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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 Forward Resource Adequacy Procurement Obligations.	Rulemaking 19-11-009

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) TRACK 2 PROPOSALS

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Pursuant to the *Assigned Commissioner's Scoping Memo and Ruling* issued on January 22, 2020 ("Scoping Memo"), Southern California Edison Company ("SCE") respectfully submits its Track 2 proposals to the California Public Utilities Commission ("Commission").

I. INTRODUCTION

As indicated in the Scoping Memo, the scope of Track 2 includes consideration of various important time-sensitive refinements to the Resource Adequacy ("RA") program, including qualifying capacity ("QC") counting conventions and requirements for hydro and hybrid resources; should marginal rather than average effective load carrying capability ("ELCC") be used for wind and solar resources, and if so, how should this transition be implemented; and changes to the existing penalty structure and waiver process to address potential market power and other issues.[1] Hydro and hybrid resource counting conventions and requirements and marginal vs. average ELCC, along with various issues surrounding counting conventions and requirements for third-party demand response resources, are being discussed in Track 2 Working Groups. SCE presented proposals regarding hydro resource counting, hybrid

[1] *See* Scoping Memo at 6-7.

resource counting, and marginal ELCC during the Working Group meetings on February 12-13, 2020. SCE is also submitting those Track 2 proposals and a proposal regarding changes to the waiver process for system and flexible RA herein.

In Sections II and III, SCE provides its proposals on hydro resource counting and hybrid resource counting. In Section IV, SCE presents its proposal for use of marginal ELCC values. In Section V, SCE discusses its proposal for a limited system and flexible RA waiver process for situations where the provider of last resort ("POLR") is required to serve unplanned load.

II.

SCE'S HYDRO RESOURCE COUNTING PROPOSAL

Hydro resources have been an important part of California's generation fleet for over a hundred years and they will continue to be a key part of maintaining reliability while moving towards California's clean energy future. Given the unique nature of hydro resources and their importance in supporting grid reliability, appropriate QC counting conventions and requirements for hydro resources are critical. The capacity and energy availability of hydro resources can vary significantly year-to-year. Much of the hydro fleet in California is in a local capacity area. As such, the showing of RA from hydro resources causes commitments in October before the next RA year, and on a three-year forward basis for local RA. Unknown quantities of water that far in advance, coupled with the California Independent System Operator's ("CAISO's") financial charges to those resources under the Resource Adequacy Availability Incentive Mechanism ("RAAIM"), makes showing a hydro resource excessively risky.

It is important to arrive at reasonable values for hydro resource counting that provide the appropriate amount of reliance on such resources for reliability, while not excessively derating them leading to potentially unnecessary procurement costs. The current exposure to financial charges for insufficient water under RAAIM makes it risky for a load-serving entity ("LSE") owner of a hydro facility to sell RA from that facility so that other LSEs may meet their local RA showings due to the uncertainty of the cost exposure of the potential CAISO RAAIM charges.

To address these issues, SCE proposes a methodology to calculate the QC of hydro resources that appropriately derates QC values for hydro with storage for water availability based on historic bid-in availability (the "Effective QC"), and exempts hydro resources from the CAISO's RAAIM for water availability.[2] Outages due to mechanical issues would continue to be subject to RAAIM. The calculated Effective QC would be used to inform local capacity requirements and any other reliability studies.

Although storage reservoirs allow for some control over output, by their nature all hydro resources are subject to precipitation, environmental, and regulatory constraints that are outside of the resource owner's control. SCE's proposal is consistent with the following principles: (1) accounts for seasonality and uncertainty of hydro resources in the local RA framework; (2) minimizes over-procurement by balancing reliability and certainty; (3) provides as much transparency as possible to all stakeholders; and (4) applies an appropriate incentive mechanism that recognizes that there are environmental and regulatory constraints that are outside the control of the resource owner.

SCE's proposed hydro resource counting methodology uses the weighted average of three years of availability to derate the QC of the hydro resource. This methodology is based on the CAISO's proposed UCAP calculation in its RA Enhancements Initiative.[3] SCE proposes to use average availability during a 5:00 a.m. to 9:00 p.m. assessment window from May to September to calculate an annual capacity number. An Effective QC would then be calculated based on a weighted average of the past two years of history, plus a third year based on the lowest capacity of the past ten years. Initially, SCE proposes to use a 50% weighting for the prior year, 30% for two years prior, and a 20% weighting for the lowest year in the last ten. In

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[2] Parties would retain the option to be able to claim RA up to the original QC if above this methodology, but doing so would subject the resource to RAAIM for all outages including those for water availability.

[3] *See* CAISO*, Resource Adequacy Enhancements Third Revised Straw Proposal*, December 20, 2019, Section 5.1.2, available at http://www.caiso.com/InitiativeDocuments/ThirdRevisedStrawProposal-ResourceAdequacyEnhancements.pdf.

this initial calculation, the Effective QC represents approximately a 30-35% derate of the current QC.

Because the hydro resource's QC has been appropriately derated, a RAAIM-exempt outage card should be created for capacity derates due to water availability. Mechanical outages would not be RAAIM-exempt. A RAAIM exemption for water availability is appropriate for a number of reasons. Performance would already be incentivized by the potential QC derate. Moreover, hydro resources have limited storage capacity and are dependent on winter precipitation and ambient weather conditions. Hydro systems are also complex, with interdependencies between multiple streams, reservoirs, and powerhouses. Federal regulations establish flow and lake level requirements and high lake levels in some areas can create safety issues. In addition, for most hydro resources, year-ahead local RA showings already establish a year-round must offer obligation. For all these reasons, it is not appropriate to apply RAAIM charges to hydro resources for water availability, when such resources' QC has already been derated to account for water availability.

Following discussion and stakeholder feedback from the February 12, 2020 Hydro Counting Working Group meeting, SCE agrees that the details of its proposal can be reconsidered while preserving the high-level concept. SCE received feedback that a monthly calculation may more accurately represent the seasonality of hydro resources, and SCE agrees that the calculation can be done at a monthly granularity. SCE's reasoning on the annual QC was that it provides better alignment with local RA requirements and an annual QC facilitates transactions since local and system RA cannot be unbundled. After further thinking on this issue, SCE acknowledges that monthly QCs will be necessary to appropriately demonstrate the monthly resource expectations for system. SCE also received input that lower volatility around the capacity number is preferred, and that a calculation based on the last ten years of availability could provide that lower volatility. The lowest capacity year of the prior ten could be weighted at 20% with the remaining years weighted at 80%. Some parties commented that it may be difficult to identify how much of past outages were due to mechanical issues or water

availability. SCE agrees that the task can be challenging, but did not intend that all past outages must be distinguished between mechanical and water availability. SCE's intention is that any outages that could be clearly identified as mechanical issues (such as a powerhouse being serviced) may be excluded from the calculation.

SCE is working with the CAISO and Pacific Gas and Electric Company ("PG&E") (the other party that offered a proposal at the working group meeting) to attempt to reconcile the differences between the proposals and potentially develop a joint proposal. After the February 12, 2020 Hydro Counting Working Group meeting, PG&E and SCE discussed the use of different local and system quantities from the same resource in monthly RA showings. This has raised a difficult issue in that the showing for local RA is an annual showing where the subsequent monthly showings for local RA require the LSE to show those resources claimed in the annual showing or a replacement. The system RA monthly showing on the other hand can differ significantly and has historically shown expected monthly capacity from hydro resources.

This difference functions sufficiently when the entire capacity of the resource is being shown by a single LSE. Looking forward, as load migration occurs, it will be necessary to sell portions of hydro capacity so that other LSEs can meet their local RA obligations. However, since local and system RA are a bundled product and without knowing the monthly quantities ahead of time, the purchasing LSE will likely expect to show all of the local hydro as a system resource in each month. This would then require the Scheduling Coordinator to submit a supply plan to the CAISO for a quantity that it does not believe it can deliver. This could result in a quantity of system RA insufficient to satisfy monthly reliability needs. SCE, PG&E, and the CAISO are discussing this topic to identify potential resolution. Further consideration of this issue may be appropriate for Track 3 or 4 of this proceeding.

SCE recommends that its proposed hydro resource counting methodology be implemented in 2020 for 2021 RA compliance, consistent with the Scoping Memo's schedule of a Track 2 decision in June 2020. Given the importance and time sensitivity of resolving issues

around counting hydro resources for RA, the Commission should adopt this new hydro resource counting methodology in time for the next year-ahead RA filings.

III.

SCE'S HYBRID RESOURCE COUNTING PROPOSAL

The anticipated large volume of hybrid resources currently in the interconnection queue,[4] tightening supply conditions, and the significant amount of near-term incremental RA capacity LSEs need to procure in compliance with the Commission's Decision ("D.") 19-11-016 requiring electric system reliability procurement for 2021-2023, make it important that the Commission expeditiously adopt a permanent methodology for QC counting of hybrid resources. The interim QC methodology adopted in D.20-01-004 for hybrid and co-located resources where the resource has charging restrictions related to the Investment Tax Credit ("ITC") is a reasonable starting place.

The ability to provide RA from a resource that combines a renewable resource and a battery revolves around the new and unique use limitation created by application of the ITC, which is impacted by the source of energy utilized to charge the battery. The receipt of the ITC is dependent on the charging of the battery from renewable resources. Charging the battery from resources other than a renewable facility will reduce and ultimately eliminate the ITC.

While some charging of batteries from the grid rather than from a renewable resource may be economic within the CAISO market and doing so could provide for additional reliability, it is difficult to ensure that such reliability value will be realized in the CAISO market. This is because the CAISO must offer obligation would be difficult to design to ensure that a battery that will charge at times from the grid and at other times only from a renewable resource is made appropriately available in both cases. Working through such a wide variety of scenarios and perfecting the must offer obligation will likely take a significant amount of time. For this reason,

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[4] For example, according to the CAISO, there were about 35 GW of hybrid resources in CAISO's Generator Interconnection Queue as of July 2019. *See* CAISO, *Hybrid Resources Issue Paper*, July 18, 2019, at 3 n.3, available at: http://www.caiso.com/Documents/IssuePaper-HybridResources.pdf.

SCE has limited its proposal to establishing a QC value for hybrid resources receiving ITC, assuming that such resources will only charge from a renewable resource. SCE notes that the nomenclature distinguishing between "hybrid" and "co-located" resources is a distinction without a difference in this case. The issue is really related to the use limitation created when the battery will charge only from a renewable resource whether in a "hybrid" configuration or in a "co-located" configuration.

SCE proposes that calculating the QC value for a battery combined with a renewable resource where the battery is receiving the ITC should be based upon accounting first for the amount of capacity that is providing energy to the storage device and subtracting this amount from the installed capacity of the renewable resource. This will require establishing an hourly energy profile for each month for the renewable resource type that will predict the expected amount of energy that the renewable device will provide. The calculation will then determine the minimum amount of renewable capacity necessary to charge the battery to its maximum capacity, with the end of charging occurring two hours before the net peak load to ensure that the four-hour resource can be dispatched in the four consecutive hours anticipated to contain the net peak load hour. If the battery can be fully charged in this amount of time, the contribution to the total QC value for the combined resource from the storage device will be the QC of the storage device. If the battery cannot be fully charged during that period of time, the contribution to the total QC value for the combined resource from the storage device will be the MWh charged divided by four.

If there is installed capacity from the renewable resource beyond the capacity necessary to charge the battery by two hours before the net load peak, that excess will be utilized to calculate an ELCC value for the residual renewable left after charging the battery. This quantity will be added to the storage value calculated above to arrive at the total QC value for the combined resource.

Mathematically, this method can be expressed as follows. Taking a solar plus storage combined resource for example:[5]

Solar plus Storage QC = Effective ES QC + Effective Solar QC

Where *Effective ES QC* is the minimum of:

1. The energy (MWh) production from the renewable resource until two (2) hours before the net peak load assuming charging is done at a rate less than or equal to the energy storage's capacity. This renewable charging energy is then divided by 4 hours to determine the QC; or

2. The QC of the energy storage facility.

The *Effective Solar QC* is the remaining solar capacity, net of the capacity required to charge the battery (i.e., Effective ES QC), multiplied by the ELCC factor for the month.

If the battery is being charged from a renewable resource that is able to generate two hours after the net peak load, the *Effective ES QC* will utilize all available energy from the renewable resource two hours after the net peak load to two hours before the net peak load.

In the event that a resource comprised of storage and a renewable resource will not be receiving the ITC (either because they attest they will not do so while it is available or because the ITC program has expired), the RA value of such a resource should be the full ELCC of the renewable resource plus the QC of the battery since the use limitation associated with charging is not applicable.

As with the hydro resource counting methodology, the Commission should adopt a permanent hybrid resource counting methodology in 2020 for 2021 RA compliance, consistent with the Scoping Memo's schedule of a Track 2 decision in June 2020.

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[5] While the resultant numerical values may differ, the methodology would also apply to a wind plus storage combined resource.

IV.

THE COMMISSION SHOULD ADOPT MARGINAL ELCC FOR RA COUNTING

SCE first mentioned the notion of a differentiation in ELCC values between periods of time in Rulemaking ("R.") 14-10-010.[6] SCE has advocated for the adoption of a marginal ELCC value for RA counting since that time throughout R.14-10-010 and R.17-09-020[7] and continues to recommend adoption of marginal ELCC in this proceeding. Below, SCE discusses how the marginal ELCC concept would work and its benefits.

SCE believes that the methodology described below is a reasonable interim step in order to provide market signals to properly value the procurement of resources. SCE is concerned that in a market with very high levels of renewable resources to meet policy objectives, the current RA structure that evaluates the ability to meet peak load need and utilizes Maximum Cumulative Capacity buckets to ensure that all load hours can be met may not be able to properly depict the reliability needs of the grid. The Commission is considering more complex structural changes to the RA program in Track 3 of this proceeding. SCE believes that this longer-term issue can be addressed in Track 3. In the mean-time, the proposal below is a positive step toward continued effective RA procurement from renewable resources.

A. Marginal ELCC Better Reflects the Contribution to Reliability of Newly Developed Resources

ELCC considers a host of factors in determining the ability of a renewable resource to meet reliability needs. This includes not only the nameplate capacity of the resource, but also elements like expected weather conditions, load, forecasting uncertainty, and the composition of

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6 *See Comments of Southern California Edison Company (U 338-E) on Analysis of Flexible Capacity Requirement Topics*, R.14-10-010, December 1, 2016, at 3-4.

7 *See, e.g.*, *Southern California Edison Company's (U 338-E) Track 1 Proposals*, R.17-09-020, February 16, 2018, at 6-8.

the existing fleet of resources.[8] Because these elements change over time, the ELCC value of any renewable resource will change over time. Most notably, the build out of a particular type of renewable resource is known to cause a reduction in the contribution to meeting reliability from that type of resource.[9] The question then is whether the change should be accounted for by changing the RA value of all resources of that type within the fleet (i.e., Average ELCC) or by leaving the RA value of existing fleet as-is and changing only the value of newly developed resources (i.e., Marginal ELCC).

Today, the RA program provides that renewable resources be measured by an Average ELCC. This method provides that changes in the total fleet RA value of that generating type be absorbed by all resources of that generating type, including both new and existing resources. In circumstances where adding more of a particular type of renewable technology adds no value to grid reliability, the only way that an Average ELCC value can prevent overstating reliability value is to reduce the RA QC for all resources in that class. Effectively, new resources of that resource type that do not add reliability value receive RA credit at the expense of a reduction in the RA value from existing resources of that resource type. Similarly, if the addition of a new resource of that resource type were to increase reliability value to the grid above the level of existing resources, the development of a new resource would result in an increase in RA QC for all resources of that resource type, even though the additional value was from the new resource and not from the fleet as a whole.

Marginal ELCC provides better investment signals to the market than Average ELCC. Specifically, Marginal ELCC provides ELCC values used for RA counting that reflect the

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[8] *See Effective Load Carrying Capacity and Qualifying Capacity Calculation Methodology for Wind and Solar Resources,* Staff Proposal, Resource Adequacy Proceeding R.11-10-023, California Public Utilities Commission – Energy Division, January 16, 2014.

[9] *See id.* at 3 ("ELCC can be viewed as matching the usefulness of a resource's operating characteristics to reliability conditions; for example, if modeling indicates that reliability needs are greatest in the afternoon, then a resource that only operates in the morning would be derated more than an otherwise-identical resource that only operates during the afternoon, because its contribution to reliability needs would be smaller.").

incremental value of reliability provided to the grid by new resources as opposed to socializing the RA value across the fleet.

B. Consistency with Other Proceedings at the Commission is Important

At the time SCE began advocating for a Marginal ELCC, ELCC was used not only in the RA proceeding, but in planning and procurement processes such as the Renewables Portfolio Standard ("RPS") proceeding. Today, the Commission requires the investor-owned utilities ("IOUs") to use Marginal ELCC in RPS least-cost, best-fit bid evaluation and selection.[10] It is important that the processes utilized for planning, procurement, and compliance, including RA counting, are aligned.

During the February 13, 2020 ELCC Working Group meeting, the importance of this alignment was questioned by some parties. It was noted that the RPS uses forecast ELCC value while the RA program utilizes known values for ELCC at the time of compliance. However, both RPS least-cost, best-fit and RA counting approaches affect procurement decisions. Moreover, while forecast and actual ELCC values may differ, that does not form the basis or reasoning for establishing processes that have known differences. Utilizing a Marginal ELCC for RPS procurement decisions and an Average ELCC for RA compliance introduces inconsistencies that the Commission should avoid. Consistent with the approach used in the RPS proceeding, the RA proceeding should employ a Marginal ELCC approach to establish the QC value of renewable resources.

Although the Commission requires the IOUs to utilize Marginal ELCC in RPS least-cost, best-fit valuation, it is not clear that the Commission has authority to require the same valuation and procurement decisions from non-IOU LSEs. As such, one could expect that a non-IOU LSE will value their RPS procurement at the RA value they expect to utilize for RA compliance purposes, while the IOUs are required to use a value that may not represent the RA compliance value if the RA compliance value uses a different standard (Average ELCC) than the RPS

[10] *See* D.19-09-043 at 15, Conclusion of Law 2, Ordering Paragraph 1.

standard (Marginal ELCC). This disconnect can cause a competitive differential between LSEs that can be corrected by ensuring consistent treatment of ELCC across Commission proceedings.

C. Marginal ELCC Process

1. Transition from Current ELCC to Marginal ELCC

SCE proposes the Commission implement a Marginal ELCC process that would assess the contribution to reliability from a renewable resource at the time it becomes commercially operational. Because renewable resources have already been developed over many years, a transition mechanism would be necessary because it is not feasible to back-calculate the incremental value of each of these resources. To accomplish this transition, SCE recommends that all existing renewable resources that are commercially operational as of January 1, 2020 be given their RA value in place at that time. If there is a significant change (e.g., a material decline) from the existing values to the updated ELCC values at the time when the Marginal ELCC methodology is adopted, SCE recommends that all existing renewable resources should be given their RA value based on the updated ELCC values when the Marginal ELCC methodology is adopted.[11] All renewable resources that achieve commercial operation after this date would receive their Marginal ELCC value as calculated periodically by the Commission's Energy Division.

Energy Division should evaluate the review cadence as the marginal values will change due to changing grid conditions. How much and how fast those grid conditions change may necessitate more or less frequent calculation of the Marginal ELCC value. Upon implementation, SCE suggests that the Energy Division calculate ELCC every six months for the first two years. This process will help to inform the Commission on the magnitude and speed of changes that would require ELCC to be re-evaluated. SCE does not suggest that in this two-year

[11] For example, if the Marginal ELCC methodology is adopted for the 2021 RA year, then the existing ELCC values are those for the 2020 RA year and the updated values would be those for the 2021 RA year. If the Marginal ELCC methodology is adopted for the 2022 RA year, then the existing ELCC values are those for the 2021 RA year and the updated values would be those for the 2022 RA year.

period, the Marginal ELCC be updated every six months. Rather, SCE suggests that if the changes are significant, then the Marginal ELCC value can be updated. Once a new ELCC is set, all resource coming on-line after that date will receive the new value.

2. Longevity of a Marginal ELCC Value

While a Marginal ELCC method is in place, SCE proposes that the ELCC value, once established, is retained for the life of the facility unless aggregate resource fleet ELCC values materially overstate the RA value of the resource fleet. This may happen given the observed trend of substantial declining ELCC over recent years and anticipated increasing behind-the-meter and in-front-of-the-meter solar resources. There could be a time in the future where the ELCC values, based on the Average ELCC methodology, approach zero for the aggregate solar fleet, but existing solar resources would still be counted based on the non-zero or above-zero ELCC values under the Marginal ELCC methodology. When this happens, the reliability contribution of the solar fleet will likely be overstated, and the Commission should reduce the ELCC value for all resources to a value that reflects the actual RA value of the fleet.

It is important to note that the Commission is contemplating more comprehensive changes to the RA program structure in Track 3 of this proceeding. Those changes may make it necessary to re-evaluate the ELCC value of renewable resources. The current RA structure which uses peak load and Maximum Cumulative Capacity buckets does not effectively account for the contribution to reliability from use limited resources such as renewables. Under a Marginal ELCC approach, fixing the RA value at the time of commercial operation provides more certainty in valuing and developing resources to meet multiple needs including reliability. This method has been equated to "vintaging." However, rather than this approach being considered a new type of vintaging, SCE believes that it more closely resembles the methodology used to establish RA values for all other resources. Non-renewable resources are granted an NQC value upon operation and that value then only changes if the capability of the

resource changes. This same approach can and should be implemented for renewable resources until a more comprehensive redesign contemplated in Track 3 is completed.

3. Changes in a Renewable Resource

To the extent that a renewable resource changes characteristics, the Marginal ELCC value will need to address such a change. SCE sees three potential changes to an existing renewable resource that should be considered.

First, it is possible that a renewable resource will be built in phases or have capacity added over time. In this case, the individual phases should receive the Marginal ELCC value at the time they become commercially operational. This avoids reserving ELCC value for a yet-to-be-built facility that would diminish the value that other resources ready for commercial operation would otherwise receive.

Second, it is possible that a renewable resource will have retirements of partial elements of the facility over time. Once retired, the QC value of the facility should be reduced on an installed capacity ratio share. For instance, if 10% of the installed capacity is retired, 10% of the QC value should also be retired. Since a facility may be composed of elements with differing Marginal ELCC values, this avoids the complexity of a first-in first-out, last-in first-out, or equipment specific evaluation to adjust the QC value. Rather, the Marginal ELCC method establishes the QC value, which is then either maintained or retired.

Finally, it is possible that a renewable resource will replace components over time to maintain the original capacity. This happens today with renewable and non-renewable resources alike. It can be expected with renewable resources that over time, elements will degrade and require replacement to satisfy contractual obligations and retain the amount of interconnection capacity for which the facility was constructed. In cases where the changes are designed to maintain the facility and not to increase its capacity, such actions should be allowed and the Marginal ELCC value granted at the time the facility achieved commercial operation should still be utilized to establish the QC value of the facility as a whole. As noted in the prior section, the

Commission is considering more comprehensive changes to the RA structure and the RA value of renewable resources should be a part of that evaluation. Should that process change the value, the retirement of facilities in part or in whole can be considered within the new structural design.

4. Changes in Technology

In discussion of Marginal ELCC, SCE is routinely asked about changes in technology. One example is improvements in the underlying renewable technology. These improvements are likely to have very small impacts on the ELCC value of the facility. Fundamentally, the limiting factor in ELCC is that the technology produces its output at a time of day where the incremental value of another MW provides no further reduction in a loss of load probability. The technology would have to dramatically change such that it produces energy in hours that previously were unexpected. Since this is largely dependent on ambient conditions (i.e., solar irradiation and wind), the likely changes in stand-alone renewable technology are not likely to have significant impacts on the loss of load probability.

A second example is adding a storage device to a renewable facility. This type of change does have the ability to move energy to a period where the loss of load probability is higher and thus provides for a reliability contribution. This very topic is currently being considered in this proceeding to establish a QC value for resources that combine storage along with a renewable generating technology. SCE believes that these efforts will address such a technology change to appropriately account for the incremental reliability value provided.

For the reasons stated above, SCE recommends that the Commission adopt a Marginal ELCC methodology and implement it for the 2021 RA year.

V.

THE COMMISSION SHOULD ESTABLISH A LIMITED WAIVER PROCESS FOR SYSTEM AND FLEXIBLE RA COVERING SITUATIONS WHERE THE POLR IS REQUIRED TO SERVE UNPLANNED LOAD

One issue within the scope of Track 2 of this proceeding is "[c]hanges to the existing penalty structure and waiver process to address potential market power and other issues."[12] A waiver process currently exists for local RA whereby LSEs that are unable to bilaterally contract for local capacity needed to meet their assigned obligation may request a waiver.[13] In D.19-06-026, the Commission declined to extend the waiver process to system and flexible RA, stating that "there remain significant, unresolved issues that require further consideration before allowing such waivers, including potential leaning by LSEs and market power issues."[14]

SCE supports robust mechanisms to ensure that all LSEs meet their system and flexible RA requirements. If the RA program is going to meet its reliability objectives, all LSEs must invest in the resources needed to meet these requirements, even if it requires LSEs to develop new resources. Indeed, except for the IOUs, all LSEs voluntarily participate in California's retail electricity markets, and the voluntary election to do so must be accompanied by a firm requirement to meet system and flexible RA requirements.[15]

However, with increasing load fragmentation and migration coupled with decreasing availability of system and flexible RA capacity, there is a need for a limited waiver process for system and flexible RA to address situations where an LSE acting as the POLR (currently the

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12 Scoping Memo at 7.

13 *See* D.06-06-064 at 71-74, Conclusions of Law 28-28; D.07-06-029 at 38; D.19-02-022 at 29, Ordering Paragraph 13.

14 D.19-06-026 at 18.

15 A waiver process for local RA requirements is appropriate because transmission constraints, changing grid topology, resource-specific requirements (in some instances), local market power, and load migration considerations do not facilitate an ability to equally require each LSE to procure its prorated share of local area resources. In fact, these constraints support the designation of a central buyer of local RA for each IOU's service territory with a non-bypassable charge to recover the costs of the central buyer-procured resources applicable to all benefitting customers.

IOUs) is required to serve unplanned load. In circumstances where the capacity price for system or flexible RA increases, LSEs that are not the POLR have the option of avoiding such high costs by returning load to the POLR or declining to serve the load (i.e., not accepting the transfer of service for customer load that was previously identified for transfer). This option is not available to the POLR. As such, the lack of any system and flexible RA waiver process combined with the ability to put load on the POLR in an unplanned manner creates an unlevel playing field and the potential for inappropriate and unlawful cost shifting to customers of LSEs acting as the POLR.

This is even more true in the absence of community choice aggregator ("CCA") Financial Security Requirements and reentry fees,[16] which are intended to protect the IOU in the event of a CCA's involuntary return of CCA customers to the IOU. They were adopted by the Commission in D.18-05-022, but have not yet been implemented because the IOUs' implementing advice letters have been pending approval since August 2018.[17]

Accordingly, given this structural problem and the potential for disproportionate cost impacts to the bundled service customers of LSEs acting as the POLR, the Commission should establish a limited waiver process for system and flexible RA covering unplanned load served by the POLR for instances in which retail load is: (1) returned to the POLR with insufficient time to meet the RA requirement, or (2) not transferred from the POLR to another LSE as planned as a result of action or inaction by the LSE. Such a limited waiver process is needed to ensure that the POLR and other LSEs and their customers are treated fairly and to mitigate the risk of unlawful cost shifting among their customers. The limited POLR waiver should not apply to load that the POLR was forecast to be required to serve.

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[16] *See* Cal. Pub. Util. Code § 394.25(e), requiring Financial Security Requirements and reentry fees for CCAs and electric service providers ("ESPs") in the event of involuntary returns of customers to the IOUs as POLRs.

[17] *See, e.g.,* SCE Advice 3840-E, *Tariff Revisions to Implement Community Choice Aggregation (CCA) Financial Security Requirements and Re-Entry Fees in Compliance with Decision 18-05-022*, filed August 15, 2018. Meanwhile, ESPs are subject to ESP Financial Security Requirements and reentry fees pursuant to Section 394.25(e), even though ESPs currently serve less load than the CCAs overall.

SCE previously raised this issue in comments on the proposed decision that resulted in D.19-06-026.[18] The Commission "acknowledge[d] SCE's concern," but declined to modify the decision given the lack of record and encouraged SCE to raise this proposal in a later phase of the proceeding.[19] A limited waiver process for system and flexible RA covering situations where the POLR is required to serve unplanned load should be considered in Track 2 of this proceeding, including through comments on SCE's proposal, and adopted by the Commission in the Track 2 decision.

VI.

CONCLUSION

SCE appreciates the opportunity to submit its Track 2 proposals and assist in the further development of the Commission's RA program.

Respectfully submitted,

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[18] *See Southern California Edison Company's (U 338-E) Opening Comments on Proposed Decision Adopting Local Capacity Obligations for 2020-2022, Adopting Flexible Capacity Obligations for 2020, and Refining the Resource Adequacy Program*, R.17-09-020, June 13, 2019, at 3-4.

[19] D.19-06-026 at 56.