



California Public Utilities Commission
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PRESS RELEASE

Docket #: R.17-09-020

CPUC ADOPTS CENTRAL PROCUREMENT FRAMEWORK FOR LOCAL RESOURCE ADEQUACY

SAN FRANCISCO, June 11, 2020 – The California Public Utilities Commission (CPUC) today adopted a framework that designates a central buyer to procure local, multi-year resource adequacy in the Pacific Gas and Electric Company (PG&E) and Southern California Edison (SCE) distribution service areas. Beginning in 2021, PG&E and SCE will serve as the central procurement entities for their respective distribution service areas and begin procuring local resource adequacy for the 2023 compliance year. The Decision declines to adopt a central procurement framework for the San Diego Gas and Electric (SDG&E) distribution service area at this time.

The CPUC’s Decision adopts a hybrid procurement model that tasks the central procurement entities with the responsibility to procure the entire amount of required local resource adequacy on behalf of all load serving entities (LSEs), while still allowing individual LSEs the opportunity to procure their own local resources. If an LSE procures its own local resource, it may (1) sell the capacity to the central procurement entities, (2) utilize the resource for its own system and flexible resource adequacy needs, or (3) voluntarily show the resource to meet its own system and flexible resource adequacy needs and reduce the amount of local resource adequacy the central procurement entities will need to procure for the amount of time the LSE has agreed to show the resource.

The CPUC is open to considering a compensation mechanism for local capacity requirement reduction achieved through shown local resources by LSEs. The Decision directs parties to form a Working Group to develop proposals for a local capacity requirement reduction compensation mechanism and the treatment of existing contracts. The CPUC will address any proposed local capacity requirement reduction compensation mechanisms in a subsequent decision to be issued



prior to the central procurement entities' 2021 procurement (for the 2023 and 2024 compliance years).

“The purpose of the Decision is to create the necessary single-entity purchasing power for local resource adequacy. Having numerous entities buying small strips of local resource adequacy is not cost-effective and creates market power concerns,” said CPUC Commissioner Liane M. Randolph. “There is absolutely no reason why this purchasing power cannot be used to procure preferred resources. As the Decision notes, the central procurement entities framework must comply with all past CPUC direction regarding the favoring of preferred resources in the development of solicitation criteria, including use of the loading order adopted in D.04-07-020 and the added selection criteria that procurement of preferred and energy storage resources will be prioritized over fossil fuel generation. As such, the CPUC expects preferred resources to be procured by the central procurement entities.”

The Decision considers but ultimately rejects a proposed Settlement Agreement putting forward a residual model where individual LSEs would procure all resource adequacy and voluntarily show their procured capacity to the central buyer. Based on the shown capacity, the central buyer would then determine the residual amount of local resource adequacy that would be needed to be procured to avoid individual or collective deficiencies. Commissioner Randolph notes, “We were concerned that this model would result in resource adequacy being purchased that did not meet the State’s reliability needs and thus would be ineffective and replacement capacity would need to be purchased by the central buyer or the California Independent System Operator, leading to increased customer costs.”

With regards to SDG&E’s distribution service area, the Decision declines to adopt the central procurement entities framework, recognizing that the SDG&E service area is uniquely situated in that the local resource adequacy requirements, which must meet a higher reliability threshold than system capacity requirements, exceed the system resource adequacy requirements for most months of the year. Given that local capacity procured by the central procurement entities would also count towards LSEs’ system resource adequacy requirements, LSEs would have very little procurement autonomy for system resource adequacy requirements if a central buyer were to procure all needed local capacity.



In addition to directing the creation of a Working Group to develop a local capacity requirement reduction compensation mechanism, the Decision directs an Independent Evaluator report to be filed annually with the central procurement entities' compliance filing, which will increase transparency into any gas-fired procurement by including the basis for any fossil fuel procurement that exceeds the minimum multi-year requirements. The Independent Evaluator report will also assess the neutrality of the procurement process, any market power or aggregate pricing concerns, procurement of preferred resources (e.g., on what basis preferred resources were not selected), and consideration of disadvantaged communities in the procurement process. The Decision also directs the CPUC's Energy Division to prepare a report assessing the effectiveness of the central procurement entities structure by 2025.

Said Commissioner Genevieve Shiroma, "I especially appreciate the efforts made in today's Decision to consider the impact of procurement decisions on disadvantaged communities."

The Decision notes that that Track 3 of current resource adequacy Order Instituting Rulemaking (R.19-11-009) has been scoped to examine the broader resource adequacy capacity structure and potential resource adequacy program modifications and reforms in light of increasing penetration of use-limited resources, greater reliance on preferred resources, a rolling off of a significant amount of long-term tolling contracts held by utilities, and material increases in energy and capacity prices experienced in California over the past years.

The proposal voted on is available at

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M339/K814/339814622.PDF>.

Documents related to the proceeding are at:

https://apps.cpuc.ca.gov/apex/f?p=401:56:0::NO:RP,57,RIR:P5_PROCEEDING_SELECT:R1709020.

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