

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



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Rulemaking 20-11-003

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**COMMENTS OF THE UTILITY REFORM NETWORK
ON ALJ RULING CONCERNING A PROCUREMENT PROPOSAL**



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TABLE OF CONTENTS

1	INTRODUCTION AND SUMMARY.....	1
2	THE NEED FOR NEW SUPPLY HAS NOT BEEN DEMONSTRATED, AND THE COMMISSION SHOULD FOCUS ON REDUCING DEMAND FOR THE SUMMER OF 2021.....	3
2.1	The Available Facts and Data Do Not Establish a Need for New Supply Resources.....	3
2.2	Focusing on Supply Procurement Could Lead to Harmful Outcomes, and the Commission Should Instead Focus Attention on Demand Side Reduction Strategies.....	4
3	RESPONSES TO SPECIFIC QUESTIONS REGARDING THE SUPPLY PROCUREMENT PROPOSAL.....	5
	<u>Procurement Proposal</u>	5
3.1	Question 1 – In considering incremental authorization for procurement, what parameters should the Commission place on contracts regarding pricing, contract term, and operational characteristics?.....	5
3.2	Question 2 – Should the Commission limit the total volume of incremental procurement authorized?	6
3.3	Question 3 - Should procurement that cannot achieve a commercial operation date by June 1, 2021 also be considered in this procurement authorization?.....	7
3.4	Question 4 - Are there any additional considerations regarding the procurement type that the Commission should consider in issuing a procurement authorization?	7
3.5	Question 5 - Are there additional specific issues the Commission should consider in authorizing procurement to ensure that the procurement is cost-effective under the existing circumstances, would addresses system needs, and be in the public interest?	8
	<u>Procurement Process</u>	8
3.6	Question 6 - Are there other expedited processes besides bilateral negotiations or revisiting offers from recent IRP RFO bid stacks that could be used to ensure cost-competitive resources are procured to be online for Summer 2021?	8
3.7	Question 7 - Can or should actions be taken to expedite the permitting and interconnection processes associated with this procurement?.....	8

3.8	Question 8 - What existing investor-owned electric utility procurement processes (for example, Procurement Review Group consultation independent evaluator oversight, etc.) should be utilized for this procurement?.....	8
3.9	Question 9 - What information must be included in any filings seeking final approval from the Commission, including in any potential advice letter filings that might be evaluated and resolved by the Commission’s Energy Division? .	8
3.10	Are there any additional considerations regarding the procurement process that the Commission should consider in issuing a procurement authorization?.....	9
	<u>Cost Recovery</u>	9
3.11	Question 11 - Are there any additional considerations regarding cost recovery and ratemaking treatment the Commission should consider in issuing a procurement authorization?	9
3.12	Are there any additional considerations regarding the process for Commission review that the Commission should consider in issuing a procurement authorization?	9

COMMENTS OF THE UTILITY REFORM NETWORK ON ALJ RULING CONCERNING A PROCUREMENT PROPOSAL

The Utility Reform Network (TURN) respectfully submits these comments pursuant to the directions in the Ruling issued via email by Administrative Law Judge Brian Stevens on December 11, 2020 (the “Ruling”).

1 INTRODUCTION AND SUMMARY

The Ruling directed parties to submit responses to an initial procurement proposal and associated questions. The Ruling stated that the comments of certain parties indicated a “need for additional capacity to be secured by summer of 2021,” and such a need appears to be “especially true in the circumstance that California experiences a heat storm in 2021 that is similar to the August 2020 event or the 2020 Labor Day weekend heat wave.”¹

The Ruling subsequently identified a procurement proposal that was aimed exclusively at increasing supply through contracting for additional generation resources or supply contracts.

TURN believes that the available evidence in both the Preliminary Root Cause Analysis (“PRCA”) and the more detailed CAISO Department of Market Monitoring report on the events of August and September 2020 belie the notion that the rolling blackouts of August 14 demonstrated a supply capacity shortage in California that requires expedited supply procurement, in addition to the procurement already authorized in D.19-11-016 and being considered for future authorization in the integrated resource planning Rulemaking 20-05-003 (“IRP”). Nevertheless, even if one accepts the proposition that additional reliability needs to be provided by the summer of 2021, TURN strongly

¹ TURN notes in this regard that the August 2020 heat storm was a 1-in-35 year weather event, making it theoretically unlikely to repeated again in 2021, though TURN understands that global warming is likely to alter calculations based on historical data. See, PRCA, p. 5. Nevertheless, actual demands never exceeded the 1-in-10 year peak forecasts, either in August or September, despite the hot weather. See, DMM Report, pp. 12-13.

suggests that the Commission should focus the limited time before summer 2021 on reducing demand rather than litigating complex supply options are not needed.

TURN understands that procuring generation supply resources generally has a longer timeline than the deployment of incremental demand response capacity. TURN believes that a key “take-away” from the opening comments of many parties was that procuring “incremental” generation, for example through efficiency upgrades at existing power plants, would require such significant lead time as to be an unlikely candidate for success by the summer of 2021.² It is, however, sure to be a contentious and difficult process, and TURN is concerned it could crowd out constructive consideration of the demand side of the problem. Even improving demand response through 1) program modifications, 2) new programs, and/or 3) additional customer enrollments in new or existing programs, will require some lead time.

TURN thus recommends that, at a minimum, any discussion of incremental supply procurement should be limited to: 1) incremental short-term contracting, most likely for firm import capacities, or 2) accelerated deployment of already-authorized procurement. The Commission should absolutely not authorize new long-term contracts on an expedited and emergency basis. There is simply no demonstrated need that warrants disturbing the careful procurement process ongoing in the IRP proceeding.

² For example, Peninsula Clean Energy Authority Reply Comments, pp. 10-11; IEP Comments, pp. 5-6; PG&E Opening Comments, pp. 10-11; PG&E Reply Comments, pp. 6-7; LS Power Reply Comments, pp. 3-5. Indeed, LS Power essentially argues the Commission should focus on procurement for 2022-2023, because it would be too difficult to develop new supply for 2021. TURN agrees with this theory, but strongly disagrees with LS Power that such procurement should be addressed in this proceeding rather in the IRP.

2 THE NEED FOR NEW SUPPLY HAS NOT BEEN DEMONSTRATED, AND THE COMMISSION SHOULD FOCUS ON REDUCING DEMAND FOR THE SUMMER OF 2021

2.1 The Available Facts and Data Do Not Establish a Need for New Supply Resources

TURN appreciates that the rolling blackouts on August 14, 2020, were an unexpected surprise, and that the Governor’s office and state agencies emphatically seek to prevent a recurrence next year. Nevertheless, TURN emphasizes that the Commission should not disregard the actual evidence of what caused the rolling blackouts.

Without reiterating our prior comments submitted last week in this proceeding, TURN simply notes that the facts indicate that the primary factor contributing to the shortages in August was the software error in the CAISO’s Residual Unit Commitment process, which allowed over 3,500 MW of power to be scheduled for export in the day-ahead market. While the text of the Preliminary Root Cause Analysis downplays the predominant contribution of this factor, both the data in the PRCA and the data in the CAISO’s Department of Market Monitoring report for August and September 2020 support this conclusion.³ It is further supported by the fact that on September 5, demand significantly exceeded the August demands, but there were no problems because “the ISO implemented several software modifications designed to reduce exports from being scheduled in the day-ahead market”⁴

TURN understands that a number of other factors contributed to the situation unfolding on August 14-15, including under-scheduling of load by LSEs and unanticipated fossil plant outages. However, the magnitude of the problem caused by the RUC software was greater than the amount of load shed, which is why solving the RUC software glitch

³ CAISO Department of Market Monitoring, *Report on System and Market Conditions, issues and performance: August and September 2020*, November 24, 2020.

⁴ CAISO Department of Market Monitoring, *Report on System and Market Conditions, issues and performance: August and September 2020*, November 24, 2020, p. 9. See, TURN Reply Comments of December 10, 2020 for a more complete discussion of this issue.

would have solved the problem in August, and did in fact prevent any problems in September.

2.2 Focusing on Supply Procurement Could Lead to Harmful Outcomes, and the Commission Should Instead Focus Attention on Demand Side Reduction Strategies

The focus on increasing supply for the summer of 2021 is all too likely to result in harmful policies that create unintended consequences. A hasty desire to “do something,” given that the key short-term problem has already been fixed by the CAISO, has the significant potential to distract significant stakeholder and Commission effort, impede progress being made on these same issues in other proceedings, or, in the worst case scenario, create long-term problems by authorizing procurement which will cost too much and not comport with the long-term procurement plans being developed in the integrated resources plan (“IRP”) proceeding. Authorizing any long-term contracts, as would be necessary to upgrade fossil plants or install new generation, could result in the procurement of the wrong resources, and/or crowd out procurement of clean energy resources. While even short-term fixes may not be essential to maintain reliability, at least such steps will not saddle ratepayers with costs for years to come or crowd out new clean resources that have already been authorized for 2021, 2022 and 2023.

While one of the benefits of demand response is the ability to procure faster and in smaller increments, even expanding demand response capacity will require some lead time.⁵ Making modifications to existing utility programs, developing a new Emergency Load Reduction Program, and/or enrolling customers and testing their ability to drop load will all require some effort and time. Thus, TURN suggests that the priority should be to limit contentious disputes about supply procurement, which is less likely to result in actionable new capacity, and instead move expeditiously to consideration of the demand portion of the equation. Even for demand, TURN suggests that the Commission should narrow the scope of potential demand response actions from the very broad list included in the initial scope proposals, so as to allow detailed consideration of how to actually

⁵ For example, PG&E Opening Comments, pp. 3-4; Joint DR Parties Opening Comments, pp. 3, 11-12.

implement improved and incremental demand response capabilities for the summer of 2021.

3 RESPONSES TO SPECIFIC QUESTIONS REGARDING THE SUPPLY PROCUREMENT PROPOSAL

In the sections below, TURN repeats the “proposal” as documented in the email Ruling of December 11, 2020, and then provides responses to only a few of the questions posed regarding procurement of supply-side resources.

Procurement Type Initial Proposal

- The procured capacity must have a commercial operation date (COD) by summer 2021 (proposal for COD is June 1, 2021).
- The Resource types that should be considered for procurement include
 - Incremental efficiency upgrades to existing power plants,
 - Re-contracting for generation that is at-risk of retirement,
 - Incremental energy storage capacity, and
 - Firm forward imported energy contracts.
- RA only contracts or contracts that include tolling agreements may be proposed
- Potential resources can include Utility Owned Generation

3.1 Question 1 – In considering incremental authorization for procurement, what parameters should the Commission place on contracts regarding pricing, contract term, and operational characteristics?

The Commission should only consider **short-term** contracts, with terms that are for 2021 and/or 2022 only. The Commission should not authorize any long-term contracting, as such contracting could contribute to an overhang of resources that are not optimal for meeting the long-term needs as identified in the Integrated Resource Planning proceeding. Moreover, any contracting for 2023 and beyond is more appropriately being addressed in the procurement track of the IRP.⁶

⁶ See, R.20-05-003, Scoping Ruling, September 24, 2020, pp. 4-5 and 7-9. The ALJ in the IRP already issued on November 13, 2020 a proposed decision regarding backstop procurement for 2021-2023. One of TURN’s recommendations for modifying the PD was to expand the timeline necessary for backstop procurement, precisely for the reasons addressed by various parties regarding the procurement timelines. The IRP process intends to “start with further work on resources to replace the capacity associated with the
TURN Comments on ALJ Ruling
R.20-11-003
December 18, 2020

From a practical perspective, multiple parties, including various project developers, noted in prior comments that even upgrades at existing fossil facilities require significant lead time to construct and are unlikely to come online by the summer of 2021.

TURN assumes that firm forward energy contracts for imports might be the most viable opportunity for providing resources that can be available by this summer and do not require long-term contracts to finance investments. However, TURN suggests that such any such contracts should be signed at a time when spring hydro conditions are reasonably well known to minimize speculative pricing. By around March of 2021, potential suppliers in the Pacific Northwest will have a much better idea of hydro conditions and the amount of surplus that they will have available for sale.

Furthermore, it may be worthwhile for the utilities to engage in bilateral negotiations with existing counter parties to determine if there are any opportunities for increasing the capacity under existing RA-only contracts or tolling arrangements that last less than three years.

Though the interim proposal only addresses supply procurement, TURN strongly recommends focusing on increased procurement of demand response, including through incremental procurement using the Demand Response Auction Mechanism (DRAM)

3.2 Question 2 – Should the Commission limit the total volume of incremental procurement authorized?

The CAISO presented a stack analysis that shows a capacity shortage of 1,073 MW for the net load peak hour (hour ending at 8:00 p.m.) in September 2021,⁷ while SCE presented a loss-of-load expectation (LOLE) study, which showed that the CAISO system meets the 1-in-10 reliability standard for 2021.⁸ Any differences in the assumptions and methods of these two analyses have not been explored in detail.

Diablo Canyon Nuclear Plant retirement in 2024 and 2025 and to continue to ensure reliability in the intervening years.” (Scoping Memo, p. 4.)

⁷ CAISO Opening Comments, p. 16, Table 2 and Attachments.

⁸ SCE Opening Comments, p. 2 and Appendix A.

The controlled rolling blackouts on August 14 and 15 affected 492,000 and 321,000 customers respectively, for a period up to three hours for some customers.⁹ These rolling blackouts apparently provided approximately 1,000 and 500 MW of controlled load shedding.¹⁰

Based on these data and the CAISO stack analysis, and ignoring for the moment the issue of the RUC software fix, TURN suggests that the maximum amount of *net capacity* procurement – including increased supply and decreased demand – should be limited to no more than 1,000 MW for the net peak load hour. However, TURN does not endorse procuring this much capacity, given our comments at the outset concerning the lack of a demonstrable problem.

3.3 Question 3 - Should procurement that cannot achieve a commercial operation date by June 1, 2021 also be considered in this procurement authorization?

If the procurement is limited to a term of less than two years, then TURN suggests that delivery by August 1, 2021 should also be considered.

TURN assumes that any contracts for resources that cannot come online until 2022 would likely require long-term commitments, and any such procurement should be more appropriately evaluated and authorized in the IRP.

3.4 Question 4 - Are there any additional considerations regarding the procurement type that the Commission should consider in issuing a procurement authorization?

TURN believes that most “incremental” energy storage capacity would similarly require long-term contracting; however, if such capacity can qualify to be counted for the procurement authorized in D.19-11-016 for 2022 and 2023,¹¹ then TURN would support contracting for such capacity. There is no demonstrated need to procure storage that is incremental to the capacities already authorized in D.19-09-016 for 2021-2023.

⁹ PRCA, p. 3.

¹⁰ PRCA, pp. 35 and 37; CAISO DMM Report, p. 7.

¹¹ In other words, it can count as “accelerated procurement” of already-authorized capacity.

- 3.5 Question 5 - Are there additional specific issues the Commission should consider in authorizing procurement to ensure that the procurement is cost-effective under the existing circumstances, would addresses system needs, and be in the public interest?**

Procurement Process

- The authorized contracting vehicles should include bilateral negotiations and the offers from recent IRP request for offers (RFO) bid stacks.

- 3.6 Question 6 - Are there other expedited processes besides bilateral negotiations or revisiting offers from recent IRP RFO bid stacks that could be used to ensure cost-competitive resources are procured to be online for Summer 2021?**

The Commission should consider expanding volumes under existing contracts (supply or demand) if and where feasible; and should consider a solicitation for import contracts, given that such a product is already actively traded.

- 3.7 Question 7 - Can or should actions be taken to expedite the permitting and interconnection processes associated with this procurement?**
- 3.8 Question 8 - What existing investor-owned electric utility procurement processes (for example, Procurement Review Group consultation independent evaluator oversight, etc.) should be utilized for this procurement?**

The PRGs should continue to be included in the evaluation of any procurement options.

- 3.9 Question 9 - What information must be included in any filings seeking final approval from the Commission, including in any potential advice letter filings that might be evaluated and resolved by the Commission's Energy Division?**

Any filings seeking approval of contracts should include the standard information about contract terms and conditions, but should also include discussion of any other options that were considered and an explanation of why the proposed contracts were chosen over alternatives, especially over demand-side options.

3.10 Are there any additional considerations regarding the procurement process that the Commission should consider in issuing a procurement authorization?

Cost Recovery

- The electric investor-owned utilities should procure these resources on behalf of all customers in their service territories. The costs should be recovered through the existing cost allocation mechanism, which allows capacity benefits to be allocated to and net costs to be recovered from all benefiting customers on a non-bypassable basis.

3.11 Question 11 - Are there any additional considerations regarding cost recovery and ratemaking treatment the Commission should consider in issuing a procurement authorization?

TURN believes that it is reasonable to recover costs through the CAM if emergency procurement is authorized.

Process for Commission Review

- Given the tight time frame of this procurement, a Tier 1 Advice Letter approval process would ensure cost recovery certainty and allow for expedited procurement, except for proposed Utility Owned Generation contracts, which will require a Tier 2 Advice Letter approval process.

3.12 Are there any additional considerations regarding the process for Commission review that the Commission should consider in issuing a procurement authorization?

A Tier 1 Advice Letter process is only reasonable if the Commission provides very specific direction on what the utilities should do and how they should do it. If the authorization is framed more broadly, at least a Tier 2 Advice Letter should be required to allow parties an opportunity to comment.

TURN appreciates the opportunity to provide these comments.

December 18, 2020

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