BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

FILED
04/15/20
04:59 PM

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

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Dated: April 15, 2020

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The Center for Energy Efficiency and Renewable Technologies respectfully submits these Opening Comments on the Proposed Decision on Central Procurement of the Resource Adequacy Program, mailed in the Resource Adequacy (RA) proceeding, Rulemaking (R.) 17-09-020), on March 26, 2020. These Opening Comments are timely filed and served pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure and the instructions accompanying the Proposed Decision.

I.
A CENTRAL BUYER FOR LOCAL CAPACITY REQUIREMENTS IS COSTLY AND UNNECESSARY AT THIS TIME

A common theme of CEERT's comments in both open RA proceedings is that there is a need to step back from the narrow confines of the particular proposal and assess the cumulative impact of all of the Commission's recent decisions. This Proposed Decision should be read in the context of all of the other aspects of both R.17-09-020 and R.19-11-009 as well as related proceedings such as the Integrated Resource Plan (IRP) proceeding (R.16-02-007), the Microgrid proceeding (R.19-09-009), and procurements that flow from these other proceedings. Given today's changed circumstances, the unintended consequences of these decisions will be to result in higher consumer rates, reduced grid resiliency, stifled innovation, stress on a brittle aging gas

supply infrastructure, and inhibition of electric grid decarbonization. This Proposed Decision sits squarely in that space.

It is useful to remember the original rationale for a Central Buyer of Local RA. The concept gained traction over two years ago during a time when procurement activities were almost totally dominated by Local Capacity Requirement (LCR) needs and the Community Choice Aggregation (CCA) movement was just beginning to take off. There were several reasons that this concept began to take hold.

First, there were clear, persistent LCR resource needs beginning with the unplanned closure of San Onofre and the long overdue phased retirement of some 17 GW of Korean War era coastal gas plants that relied on once through ocean cooling. The absence of these plants created urban load pockets vulnerable to transmission outages as generation shifted geographically and by fuel source. Renewable Portfolio Standard (RPS) energy targets were being easily met -- principally with newly competitive central but remote solar photovoltaic (PV) that had little to no local capacity value. The distributed "rooftop" solar market exploded, driven by customer investment impatient with the pace of change in the electric sector and newly able to at least partially control their own destiny. These installations were not configured to supply LCR but to draw on the grid as a "battery"-- putting greater pressure on LCR supply.

Second, load migration from the Investor Owned Utilities (IOUs) to the CCAs meant that the remaining bundled customers of the IOUs were essentially fully resourced resulting in little or no need for IOU procurement of any kind. IOUs were and are indeed net sellers of both energy and capacity to the emerging CCAs. Zero marginal cost resources displaced gas burn for energy production and wholesale energy prices declined, putting economic pressure on the remaining gas fleet whose capacity factor plummeted. However, these plants, in the absence of

alternative investments in LCR capacity, were still needed for reliability. The problem was really more about revenue adequacy for existing facilities deemed necessary for reliability than resource adequacy itself.

Third, the gas supply system that is essential for electric reliability began to show its inherent vulnerabilities. Incidents like San Bruno, Aliso Canyon and the systemic failure of Southern California Gas Company's (SoCalGas's) corrosion protection program for desert gas transmission facilities raised their ugly heads. Lives were lost, massive methane leakage sickened nearby communities and polluted the atmosphere, and price spikes during high demand periods while supplies were constrained resulted in over $1billion in extra cost to electric ratepayers in one year.[1] On the other hand, the CCAs were in either advanced planning or startup mode with no established track record for creditworthiness and were ill equipped to immediately take up the task of dealing with capital intensive, technically sophisticated procurement of replacement generation to meet LCR needs.

Given these circumstances, a central buyer of Local RA seemed to be a viable answer. There was, however, a problem – no one wanted the assignment and the addition of a new public agency to an already overcrowded field of overlapping entities in a rapidly changing environment proved to be a daunting task.

However, today's circumstances are very different and we need to re-examine whether or not a central buyer of LCR is necessary or cost effective. Most of the CCAs have proven to be viable business entities with real balance sheets and emerging credit ratings. They hired seasoned professionals perfectly capable of purchasing their generation needs – including their share of LCR requirements. The dramatic improvement in performance and capability, coupled with the

[1] Joint Petition for Modification of Decisions 15-06-004 and 16-06-039, as Modified by D.16-12-016 of Southern California Edison Company (U338-E) and Southern California Generation Coaltion, Aug 15, 2018

breathtaking fall in lithium-ion battery storage costs, now offers the potential for local energy sources such as PV + battery storage to reliably supply LCR. Behind the customer meter aggregations or wholesale, distribution-connected bulk installations, or targeted and repurposed Energy Efficiency (EE) and Demand Response (DR), lubricated with short term storage, can now supply LCR needs much more cost effectively than marginal, low efficiency gas plants, (most of which are in disadvantaged communities), and which will require billions of new investment dollars in gas supply reliability.

With unintended irony, this Proposed Decision is scheduled to take effect in 2023 – the same year that two transmission investments specifically designed to reduce LCR demand are due to be placed in service. The Mesa Loop In project[2] that will reduce LCR need in the LA West Basin by up to 640 MW and the Sylmar/Pardee upgrade[3] that will reduce LCR demand in the Big Creek/Ventura load pocket by 837 MW have been approved and are under construction.

It is also the time when the post COVID 19 vaccine economic recovery is likely to kick into high gear, with many new challenges and opportunities. Now is not the time to invest time, energy and dollars in a complicated, controversial procurement program designed to fight the last war, with obsolete, existing resources and outdated forecasts of both supply and demand, when there is no immediate reliability need. Instead, now is the time for us to nurture investment in new, clean resources that work for all of the future grid needs not simply the one slice of LCR.

II.
THE PROPOSED DECISION PUTS IN PLACE THE WRONG CENTRAL BUYER CONSTRUCT

Normally, one assumes that a "hybrid" approach takes the best features of two separate alternatives and combines them into something that is superior to both. Unfortunately, in this case,

[2] CAISO 2013-2014 Transmission Plan, July 16, 2014, p.108
[3] ISO Board Approved 2019-2020 Transmission Plan, March 26, 2020, p.301

the Proposed Decision manages to combine the worst features of the residual and full requirements models into a chimera that has the advantages of neither. It anoints two IOUs, one of which is in bankruptcy, and exempts the third IOU that "shares" a local capacity area with the second IOU to procure local capacity for its competitors without consideration of other resource characteristics that the grid needs. If, on balance, the proposed central procurement entity (CPE) structure works for Pacific Gas and Electric (PG&E) and Southern California Edison (SCE) transmission access charge (TAC) areas, it should also work for SDG&E's TAC as well. CEERT asserts that, instead, it works for none of the IOU TAC areas.

While the last decade's procurement challenges centered almost exclusively on LCR and RPS needs, the next decade will see a much more diverse procurement need. As always, zero carbon energy resources will be needed to advance the state's decarbonization goals. Grid flexibility, and especially the ability to shift load towards available generation, will be at a premium. With the looming retirement of Diablo Canyon and the reduction of imported capacity due to the collapse of the WECC coal fleet, new system resource adequacy procurement is required in the near future. In addition, wildfire resilience has become an obvious near term imperative; that need is by definition local and distributed in nature.

As a result, resources that can mitigate all or most of these needs simultaneously should be encouraged, but the CPE focus here is exclusively on LCR. The Proposed Decision sets up a structure that tries to carve out one attribute, LCR value, from the bundle of resource characteristics and attempts to "optimize" that slice. Given the emerging technology for grid friendly, multiple attribute preferred resources, the portfolio that is "optimum" for LCR in isolation is unlikely to be optimum considering all attributes and all needs. The PD states that it is:

> "…primarily focused on the contracting for existing local resources. The local challenges the Commission seeks to address through the adoption of a CPE framework are separate and distinct from the system issues presented in the near-term [IRP] reliability track."[4]

The answers to this challenge are not separate and distinct – the needs and resource attributes are intrinsically bundled. Contracting for existing LCR resources (overwhelmingly gas fired generation) is not a problem under today's procurement rules by today's LSEs. The pace of load migration to the CCAs has slowed and the IOUs can better gauge their remaining load obligations. The CCAs have achieved a measure of operational maturity so they can better gauge and react to their new resource needs. Today, no one should be concerned with additional, unplanned retirements of existing, cost effective gas resources – in fact the opposite is true. The Commission is turning handsprings to bring obsolete, aged, polluting dinosaurs back from the dead – not because of an urgent LCR need, but to meet a short term deficit in ordinary system capacity. The imperative today is to procure *new* resources that meet tomorrow's needs, not to carve out and subsidize[5] the continued operation of obsolete, polluting resources that are vulnerable to fuel supply disruptions.

If new resources are procured for their resiliency, local economic development and zero carbon energy but cannot monetize their bundled LCR value, then less of these resources will be procured. However, their real time LCR value will remain, and the CPE will almost by definition over-procure LCR. Ratepayer costs will increase for no apparent reliability improvement. Because incentives to provide zero carbon energy, system and flexible capacity, and local resilience are severely muddled by trying to carve out LCR from the bundle, the needed

[4] PD @ p.26-27

[5] If the CPE procures an existing gas resource in 2023 for three years forward and hands that resource a guaranteed cash subsidy for at least all of its forward costs, it will be six years before any new preferred resource can compete on a level playing field.

innovation to design and construct resources tailored to meet *all* of the local needs, including LCR, will be stifled.

The hybrid CPE structure proposed in the Proposed Decision allows a load-serving entity (LSE) the Hobson's choice to either "show" its LCR value to the CPE (who is also an LSE with its own narrow competitive incentives), or bid to sell the resource's capacity value to the CPE in its full requirements LCR auction. If the LSE shows the resource, it only reduces the CPE's LCR procurement need and the LSE contributes without compensation most of the LCR value to the other LSEs in the TAC. If it sells the capacity value in the LCR auction, the LSE also sells the bundled system and flex RA but retains the obligation to self-supply its share of system and flex RA. As a result, both of these attributes will also be over-procured. If the LSE decides to not show or sell, or the new resource does not clear the auction because there are sufficient existing subsidized resources to meet the isolated LCR need, it is unlikely that new clean resources will even be built. If this turns out to be the case, then all that will have been achieved is the preservation of unneeded fossil capacity at a time when both the policy and economic imperative should be to phase out fossil fuel and move on. The purported need to retain all existing fossil fuel capacity and delay further grid decarbonization to preserve reliability, which sadly pervades recent Commission decisions, then becomes a self-fulfilling prophecy.

III.
CONCLUSION

In this time of raging pandemic and shelter in place, human and financial capital is limited and correctly focused on the overwhelming task at hand. As the saying goes: "This too shall pass." We simply cannot afford to waste limited energy and capital on fighting the no longer relevant problem of a perceived shortage of LCR at the expense of new clean resource development. This investment in the future will be necessary to lead the post vaccine COVID 19

economic recovery, with all of its unprecedented and uncertain challenges and opportunities. The Commission should be looking forward, not backward, scrap the PD, and rethink the idea of a Central Procurement Entity for Local Capacity Requirements.

Respectfully submitted,

April 15, 2020

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