

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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Order Instituting Rulemaking to Continue
Electric Integrated Resource Planning and
Related Procurement Processes.

**OPENING COMMENTS OF
CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES
ON ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENTS ON
STAFF PAPER ON PROCUREMENT PROGRAM AND POTENTIAL NEAR-TERM
ACTIONS TO ENCOURAGE ADDITIONAL PROCUREMENT**

V. JOHN WHITE

Executive Director
Center for Energy Efficiency and
Renewable Technologies
1100 11th Street, Suite 311
Sacramento, CA 95476
Telephone: (916) 442-7785
E-mail: vjw@ceert.org

MEGAN M. MYERS

Attorney at Law
110 Oxford Street
San Francisco, CA 94134
Telephone: (415) 994-1616
Facsimile: (415) 387-4708
E-mail: meganmmyers@yahoo.com

For: CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES

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The Center for Energy Efficiency and Renewable Technologies (CEERT) respectfully submit these Opening Comments on Administrative Law Judge’s Ruling Seeking Comments on Staff Paper on Procurement Program and Potential Near-Term Actions to Encourage Additional Procurement, issued in (R.) 20-05-003 (Integrated Resource Plan (IRP)), on September 8, 2022 (September 8 ALJ Ruling). Attachment A to the September 8 Ruling is the CPUC Energy Division Reliability and Clean Power Procurement Program Staff Options Paper (Staff Options Paper). These Opening Comments are timely filed and served pursuant to the Commission’s Rules of Practice and Procedure and the instructions contained in the September 8 ALJ Ruling and a subsequent ALJ Ruling which extended the due date for Opening Comments to December 12, 2022 and Reply Comments to January 9, 2023.

**I.
INTRODUCTION**

CEERT is a nonprofit public-benefit organization founded in 1990 and based in Sacramento, California. CEERT is a partnership of major private-sector clean energy companies, environmental organizations, public health groups and environmental justice organizations. CEERT designs and fights for policies that promote global warming solutions and increased

reliance on clean, renewable energy sources for California and the West. CEERT is working toward building a new energy economy, including cutting contributions to global warming, and reducing dependence on fossil fuels. CEERT has long advocated before the Commission for increased use of preferred resources and for California to move towards a clean energy future.

II. SUMMARY OF CEERT'S POSITION

The September 8 ALJ Ruling and the ALJ Ruling Seeking Comments on Electricity Resource Portfolios for 2023-2024 Transmission Planning Process, issued in this proceeding on October 7, 2022 (October 7 ALJ Ruling) move the IRP proceeding in the correct direction to assist California in meeting its clean energy goals. Both ALJ Rulings demonstrate that the Commission is prioritizing procurement and transmission expansion to rely upon a diverse set of clean energy resources.

IV. CEERT'S RESPONSES TO THE QUESTIONS IN SECTION 1 OF THE SEPTEMBER 8 ALJ RULING

1. Objectives

- a. Do the stated objectives of the new procurement program in Attachment A appropriately capture the Commission's direction given in D.22-02-004? If not, provide additions and/or alternatives.**

CEERT supports the 14 objectives of the proposed new procurement program as outlined in the Staff Options Paper.¹

- b. How should the program's objectives be prioritized?**

The top priority of the new procurement program must be to meet the planned greenhouse gas (GHG) reduction goals through 2035 and beyond consistent with the requirements of Senate Bill (SB) 100. This goal has been subordinated to assuring reliability

¹ Attachment A to the September 8 ALJ Ruling, at p. 8.

through the case-by-case procurement orders. GHG emissions could worsen with the addition of substantial amounts of battery storage unless the sources of energy for charging the fleet of batteries are increasingly zero-carbon resources.

In order to meet this goal and assure system reliability the procurement program needs to be coordinated with the need to co-optimize transmission expansion with procurement.

Development of new transmission resources needs to occur in tandem with decisions about the procurement of new sources of generation. Only by co-optimizing transmission expansion and generation and storage procurement can the Commission achieve an economically efficient outcome for California's ratepayers.

The new procurement program needs to be implemented in a way that complements the reforms that are being put in place for the resource adequacy (RA) program. Much effort has been expended to achieve a consensus on the details of the RA program reform to assure that there are sufficient energy resources to meet peak requirements and to charge the fleet of batteries included in load-serving entity (LSE) resource portfolios.

- c. Do you agree with how the four factors motivating the need for a procurement program (reliability, environment, financial risk, and market power) are described in the Appendix and Section 7 of Attachment A? If not, provide alternative viewpoints with supporting rationale.**

CEERT agrees that the four factors described in Section 7 (Other Program Design Considerations) and the Appendix of the Staff Options Paper are worthy of consideration by the Commission in the design of the new procurement program.² However, two of the factors – reliability and GHG emission reductions need to take priority in the program design.

It has become clear over the past five years that wholesale markets in California are necessary but not sufficient to provide the conditions to prevent scarcity conditions. The

² Attachment A to the September 8 ALJ Ruling, at pp. 29-31 and 39-42.

Commission has responded to this fact by twice ordering LSEs to procure more reliability resources by specific dates. The new procurement program should be designed to assure the orderly entry and exit of resources to meet evolving reliability requirements.

The Legislature, with the passage of SB 350 and SB 100, has indicated that the Commission must adopt policies that assure that least-carbon resources are developed by LSEs in a systematic manner. CEERT is encouraged that least-carbon and least-cost resources are often in alignment and that new resource procurement can be done in a way that maintains energy affordability.

The other two factors – financial risk and market power – are important issues for the Commission to monitor but may not be key to the design of an effective new procurement program. Hedging for financial risk is an important consideration for all LSEs but could be accomplished through other risk management strategies. Opportunities for abuse of market power needs to be monitored by the Commission and the California Independent System Operator (CAISO). However, strategies to mitigate market power could be addressed in other proceedings.

d. Do you agree that a new procurement program is needed? If not, explain why.

CEERT agrees that a new procurement program is needed. As noted above, market mechanisms on their own are insufficient to assure reliability and GHG emissions reduction.

e. Should the program be designed to drive resource attribute-focused procurement by all LSEs, or should it also be able to deliver some form of centralized, resource-specific procurement (e.g., large-scale and/or long lead-time resources)? Explain your reasoning.

Both procurement options should be included in the program design. Priority should be given to attribute-focused procurement by all LSEs to achieve the reliability and GHG emission

reduction goals. Some long-lead time resource may need to be procured in a more centralized manner. However, efforts should be made to incentivize procurement through syndicates of LSEs.

2. The “fundamental program elements” and “additional design features” introduced in Section 4 of Attachment A build on concepts detailed in the November 2020 Staff Proposal for a Procurement Framework in IRP. Comment on their general suitability for discussing potential procurement program designs.

CEERT agrees that a new procurement program will need to include mechanisms for determining resource needs, allocating those needs to specific LSEs, assuring program compliance and penalizing LSEs which fail to comply.

The additional design features outlined in the Staff Options will require more elaboration before being considered as necessary elements of the program.³ It is not clear at the outset that procurement subcategories need to be a requirement of the program. CEERT prefers that attribute-based procurement be used by the LSEs to meet their resource needs while contributing their fair share to system reliability.

CEERT agrees that changes in need determination are likely to occur over the life of the program and that the program should be implemented in a manner that allows for changes in LSEs’ procurement plans. Likewise, load migration should be expected and accounted for in the compliance mechanism. Uncertainty in need determination and need allocation should be expected. Periodic updating of forecasting and modeling assumptions should be designed into the program.

³ Attachment A to the September 8 ALJ Ruling, at pp. 11-12.

3. Comment on any content in the November 2020 Staff Proposal for a Procurement Framework in IRP that you think is particularly relevant to developing a programmatic approach to procurement now, especially if it was not included in Attachment A.

CEERT does not provide a response at this time but reserves the right to respond to this question in Reply Comments.

4. Comment on each of the fundamental program elements and features described in Section 5 of Attachment A on Designing for Reliability. Is the range of options for each design element or feature appropriate? Explain your rationale.

a. Need Determination;

CEERT agrees that both the energy and capacity dimensions of reliability need to be taken into account in designing for reliability. Important progress has been made in the RA proceeding in balancing those requirements. Loss of load probability (LOLP) modeling should be an essential part of need determination. It is also clear with the changes anticipated in LSEs' resource portfolios that the LOLP modeling will need to be routinely updated, perhaps annually. Likewise, resource counting rules will need to be adopted to determine compliance by each LSE.

Section 5 of the Staff Options Paper (Designing for Reliability) provides three options for resource procurement: 1) all resources, 2) new resources only and 3) new resources and partial coverage of existing resources.⁴ The new program should aspire to support procurement of all resources through bilateral procurement solicitations. As noted, such a program design would create competition between existing and new resources and would encourage efficient market evolution. However, CEERT acknowledges that movement toward an all resources procurement process is likely to be an iterative process as existing contract commitments expire.

⁴ Attachment A to the September 8 ALJ Ruling, at pp. 13-23.

b. Need Allocation;

The need allocation process used in the most recent Commission procurement orders has been to allocate need based on a single hour system coincident peak forecast. While simple to apply it does not fully account for the energy needs of each LSE portfolio. A new allocation process will need to take into account the RA program's 24-hour slice of day approach. The monthly 24-hour forecast will require LSE to meet its share of peak load and system energy for each month's highest expected load profile. Frequent updates to need allocation among LSEs will be needed to account for shifts in resource mix and load. An annual update may be appropriate if annual compliance showings are required.

c. Compliance; and

Compliance in meeting the procurement requirements needs to be coordinated closely with the compliance metrics being used in the 24-hour slice of day approach that will be used in the RA program. In the RA program each LSE must show sufficient excess capacity in the 24 hours for each month to assure charging of standalone batteries to support their daily dispatch. The reliability requirement that assures sufficient energy to charge batteries will need to be an element of the procurement compliance as well.

The compliance issues discussed in the Staff Options Paper are very important; those issues are 1) years covered, 2) volume of need covered in each year, 3) proof of contracting, 4) persistence of attributes and 5) frequency of compliance filings.⁵ There should be a 10-year forward procurement requirement for new resources.

⁵ Attachment A to the September 8 ALJ Ruling, at p. 21.

d. Enforcement.

CEERT generally agrees with the description of the triggers for enforcement as outlined in the Staff Options Paper.⁶ CEERT also agrees that any penalty will need to be set higher than the cost of new entry (CONE) in order to be effective. In addition, a backstop procurement mechanism will be necessary to assure that reliability needs are met.

5. Comment on each of the fundamental program elements and features described in Section 6 of Attachment A on Designing for GHG-Reduction. Is the range of options for each design element appropriate? Explain your rationale.

a. Need Determination;

CEERT understands that a GHG reduction target will need to be put in place for specific years. The GHG target adopted in the planning track should be used for the procurement track. The 2022 Preferred System Portfolio adopts a 38 million metric ton target for 2030 and two 2035 planning targets – one for 30 MMT and another for 25 MMT. The Energy Division staff is recommending that a 2030 planning target of 30 MMT be adopted for the 2023-2024 transmission plan to be developed by the CAISO.⁷ Translating the GHG target into an actionable metric will be necessary. The hourly emissions accounting used in the planning track can be an effective metric with appropriate changes to account for uncertainty. As noted in the Staff Options Paper, the Clean System Power (CSP) calculator may need to be updated to account for future system conditions.⁸

b. Need Allocation;

CEERT agrees that an hourly emissions-based approach could be used to determine each LSE GHG emission allocation based on their share of CAISO-wide GHG emissions. The mass-based GHG metric seems preferable to an annual energy-based Clean Energy Standard approach

⁶ Attachment A to the September 8 ALJ Ruling, at p. 22.

⁷ October 7 ALJ Ruling.

⁸ Attachment A to the September 8 ALJ Ruling, at pp. 24.

c. Compliance; and

The hourly mass-based metric would be determined by having LSEs input their contracted portfolios into the CSP calculator which is currently used in the IRP planning track. Forward compliance would be determined based on a specified amount of GHG-based forward contracting required by the new procurement program (*e.g.*, 100% for the five-year ahead need and 25% for the 10-year ahead need.)

d. Enforcement.

CEERT agrees that under an hourly emissions based approach, penalties could be assessed on a \$/ton basis for GHG emissions in excess of the LSE's requirements for GHG reductions. It could also be assessed on a backwards-looking assessment of whether the LSE developed the shown resources.

6. Comment on the other program design considerations raised in Section 7 of Attachment A. Should they affect the design of the program and, if so, how?

a. Financial risk and risk of LSE market exit;

The Commission is currently evaluating these risks in the Provider of Last Resort proceeding (R.21-03-011). These risks are important and need to be thoroughly evaluated but seem at this point in time to be peripheral to the design on the new procurement program.

b. Risk of market power; and

LSE risk of exposure to market power appears to arise when an LSE does not engage in energy hedging when procuring capacity-only contracts. This hedging risk is being addressed to a significant degree in the RA reform proceeding. Under the 24-hour slice of day approach LSEs will need to show capacity in each hour that is sufficient in the aggregate to meet load and any requirement for battery charging.

c. Past and centralized procurement.

CEERT understands that the new procurement program will be designed so that each LSE is expected to self-provide to meet the needs of its customers. The Staff Options Paper notes that there are some instances that may cause one LSE to procure on behalf of the customers of other LSEs.⁹ CEERT agrees that cost causation principles should be followed in those situations.

7. Assess the straw options in Section 8 of Attachment A. Include in your comments an assessment of the options against the program's objectives listed in Section 3 of Attachment A.

CEERT supports Option 3 which uses the slice of day approach for reliability and the mass-based hourly metric for GHG emission to account for GHG reductions.¹⁰ This program design is most consistent with the RA program and the IRP planning process.

Option 3 can be readily implemented in a manner that supports the realization of the goals of SB 350 and SB 100. In addition, Option 3 is closest in alignment with evolving market structures and with procurement order that are already underway. Changes to load shapes resulting from transportation electrification can readily be incorporated into this option for procurement. By building in compatibility with the nearer-term LSE RA procurement responsibilities the procurement should be able to smoothly transition to an all-resources approach to procurement going forward.

The use of the mass-based approach to GHG emission reductions complements the IRP planning track and allows for comparison of LSE IRPs with their procurement plans. Likewise, the slice-of-day approach to reliability procurement aligns with the RA program.

⁹ Attachment A to the September 8 ALJ Ruling, at pp. 29-31.

¹⁰ *Id.*, at pp. 32-37.

Option 3 is compatible with the current renewables portfolio standard (RPS) program but is likely to supersede it in importance after the 2030 RPS goals are achieved. Accounting for GHG reductions together with the procurement of substantial quantities of energy storage will be essential for success in meeting California’s climate goals. Lastly, Option 3 could also allow for some resource-specific procurement to occur through a centralized procurement process if that is determined to be necessary to procure long lead-time resources.

- 8. Do you recommend adopting any of the options as presented in Attachment A? Explain your reasoning and justify your recommendation, by including assessment of your preferred approach against the program’s objectives listed in Section 3 of Attachment A. If you do not recommend any of the option in Attachment A, indicate whether you recommend:**
- a. A hybrid of elements described;**
 - b. A hybrid of some elements described and some not described; or**
 - c. An entirely different approach than the options described.**

See CEERT’s Response to Question 7 above.

- 9. Should the new program’s compliance showings should be combined with the current annual compliance reports required by the renewables portfolio standard program, filing of LSEs’ individual IRPs, and/or other existing regular planning and procurement filings? Do you have any other suggestions to minimize the time and effort required of LSEs and staff?**

CEERT does not provide a response at this time but reserves the right to respond to this question in Reply Comments.

- 10. Local reliability is raised briefly in Section 5.1.1 of Attachment A. Requirements are currently set for the near-term as part of the resource adequacy program. Are these sufficient, or should there be medium-to-long-term procurement requirements as well? If so, should they be part of the new program or should they be addressed on an order-by-order basis in parallel with the program? Explain your reasoning.**

It will be easier to roll out the new procurement program if local reliability requirements are not included at this time since they will add a higher level of complexity. Instead, it is likely that local capacity requirements will need to be addressed order-by-order as issues like the

retirement of the Aliso Canyon storage facility are addressed by the Commission. Also targeted procurement to meet environmental justice needs could be elevated by an order-by-order approach to local capacity requirements.

11. How would the approaches described in Section 5.1.1 of Attachment A need to be amended or expanded in order to minimize local air pollutants and other GHG emissions in disadvantaged communities associated with location-specific procurement?

It is not clear that local air pollutants need to be included in a program that primarily is intended to address reliability and GHG reduction needs. Location-specific procurement orders may be required to reduce the impact of criteria pollutants on disadvantaged communities and/or to facilitate the retirement of regional facilities like Aliso Canyon.

12. D.22-02-004 ordered two storage projects be procured to mitigate the need for transmission upgrades and noted that the new procurement program may be able to address opportunities of this nature. Do you think that is appropriate? If so, explain why, and how the program design should consider this.

Again, it is not clear to CEERT, that the new procurement program needs to directly address the opportunity for using storage as an alternative to transmission upgrades. The identification of alternative solutions to transmission expansion is likely to occur in the CAISO transmission planning process. To the extent that the Commission needs to be involved in procurement of storage or other non-wire solutions to transmission it could do so on a case-by-case basis.

13. Comment on the need to develop interim approaches to manage the risk of the preferred program design taking longer to implement.

It is reasonable to expect that establishing a new procurement program could face obstacles which could delay it taking effect in the near future. Therefore, CEERT supports examining interim approaches to programmatic procurement. The Staff Options Paper provides two interim approaches – 1) resource specific procurement tied to IRPs and 2) attribute-based

procurement tied to a GHG benchmark and reliability need.¹¹ CEERT's preference would be to give LSEs sufficient flexibility to contract for resources that would meet a portion of the GHG benchmarks and reliability need. However, CEERT understands that this approach would require some modification of compliance tools to allow for enforcement for non-compliance.

14. Assess the interim options discussion in Appendix 10.3 of Attachment A. Include in your comments an assessment of the options against the program's objectives listed in Section 3 of Attachment A.

See CEERT's Response to Question 13 above.

15. Do you recommend adopting either of the interim options in Appendix 10.3 of Attachment A? If not, what do you recommend? Explain your rationale.

CEERT favors the implementation of the attribute-based option for LSEs as an interim program for procurement.

**V.
CONCLUSION**

CEERT appreciates the opportunity to submit these Opening Comments.

Respectfully submitted,

December 12, 2022

/s/ MEGAN M. MYERS

Megan M. Myers

On Behalf of the Center for Energy Efficiency and
Renewable Technologies

110 Oxford Street

San Francisco, CA 94134

Telephone: 415-994-1616

E-mail: meganmmyers@yahoo.com

¹¹ Attachment A to the September 8 ALJ Ruling, at p. 42.