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8/6/2020 Item #7

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Resolution ALJ-382

Administrative Law Judge Division

[Date]

**R E S O L U T I O N**

RESOLUTION ALJ-382. Resolves the Appeal K.19-03-024 of Citation No. E-4195-0052 by San Jose Clean Energy.

**SUMMARY**

This resolution resolves San Jose Clean Energy’s appeal of Citation No. E-4195-0052 by the California Public Utilities Commission’s Consumer Protection and Enforcement Division. Citation No. E-4195-0052 cites and fines San Jose Clean Energy for failing to procure certain of its 2019 system and flexible resource adequacy (RA) obligations. The appeal is denied, and this proceeding is closed.

**BACKGROUND**

The Consumer Protection and Enforcement Division (CPED) issued Citation   
E-4195-0052 to the City of San Jose, administrator of San Jose Clean Energy (SJCE) for failing to meet certain of its 2019 year ahead system and flexible resource adequacy (RA) obligations. SJCE stipulates that it was deficient in meeting its obligations as identified in the citation and that the citation correctly calculates the penalties pursuant to the penalty schedule adopted in Resolution E-4195 as modified by subsequent decisions. SJCE nevertheless appeals the citation on the basis that, given the totality of circumstances including its diligence in attempting to secure the required RA products and market constraints, the penalty is inequitable and unjustifiable.

By notice filed on April 17, 2019, this matter was set for a citation appeal hearing on April 29, 2019. By motion filed on April 23, 2019, SJCE requested that the citation appeal hearing (which it labeled an evidentiary hearing) be converted to a prehearing conference. The motion for prehearing conference was granted over objection by CPED.

At the April 29, 2019, prehearing conference, the acting administrative law judge (ALJ)[[1]](#footnote-1) directed the parties to file post-prehearing conference briefs identifying the factual and legal issues in dispute and the need and timing for evidentiary hearing. The then-assigned ALJ subsequently issued a ruling on April 29, 2019, to confirm and clarify that direction.

By ruling dated October 14, 2019, the then-assigned ALJ identified the following threshold issues and directed the parties to brief the four that were in dispute, limiting the concurrent opening and reply briefs to 10 pages and five pages, respectively, upon which the ALJ would determine the scope of disputed issues and set a schedule for the remainder of the proceeding:

1. Does the citation correctly identify SJCE’s deficiencies in meeting is RA obligations and calculate the penalties pursuant to the penalty schedule adopted in Resolution E-4195?
2. While the Commission’s policy supports uniform application of the applicable penalty schedule, should the Commission re-examine the penalty amount assessed in the citation when the appellant presents a defense of impossibility of compliance?
3. If the Commission determines that the penalty amount as assessed in the citation should be re-examined, should the five-factor test identified in Decision (D.) 98 12 075 be applied?
4. Is imposition of the penalty assessed in the citation unconstitutional under the circumstances?
5. What, if any policy or legal issues related generally to the RA program are raised by this citation appeal?

By ruling issued April 16, 2020, the now-assigned ALJ determined that the scope of the proceeding includes issues A through D (citation accuracy, impossibility defense and fine assessment based on the D.98-12-075 fine assessment factors and constitutional factors), but does not include issue E (reconsideration of the RA penalty program). The ruling also determined that there are no contested material factual issues and, therefore, no need for evidentiary hearing. Based on the parties’ briefing addressing the legal and policy issues, the ALJ indicated that she saw no need for further briefing and presented her tentative resolution of the issues but directed that, if a party believed further process was due, they were to file a motion identifying and explaining the need for the requested further process.

On May 4, 2020, SJCE filed a motion for reconsideration of the April 16, 2020, ruling arguing that denying SJCE the opportunity to present its factual assertions in an evidentiary hearing deprives it of its due process right and would result in the discriminatory enforcement of the RA program, and asking that an evidentiary hearing be set. The motion did not ask for any further process other than evidentiary hearing. The motion for reconsideration was denied by ruling dated June 9, 2020, on the grounds that there are no disputed material issues of fact.

DISCUSSION

*Issue A – Deficiency and penalty calculations*

The parties stipulate that SJCE was deficient in meeting its RA obligations as identified in the citation and that the citation correctly calculates the penalties pursuant to the penalty schedule adopted in Resolution E 4195 as modified by subsequent decisions.

*Issue B – Re-examination of the penalty amount on the asserted basis of impossibility*

SJCE responds to this issue by asserting that (1) it is contrary to Commission policy to penalize a load-serving entity (LSE) for failing to procure RA at commercially unreasonable prices; (2) it is contrary to Commission policy to impose a penalty under the citation process, as opposed to under a formal investigation, when the citation penalty would be significant; (3) the Commission should reconsider its penalty framework because market conditions have changed; (4) imposing the citation penalty on SJCE would violate the Commission’s duty to protect the public from excessive rates; and (5) penalizing SJCE would violate State policies supporting renewable energy resources and the reduction of greenhouse gas (GHG) emissions.

SJCE states the following facts, which are undisputed and assumed as true:

* PG&E offered a bid into SJCE’s first solicitation in June 2018 which would have met almost all of SJCE’s 2019 RA regulatory compliance needs. However, after weeks of negotiations, PG&E withdrew its offer in mid-August to sell RA for certain months, including System RA in July, September, and October.
* SJCE accepted the PG&E bid with large holes in the months of July, September, and October and did not receive bids on a month-alone basis sufficient to fill the holes left by PG&E in the time remaining before the October 31 deadline.
* After mid-August, SJCE held three other solicitations and entered bids into other solicitations. SJCE also participated in a bilateral exchange with other LSEs to fill its open position. During that time, the offers SJCE received had what SJCE characterizes as unusual and difficult terms attached, which required it to investigate internally whether it should accept them. For example, one bidder required SJCE to pay for the entire RA it would buy for 2019 prior to the commencement of 2019.
* During this period, SJCE rejected a bid for about 30 MW of RA that that it needed to spread out over February, July, and October and that also required SJCE to buy 25 megawatts of RA that it did not need in January. Paying for the unneeded 25 MW in January would have effectively doubled the cost of the RA that it needed in February, July, and October.
* By the time SJCE finished internally vetting the bids that it received, some were withdrawn or reduced.
* SJCE continued to procure system and flexible RA to meet its month-ahead system and flexible RA requirements after it was cited for failure to meet its year-ahead requirements and, as a result of efforts which included participation in 13 solicitations, it made up its flexible RA deficiencies in two out of three months and reduces its system RA deficiency in one month by almost 68% and in the other month by 100 MW in time for the month-ahead compliance filings.
* The total amount SJCE paid for all of its 2019 RA, even with its flexible and system RA deficiencies, exceeded the amount it would have paid based on the average weighted price for 2019 RA calculated in the Energy Division’s Resource Adequacy Report by almost $4 million.

SJCE’s arguments as to policy and the facts that it presents do not demonstrate that it was impossible for it to have procured its RA obligations. The issue is whether it was not possible, at any point in time and under any terms, for SJCE to procure capacity that would have met its RA obligations during its deficiency periods. SJCE’s arguments and facts regarding the high cost and fleeting availability of RA in a short-term market do not demonstrate impossibility. Indeed, and to the contrary, SJCE’s facts demonstrate that there was RA available to it at unfavorable terms.

*Issues C and D – Consideration of the D.98 12 075 fine assessment factors*

D.98-12-075 identifies five factors for the Commission to consider in the assessment of fines: (1) the severity of the offense, (2) the entity’s conduct, (3) the entity’s financial resources, (4) the role of precedent, and (5) the totality of circumstances in the public interest. The courts similarly consider four factors to determine if a penalty is unconstitutionally excessive: (1) the party’s culpability, (2) the relationship between the harm and the penalty, (3) the party’s ability to pay, and (4) penalties imposed in similar statutes. SJCE’s assertions with respect to these factors do not merit mitigating or excusing the citation penalty.

1. The Entity’s Conduct

SJCE asserts that unfavorable market conditions made it commercially unreasonable for it to meet its system and flexible RA requirements and argues that this should be considered as a mitigating factor for its failure to do so. To the contrary, the cost of operating as an LSE as required by law is not a mitigating factor for failure to meet those requirements. Pub. Util. Code § 380(c) and the RA program require that, in order to operate as an LSE, the entity must meet is procurement obligations. Those procurement obligations include system and flexible RA requirements just as much as the capacity for direct consumption by the LSE’s end-use customers. They are equally essential to an LSE’s ability to provide service to its customers.

LSEs are not excused from providing service due to market conditions. As the Commission has stated, “[W]e do not intend to pursue any action, or to tolerate inaction, that condones or promotes continued reliance on backstop procurement when capacity can be purchased by LSEs.”[[2]](#footnote-2) Although the Commission has indicated its interest in further exploring potential market power issues in the RA market, it has been steadfast in declining to extend the waiver process to system and flexible RA.[[3]](#footnote-3) By analogy, the market failure that led to the California energy crisis of 2000 and 2001 did not mitigate or excuse the electric utilities from meeting their service obligations. The State of California addressed the crisis, not by excusing the electric utilities from procuring electricity notwithstanding its soaring cost, but by taking action to correct the market and to prosecute the bad actors in the market.[[4]](#footnote-4)

SJCE argues that its continuing efforts to procure system and flexible RA requirements to meet its month-ahead system and flexible RA requirements compliance even after it was cited for failure to meet its year-ahead requirements are a mitigating factor that merits reducing or excusing the citation penalty. To the contrary, SJCE’s conduct demonstrates that its pre-citation efforts to procure its year-ahead system and flexible RA requirements were conditioned on whether it viewed the procurement terms to be commercially reasonable. The fact that SJCE continued to solicit RA resources to meet its obligations after being cited does not demonstrate a commitment to doing so notwithstanding unfavorable market conditions.

1. Severity of Harm

SJCE asserts that its penalty is disproportionate to the harm caused by SJCE’s deficiency because the deficiency did not result in any physical harm or threat of such harm and did not undermine the integrity of the regulatory process. To the contrary, SJCE’s violations threatened the safety and reliability of the electric grid. Even if the California Independent System Operator was not obliged to backstop the deficiency, and even if the potential harm to the safety and reliability of the electric grid did not come to pass, the potential harm to the safety and reliability of the electric grid and to the integrity of the State’s resource adequacy program caused by SJCE’s failure to meet its regulatory obligations is severe. By analogy, the fact that a charter party carrier’s brakes did not fail or that no claims for damages were brought against it does not mitigate the harm caused by its failure to adhere to safety check and insurance requirements.

1. Entity’s Financial Resources

SJCE states that it provides clean energy, has low-income customers, and provides beneficial programs to its community. SJCE states that forcing it to pay the penalty would create a financial hardship because it would lead it to divert resources that would otherwise be used to provide clean energy to its residents, pass on the costs to ratepayers, one-third of which has limited income, and forego programs that benefit the community.

The fact that SJCE provides clean energy, has low-income customers, and provides benefits to its community is not a financial condition that merits mitigating or excusing the citation penalty. Pub. Util. Code § 380(e) requires the Commission to enforce RA requirements in a nondiscriminatory manner across all LSEs. Many LSEs including electric corporations likewise provide clean energy, have low-income customers, and provide benefits to their communities.  The RA program is not designed to excuse noncompliance by LSEs who share these characteristics.

1. Role of Precedent

SJCE asserts that there is no precedent for this size of a citation penalty (approximately $6.8 million) for violations of RA requirements, citing to Citations No. E-4195-0051, E-4195-0046 and E-4195-0048 which ranged from approximately $1.1 million to $1.5 million. To the contrary, the size of the citation penalty is based on a penalty schedule that is tied to the size of the deficiency. Unless the other citation penalties were not calculated based on the application of the penalty schedule to the size of the deficiency – and SJCE makes no such assertion -- their relatively smaller size does not demonstrate a deviation from precedent with respect to calculation of the citation penalty.

SJCE argues that, due to the size of the citation penalty, precedent calls for the Commission to evaluate this appeal in a formal investigation rather than under the RA citation program established in Resolution E-4195. In support of this assertion, SJCE points to Investigation (I.) 11-06-011, an investigation on the Commission’s own motion ordering Pacific Gas and Electric Company (PG&E) to show cause why it should not be sanctioned for failure to timely secure the required energy resources for a certain period of time. To the contrary, nothing in the citation program adopted in Resolution E-4195 establishes a jurisdictional limit based on the size of the scheduled penalty.

1. Totality of Circumstances

As the Commission has stated, “[W]e do not intend to pursue any action, or tolerate inaction, that condones or promotes continued reliance on backstop procurement when capacity can be purchased by LSEs.”[[5]](#footnote-5) The RA penalty formula was established to induce compliance by ensuring that the consequences for noncompliance outweigh the costs of compliance. SJCE’s core defense for its violations is that it was commercially unreasonable for it to meet its regulatory obligations. Based on the totality of the circumstances, including SJCE’s conduct in failing to procure its RA requirements on the basis of commercial unreasonableness, the severity of the harm, the financial impact on SJCE’s customers, and precedent, the citation penalty should not be excused or reduced.

**COMMENTS**

The draft resolution was served on the parties for public review and comment in accordance with ALJ Util. Code § 311(g)(1), Article 14 of the Commission’s Rules of Practice and Procedure, and Rule 18 of Resolution ALJ-377. SJCE and CPED served comments on the draft resolution on July 14, 2020.

SJCE objects to the draft resolution’s observations regarding the California energy crisis of 2000 and 2001 and the State of California’s response to it on the basis that the facts were not officially noticed and SJCE did not have an opportunity to respond to them. To the contrary, the ALJ took official notice of these facts in her April 17, 2020, ruling on threshold issues and SJCE had and exercised the opportunity to present information relevant to the propriety of taking official notice of the matter and the tenor of the matter in both its May 4, 2020, motion for reconsideration of that ruling and in these comments on the draft resolution.[[6]](#footnote-6)

SJCE argues that it was denied due process because, although the October 14, 2019, ruling indicated that a later ruling would issue addressing the shifting of the burden of proof on the issues related to the assessment of the penalty, no such ruling ensued and SJCE was not given notice regarding its burden under the five-factor test. SJCE appears to misconstrue the burden of proof. The burden of proof applies to the proof of facts, not law or policy. The issue of who bears the burden of proving the facts in this case is moot because all of the facts that SJCE presented before the matter was submitted are assumed to be true.

SJCE renews its objections raised in its motion for reconsideration of the April 14, 2020, ruling that the ALJ denied it the opportunity to present evidence in an evidentiary hearing. As explained in both the April 14, 2020, and June 9, 2020, rulings, there is no cause or due process right to present evidence on uncontested facts that are presumed to be true.

SJCE argues that missing facts of scarcity in the RA market and SJCE’s procurement activity after the compliance deadline contradict the conclusions that it was possible for SJCE to meet its RA obligations and that the penalty should not be excused or reduced. With respect to the fact of scarcity in the RA market, to the contrary, the findings of fact properly reflect the market conditions that SJCE faced and how it responded to them, including the offers that were made but withdrawn after SJCE’s inaction. With respect to the fact of SJCE’s procurement activity after the compliance deadline, we acknowledge SJCE’s asserted and undisputed fact that, after being cited for failure to meet the October 31 compliance deadline, “SJCE continued to procure system and flexible RA to shore up its deficiencies” and, as a result of its additional efforts including participation in 13 solicitations, “SJCE was able to make up its Flexible RA deficiencies in two out of three months and reduce its System RA deficiency in one month by almost 68% and in the other month by 100MW in time for the month ahead compliance filings,”[[7]](#footnote-7) and we revise the draft resolution to add and reflect this finding of fact.

SJCE argues that it should have the opportunity to present evidence to prove that, had SJCE accepted the offers that were subsequently withdrawn while SJCE was vetting their terms, it still would have had a deficiency that could not have been filled because there was no other system or flexible RA available to buy. SJCE’s argument is untimely. The April 14, 2020, ruling presented the ALJ’s preliminary determinations on the threshold issues based on the asserted facts presented in the pleadings, explained that it did not appear that any of asserted facts presented in the pleadings were in dispute, and invited the parties to identify whatever further process they believed to be necessary. Instead, SJCE filed a motion for reconsideration claiming only the right to present evidence to prove the undisputed facts that it had already presented in its pleadings. The June 9, 2020, ruling properly denied the motion for failing to identify a need for evidentiary hearing. The opportunity to identify additional facts that it wishes to raise is passed.

Furthermore, the newly-identified factual issue of whether there was available RA resources after the available offers were withdrawn is not informative. According to the undisputed facts, SJCE rejected some offers because it viewed them as commercially unreasonable and other offers were withdrawn while SJCE deliberated whether to accept them despite viewing them as difficult and unusual. We will not entertain a debate as to whether there was available RA at an arbitrary point in time at which SJCE may have opted to seek to meet its procurement obligation.

SCJE points to the citation in its notice of appeal to *Hale v. Morgan* (1978) 22 Cal.3d 388, 404-405, in which the California Supreme Court expressed disfavor with penalty formulas that result in ever-mounting penalties and reversed a fine that was based on a penalty formula that included the number of days, and complains that the draft resolution does not address it or explain why the “mechanical application of the RA penalty schedule is proper given the circumstances presented by SJCE.”[[8]](#footnote-8) SJCE’s complaint is without merit. The draft resolution does not mechanically apply the RA penalty schedule. Rather, the draft resolution evaluates the impossibility defense and assesses the among of the fine based on the five assessment factors set forth in D.98-12-075.

The remainder of SJCE’s comments argue against the draft resolution’s assessment of the five factors. The comments do not identify factual or legal error and do not require further discussion.

CPED recommends revising Finding of Fact no. 8 (renumbered here as Finding of Fact no. 9) to clarify that the possibility that SJCE might divert resources from other operations and programs or raise rates were it required to pay the penalty is merely SJCE’s claim and not the Commission’s finding. To the contrary, SJCE presented this fact in the record and CPED did not dispute it. Furthermore, the fact is not reasonably subject to dispute. The finding of fact properly relies on this undisputed fact.

**FINDINGS OF FACT**

1. Citation No. E-4195-0052 Penalty correctly identifies deficiencies in SJCE’s procurement of certain of its 2019 system and flexible RA obligations and correctly calculates the penalties pursuant to the penalty schedule adopted in Resolution E-4195.
2. PG&E offered a bid into SJCE’s first solicitation in June 2018 which would have met almost all of SJCE’s 2019 RA regulatory compliance needs. However, after weeks of negotiations, PG&E withdrew its offer in mid-August to sell RA for certain months, including System RA in July, September, and October.
3. SJCE accepted the PG&E bid with large holes in the months of July, September, and October and did not receive bids on a month-alone basis sufficient to fill the holes left by PG&E in the time remaining before the October 31 deadline.
4. After mid-August, SJCE held three other solicitations and entered bids into other solicitations. SJCE also participated in a bilateral exchange with other LSEs to fill its open position. During that time, the offers SJCE received had what SJCE characterizes as unusual and difficult terms attached, which required it to investigate internally whether it should accept them. For example, one bidder required SJCE to pay for the entire RA it would buy for 2019 prior to the commencement of 2019.
5. During this period, SJCE rejected a bid for about 30 MW of RA that that it needed to spread out over February, July, and October and that also required SJCE to buy 25 megawatts of RA that it did not need in January. Paying for the unneeded 25 MW in January would have effectively doubled the cost of the RA that it needed in February, July, and October.
6. By the time SJCE finished internally vetting the bids that it received, some were withdrawn or reduced.
7. The total amount SJCE paid for all of its 2019 RA, even with its flexible and system RA deficiencies, exceeded the amount it would have paid based on the average weighted price for 2019 RA calculated in the Energy Division’s Resource Adequacy Report by almost $4 million.
8. SJCE continued to procure system and flexible RA to meet its month-ahead compliance requirements even after it was cited for failure to meet its year-ahead requirements and, as a result and, as a result of efforts including participation in 13 solicitations,, it made up its flexible RA deficiencies in two out of three months and reduces its system RA deficiency in one month by almost 68% and in the other month by 100 MW in time for the month-ahead compliance filings.
9. If SJCE is required to pay the penalty, it might divert resources that would otherwise be used to provide clean energy to its residents, pass on the costs to ratepayers (one-third of which has limited income), and forego programs that benefit the community.

**CONCLUSIONS OF LAW**

1. SJCE has not demonstrated that it was impossible for it to have met its RA obligations.
2. LSEs are not excused from providing service due to market conditions.
3. The fact that SJCE continued to solicit RA resources to meet its obligations after being cited does not demonstrate a commitment to meeting its RA obligations notwithstanding unfavorable market conditions.
4. The potential harm to the safety and reliability of the electric grid and to the integrity of the State’s resource adequacy program caused by SJCE’s failure to meet its regulatory obligations is severe.
5. The fact that SJCE (like many LSEs including electric corporations) provides clean energy, has many customers with limited income, and provides community programs it might divert resources that would otherwise be used to provide clean energy to its residents, pass on the costs to ratepayers (one-third of which has limited income), and forego programs that benefit the community is not a financial condition that merits mitigating or excusing the citation penalty.
6. The citation penalty assessed in Citation No. E-4195-0052 does not deviate from precedent.
7. Based on the totality of the circumstances, including SJCE’s conduct in failing to procure its RA requirements on the basis of commercial unreasonableness, the severity of the harm, the financial impact on SJCE’s customers, and precedent, the citation penalty should not be excused or reduced.
8. The citation appeal should be denied.
9. The citation appeal should be closed.

IT IS THEREFORE ORDERED that:

1. Appeal K.19-03-024 of Citation No. E-4195-0052 by San Jose Clean Energy is denied.
2. San Jose Clean Energy shall pay a fine of $6,791,155.40 by check or money order payable to the California Public Utilities Commission and mailed or delivered to the Commission’s Fiscal Office at 505 Van Ness Avenue, San Francisco, California 94102 within 30 days of the effective date of this resolution.
3. This proceeding is closed.

This resolution is effective immediately.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the following Commissioners voting favorably thereon:

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| ALICE STEBBINS  Executive Director |

1. The matter was initially assigned to ALJ Kimberly Kim, who was unavailable to preside over the prehearing conference. The matter was reassigned to ALJ Hallie Yacknin on March 4, 2020. [↑](#footnote-ref-1)
2. Decision (D.) 06-06-064 at 66. [↑](#footnote-ref-2)
3. D.19-06-026 at 18. [↑](#footnote-ref-3)
4. In its motion for reconsideration of the April 16, 2020, ruling, SJCE argues that the present circumstances are distinguishable because the RA program does not regulate the prices charged by suppliers and CCAs cannot recover high costs from the suppliers and pass them on to their customers. (Motion at 10.) This argument is without merit (for example, the Commission did not regulate the prices charged by suppliers during the energy crisis either) and, in any event, misses the point. [↑](#footnote-ref-4)
5. D.06-06-064 at 66. [↑](#footnote-ref-5)
6. *See* Evidence Code § 455(a), “If the trial court … has taken … judicial notice of such matter [specified in Section 452 or in subdivision (f) of Section 451], the court shall afford each party reasonable opportunity … to present to the court information relevant to (1) the propriety of taking judicial notice of the matter and (2) the tenor of the matter to be noticed.” The facts of this matter are judicially noticeable pursuant to Section Section 452(g). (“Facts and propositions that are of such common knowledge within the territorial jurisdiction of the court that they cannot reasonably be the subject of dispute.”)   
    [↑](#footnote-ref-6)
7. SJCE motion for reconsideration, pp. 9-10.  
    [↑](#footnote-ref-7)
8. SJCE comments, p.13. [↑](#footnote-ref-8)