchased Shown RA. LSEs will report any such transactions for Year n annually to the RA-CPE in their RA templates prior to the RA-CPE year-ahead showing; thereafter, any such transactions will

² Crediting for Local Shown RA will not take into account the effectiveness of a resource. Resources do not have a single effectiveness factor, but have different effectiveness with respect to different contingencies. The CAISO does not believe that it can clearly articulate a single ranking of resources with respect to a multiplicity of contingencies. In addition, disaggregation of requirements and crediting to the sub-area should at least partially address concerns about effectiveness. The parties have thus provided for a 1-for-1 credit but provided for a load-share based allocation of resources procured to cure collective deficiencies, as provided in RA-CPE Cost Allocation.

³ The sale of IOU excess RA is being address in R. 17-06-026, Working Group 3.

be reported monthly to the RA-CPE with sufficient notice to permit the RA-CPE to reflect the transaction in the monthly bill.⁴

3. If an LSE's forecast share of the Collective RA Requirement Target declines, an LSE will reduce its Shown RA in its annual showing to a level not greater than its reduced share of the Collective RA Requirement Target, and the excess Shown RA must be either transacted with another LSE or offered to the RA-CPE in its annual RFO.
 4. Solely for *ex post* cost allocation purposes, excess Local Shown RA resulting from a deviation between an LSE's Year n-1 forecast and its actual load may be applied to the LSE's System Shown RA.
- E. Each LSE will bear Cost Responsibility as specified in Section VII and VIII.

VI. CPUC, CEC AND CAISO ROLES

- A. The RA-CPE will rely on the expertise of the CAISO, CEC, and Commission regarding the need for RA Capacity.
- B. The CEC will continue to develop load forecasts that will be used by the Commission to establish the Collective RA Requirement and determine individual LSE shares of the Collective RA Requirement Target for purposes of annual showings.
- C. The Commission will provide to each LSE an estimate of its individual share of the Collective RA Requirement consistent with the Timeline.
- D. The Commission will continue to establish the eligibility criteria for Qualifying Capacity.
- E. The Commission will develop and oversee criteria to be applied by the RA-CPE in its procurement process as provided in Section III.C.2.c.
- F. The Commission will develop and oversee a methodology to implement the cost allocation framework provided in Section VII and VIII.
- G. The CAISO and the Commission will advise the RA-CPE in its procurement process as provided in Section III.
- H. The Commission, in R.16-02-007, or a subsequent integrated resource planning rulemaking, in coordination with the CEC and the CAISO, will develop a process for planning for the development of new RA resources needed for reliability.

⁴ LSEs will only be required to report quantities of Shown RA that have been traded; in no event will LSEs be required to report any price information for traded Shown RA.

- I. The CAISO will provide a list of essential reliability resources and New Eligible RA Resources to the RA-CPE, along with a forecast of effectiveness factors for all such resources within local capacity areas and sub-areas consistent with the Timeline.
- J. The CAISO will provide a three-year allocation of MIC to LSEs, subject to CAISO-defined allocation rules, on a timeline that enables the allocation prior to the date an LSE must submit Shown RA to the RA-CPE.

VII. RA-CPE COST ALLOCATION

A. RA-CPE Procured Capacity Costs

RA-CPE Procured Capacity Costs for each type of RA Capacity for a delivery period will be allocated to each LSE in proportion to the RA Capacity of that type procured on the LSE's behalf. Costs will be allocated on an *ex post* basis based on the difference between the LSE's actual load, scaled to the prior year's forecast of the Collective RA Requirement, and the LSE's Shown RA. The detailed methodology is provided in Appendix B.

B. Cumulative Deficiency Cure Costs

If the RA-CPE fails to procure the full amount of the Collective Residual RA Requirement and thus has a cumulative deficiency, any costs incurred by the CAISO to cure the cumulative deficiency and charged to the RA-CPE will be allocated to LSEs consistent with Appendix B.

C. Collective Deficiency Cure Costs

If the RA-CPE has procured the full Collective Residual RA Requirement and the CAISO thereafter determines that a collective deficiency still remains, then the costs incurred by the RA-CPE for procurement done in response to the CAISO's finding of a collective deficiency will be allocated to all LSEs in proportion to their shares of the Collective RA Requirement.

D. Administrative Costs

1. RA-CPE formation costs, if any, will be debt financed and recovered over a ten-year period from all LSEs on an annual basis with each year's charge based on the LSE's actual System RA load share for the prior year.
2. Ongoing administrative costs will be allocated to LSEs through a two-part allocation factor as follows: (1) 80% based on the LSE's share of actual RA-CPE-Procured Capacity determined consistent with Appendix B), and (2) 20% based on an LSE's actual share of the annual coincident peak for Year n-1.

E. Payment Assurances.

1. Payment to the RA-CPE will be secured by an agreement between the LSE and the RA-CPE, based on creditworthiness and collateral protocols to be

developed by the RA-CPE to ensure a satisfactory RA-CPE credit profile. RA-CPE may deem LSEs with a high probability of incoming migrating load as having a higher potential obligation, requiring higher credit threshold/collateral. LSEs without sufficient creditworthiness will be required to post collateral for the RA-CPE's procurement on its behalf using protocols to be developed, modeled on the CAISO's processes for determining creditworthiness for Scheduling Coordinators.

2. Each LSE agreement will include a provision that, in the event of default by an individual LSE, RA-CPE revenue neutrality shall be maintained through appropriate cost recovery from remaining LSEs in proportion to their share of the Collective RA Requirement. Cost recovery will reflect the LSE's actual outstanding Cost Responsibility, net of collateral received.

VIII. COST RECOVERY

A. RA-CPE Billing.

The RA-CPE will bill the allocated costs to each LSE monthly in arrears. Payments will be assured using creditworthiness requirements discussed in Section VII.

B. LSE Cost Recovery from Customers.

An LSE that recovers its costs through IOU consolidated billing will allocate its total RA-CPE cost to its customers as a part of the generation rate identified by the LSE and recovered by the IOU through a customer's monthly bill. These LSEs will be responsible for balancing resulting over/under-collections throughout the year and adjusting generation rates as necessary.

C. RA-CPE Revenue Neutrality

1. Cost allocation must leave the RA-CPE revenue neutral.
2. To ensure that the RA-CPE is revenue neutral, LSE month-end Cost Responsibility may be negative if an LSE's Shown RA exceeds its share of the Collective RA Requirement.

IX. PROGRAM REVIEW

The Commission, in coordination with the CAISO and CEC, will review the continuing need for the RA-CPE not later than five years following the first delivery period for the RA-CPE, with an interim assessment of effectiveness performed by the Commission not later than two years following the first delivery period of RA Capacity procured by the RA-CPE.

APPENDIX A

CENTRAL PROCUREMENT ENTITY FRAMEWORK

ANNUAL TIMELINE

Residual Resource Adequacy Central Procurement Framework - Procurement Timeline			
No.	Activities	Time Frame	Previous Date
1	IOU to provide new CCA with updated historical load data	CCA dependent	As soon as available, and previous years often not until March 1
2	LSEs submit load forecast for next year to IOUs as part of ERRRA process	February 1, 2021	Same for PG&E, varies for other IOUs
3	IOUs and LSEs meet & confer process kicks off	February 1, 2021	Same
4	IOU and LSEs agree with load forecast to submit to the CEC	February 28, 2021	Same
5	IOU provides update to new CCA previous year's load data for Item 16 & 17	March 1, 2021	Same
6	LSEs submit historic data request of LSE to CEC	March 15, 2021	Same
7	LSEs submit monthly peak load and energy data to CEC	March 15, 2021	Mid-to late April
8	CEC and LSEs meet and confer process kicks off	March 15, 2021	New
9	CEC market call with LSEs to review LSE RA year ahead forecast	May 1, 2021	June 19
10	CAISO Import Allocation Capability & Path 26 process kicks off	May 1, 2021	Varies – May or early June
11	CAISO provides ERR list and effectiveness factors	May 1, 2021	Same
12	CEC preliminary forecast to CPUC & CAISO	May 15, 2021	July 1
13	IOUs launch spring RFOs to sell excess RA	May 20, 2021	Varies
14	Bidders webinar for IOU RFO launch	May 31, 2021	Varies
15	CPUC releases initial RA load share to LSEs (first week of June)	June 7, 2021	July 31
16	CAISO complete steps 1-12 for import RA	June 15, 2021	1 st week of August
17	Deadline to submit bids to IOU RFOs	June 15, 2021	Varies
18	IOUs notify IOU RFO winning participants	June 20, 2021	Varies
19	Winning participants accept IOU RFO award	June 21, 2012	Varies
20	LSEs resubmit load forecast	June 30, 2021	Mid-August
21	CPUC releases final RA load share to LSEs	July 15, 2021	3 rd week of September
22	Execution of contracts between IOUs and bidders	July 31, 2021	Varies
23	IOUs launch RFOs for additional excess RA sales	August 15, 2021	After October 31 deadline
24	LSE showing to RA-CPE	August 31, 2021	New
25	RA-CPE launches solicitation	September 7, 2021	New
26	RA-CPE receives bids	September 15, 2021	New
27	RA-CPE coordinates with CPUC and CAISO to select reliability resources	September 22, 2021	New
28	RA-CPE notifies bidders	September 29, 2021	New
29	RA-CPE executes contracts	October 31, 2021	New
30	RA-CPE makes showing to CPUC/CAISO/CEC	October 31, 2021	New
31	Execution of contracts between IOUs and bidders	October 31, 2021	Varies
32	CAISO RMR contracts, if necessary	October 31, 2021	New
33	CAISO determines deficiency	November 15, 2021	New
34	RA-CPE cures deficiency	November 20, 2021	New
35	CAISO CPM, if necessary	December 15, 2021	New
36	RA-CPE reliability year begins	January 1, 2022	New
37	RA-CPE performs cost allocation for Month "n" for CY	February 1, 2022	New
38	RA-CPE allocated costs appear on customer bills (LSE discretion)	February 28, 2022	New

APPENDIX B

Procurement Cost Allocation Mechanics

Step 1: An LSE's kW share of RA-CPE-Procured Capacity will be determined as the sum of the values calculated in each of the 2 tiers described below (such sum is the "Billing Share"):

1. Tier 1: LSE's Share of RA-CPE-Procured Capacity to Meet the Collective RA Requirement will be calculated as follows:
 - a. *System and Flexible RA:* An LSE's kW share of RA-CPE-Procured Capacity for, respectively, System and Flexible RA will be calculated monthly as:
 - i. The LSE's actual coincident peak load divided by the actual collective coincident peak load for that month; multiplied by
 - ii. The Collective RA Requirement in Year n-1 for each of System and Flexible RA; less
 - iii. Respectively, the LSE's System and Flexible Shown RA for such month.
 - b. *Local RA.* An LSE's kW share of RA-CPE-Procured Capacity for Local RA for each Local RA area or sub-area will be calculated monthly for January through October as:
 - i. The LSE's Year n-1 forecast annual coincident peak load divided by the forecast collective coincident peak load; multiplied by
 - ii. The Local Collective RA Requirement for Year n-1; less
 - iii. The LSE's Local Shown RA for such month.
 - iv. The Local RA initial monthly Billing Share for January through October will be subject to a true-up based on actual coincident peak load for Year n.⁵ The Billing Share for November and December will be calculated based on actual coincident peak load for Year n.
2. Tier 2: An LSE's kW share of RA-CPE-Procured Capacity, for each RA product, in excess of the allocated capacity of Appendix B, Step 1 above is calculated as:
 - a. The LSE's forecast (in the case of Local RA) or actual (in the cases of System and Flexible RA) coincident peak load divided by the appropriate forecast or actual applicable coincident peak load; multiplied by

⁵ Ex post Local coincident peak load is calculated based on the coincident peak load of the CAISO balancing area in the delivery year and not based on the coincident peak load of individual Local areas.

- b. RA-CPE-Procured Capacity plus Shown RA capacity less the Collective RA Requirement in Year n-1 for that month, if such sum is greater than zero; otherwise, zero.
- c. For Local RA, the LSE's share of excess RA-CPE-Procured Capacity for January through October will be subject to a true-up based on actual coincident peak load for Year n. The LSE's share of excess RA-CPE Procured Capacity for November and December will be based on actual coincident peak load for Year n.

Step 2: RA-CPE-Procured Capacity Cost Calculation

The LSE's cost responsibility shall be the Billing Share, for each respective RA product and delivery period, calculated in Step 1 multiplied by the weighted average price of each respective RA product procured by the RA-CPE for each delivery period in \$/kW-month.