

Decision 20-12-006 December 3, 2020

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to
Oversee the Resource Adequacy
Program, Consider Program
Refinements, and Establish Forward
Resource Adequacy Procurement
Obligations.

Rulemaking 19-11-009

**DECISION ON TRACK 3.A ISSUES: LOCAL CAPACITY REQUIREMENT
REDUCTION COMPENSATION MECHANISM AND COMPETITIVE
NEUTRALITY RULES**

TABLE OF CONTENTS

Title	Page
DECISION ON TRACK 3.A ISSUES: LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM AND COMPETITIVE NEUTRALITY RULES.....	1
Summary	2
1. Background	2
2. Issues Before the Commission.....	4
3. Discussion	5
3.1. CAISO’s LCR Reliability Criteria.....	5
3.2. LCR Reduction Compensation Mechanism	7
3.2.1. CalCCA’s Working Group Proposal.....	10
3.2.2. SDG&E’s Working Group Proposal.....	12
3.2.3. PG&E’s Working Group Proposal	12
3.2.4. Comments on Proposals	13
3.2.5. Discussion.....	15
3.3. Competitive Neutrality Rules	26
3.3.1. SCE’s Proposed Rule	27
3.3.2. PG&E’s Proposed Rule	28
3.3.3. Discussion.....	29
3.4. Behind-the-Meter Hybrid Storage/Solar Issues.....	33
4. Comments on Proposed Decision.....	33
5. Assignment of Proceeding	43
Findings of Fact.....	43
Conclusions of Law	44
ORDER	45

DECISION ON TRACK 3.A ISSUES: LOCAL CAPACITY REQUIREMENT REDUCTION COMPENSATION MECHANISM AND COMPETITIVE NEUTRALITY RULES

Summary

This decision addresses issues scoped as Track 3.A, including adopting a local capacity requirement reduction compensation mechanism and the central procurement entity's competitive neutrality rules.

This proceeding remains open.

1. Background

In Decision (D.) 20-06-002, the Commission adopted a central procurement entity and framework for the procurement of local Resource Adequacy (RA) capacity in the Pacific Gas and Electric Company (PG&E) and Southern California Edison (SCE) service territories. The decision adopted numerous implementation details related to the central procurement framework, as well as set forth a process to address outstanding issues.

Specifically, D.20-06-002 established a working group process to explore a local capacity requirement (LCR) reduction compensation mechanism, which would be co-led by California Community Choice Association (CalCCA) and either PG&E or SCE. The working group was directed to submit a report on consensus and non-consensus items into this proceeding by September 1, 2020.

D.20-06-002 also directed each central procurement entity (CPE) to propose a rule or procedure to address how confidential, market-sensitive information received from third-parties would be protected. The information at issue relates to information received from generators, load-serving entities (LSEs), and third-party marketers to allow the CPE to perform duties necessary to conduct solicitations and procure local resources. Each CPE was directed to file its proposed rule into this proceeding by September 1, 2020.

In D.20-06-031, the Commission addressed the evaluation of the California Independent System Operator's (CAISO) updated Local Capacity Requirements study. The Commission directed a working group to evaluate the CAISO's updated LCR criteria and related issues, and to propose improvements to the local RA requirement process. The working group was to be co-led by the Commission's Energy Division and a consumer advocacy or environmental advocacy group. A working group report was to be submitted by September 1, 2020.

On September 1, 2020, the following reports and proposals were submitted:

- PG&E and SCE separately submitted their competitive neutrality rule proposals.
- A Working Group Report on the LCR Reduction Compensation Mechanism was submitted by CalCCA and PG&E.
- A Working Group Report on Local Capacity Requirements was served by Energy Division.¹
- Track 3.A proposals were submitted by the California Energy Storage Alliance (CESA), individually; and CESA, Sunrun, Inc., Enel X North America, Tesla, Center for Energy Efficiency and Renewable Technologies (collectively, the Joint DER Parties).

On September 11, 2020, comments on Working Group Reports and proposals were submitted by: Alliance for Retail Energy Markets (AReM), CalCCA, California Efficiency & Demand Management Council (Council), Middle River Power, LLC (MRP), Protect Our Communities Foundation (PCF),

¹ An Administrative Law Judge ruling, issued on October 1, 2020, attached and affirmed Energy Division's Working Group Report.

Public Advocates Office (Cal Advocates), San Diego Gas & Electric Company (SDG&E), SCE, and Western Power Trading Forum (WPTF).

On September 18, 2020, reply comments were submitted by: AReM, CAISO, CESA, PCF, PG&E, SCE, SDG&E and Shell Energy North America (US) (Shell).

2. Issues Before the Commission

The assigned Commissioner issued an Amended Scoping Memo (Amended Scoping Memo) on July 7, 2020. The Amended Scoping Memo established the scope for Track 3.A, summarized as follows:

- A. Evaluation of the CAISO's updated LCR reliability criteria based on the working group process set forth in D.20-06-031.
- B. Evaluation of an LCR reduction compensation mechanism to be applied to the central procurement framework based on the working group process set forth in D.20-06-002.
- C. Consideration of each CPE's proposed competitive neutrality rules to govern how confidential, market-sensitive information received from third-party LSEs will be protected.
- D. D.20-06-031 set forth a joint agency workshop between the California Energy Commission (CEC), the CAISO, and the Commission to plan steps necessary to establish net qualifying capacity (NQC) values for Behind-the-Meter (BTM) hybrid storage/solar resources with the goal of counting these resources in the Resource Adequacy program.
- E. Other time-sensitive issues identified by Energy Division or by parties.

All proposals and comments were considered but given the number of issues and parties, some proposals or comments may receive little or no discussion in this decision. Issues within the scope of this proceeding that are

not addressed here, or partially addressed, may be addressed in a later track of this proceeding.

3. Discussion

3.1. CAISO's LCR Reliability Criteria

D.20-06-031 outlined the history of the Commission's use of CAISO's annual Local Capacity Requirements study as the recommendation for the local capacity requirements adopted in the RA program.² Prior to the issuance of D.20-06-031, CAISO submitted its final 2021 LCR study, which used performance criteria that had been updated from previous years. The Commission observed in D.20-06-031 that the updated performance criteria resulted in unexpected changes to the local capacity requirements:

...[A]t the local area and sub-area level, the changes in capacity needs are varied. Some local areas and sub-areas have increased requirements while others have decreased requirements, with many smaller sub-areas being eliminated. In particular, the updated criteria resulted in an 1,850 MW increase in the Greater Bay Area local requirement, which represents a roughly 40 percent increase over the previous LCR study.³

The Commission further noted that the CAISO's updated reliability criteria was not vetted by the Commission and thus, should not be adopted:

While CAISO states that the revised reliability criteria are intended to align with current mandatory reliability standards developed by [North American Electric Reliability Corporation] and [Western Electricity Coordinating Council], the Commission has not directly considered this newly adopted local reliability criteria and the costs to ratepayers associated with this dramatic increase in the Greater Bay Area

² D.20-06-031 at 6-7.

³ *Id.* at 9.

LCR. Therefore, the Commission declines to adopt the reliability criteria presented in CAISO's Final 2021 LCR Report at this time.⁴

The Commission directed a Working Group to evaluate CAISO's updated LCR criteria and related issues and to propose improvements to the local RA requirement process. The Commission directed the Working Group to evaluate and provide recommendations on the following issues:⁵

- (1) Evaluation of the newly adopted CAISO reliability criteria in relation to NERC and WECC mandatory reliability standards;
- (2) Interpretation and implementation of CAISO's reliability standards, mandatory NERC and WECC reliability standards, and the associated reliability benefits and costs;
- (3) Benefits and costs of the change from the old reliability criteria "Option 2/Category C" to CAISO's newly adopted reliability criteria;
- (4) Potential modifications to the current LCR timeline or processes to allow more meaningful vetting of the LCR study results;
- (5) Inclusion of energy storage limits in the LCR report and its implications on future resource procurement; and
- (6) How best to address harmonize the Commission's and CAISO's local resource accounting rules.

The LCR Working Group Report, prepared by Energy Division, stated that "[t]his report only identifies issues and will not have solutions or proposals for consideration in CAISO's 2022 LCR process, which begins in October 2020."⁶

The report summarizes questions raised in working group meetings related to

⁴ *Id.* at 14.

⁵ *Id.*

⁶ LCR Working Group Report at 1.

CAISO's reliability criteria, as well as topics for further discussion, such as whether energy storage limits should be excluded from the LCR report and ways to harmonize the Commission's and CAISO's local resource counting rules.

Energy Division proposes a lengthier schedule to develop solutions for consideration in CAISO's 2022 LCR process.⁷ SCE, SDG&E, PG&E and PCF support the proposed schedule.⁸ SCE notes the importance of having meaningful time to assess the results of the CAISO's LCR studies and resolve any potential issues.⁹

The Commission agrees that additional time is warranted for the Working Group to evaluate the CAISO's LCR reliability criteria and recommend necessary improvements. As such, the LCR Working Group should continue to discuss recommendations and a draft Working Group Report and/or proposals shall be submitted into this proceeding by January 22, 2021. A final Working Group Report and/or proposals shall be submitted no later than February 12, 2021.

3.2. LCR Reduction Compensation Mechanism

In adopting the central procurement framework in D.20-06-002, the Commission acknowledged some parties' recommendations for a financial crediting mechanism for shown preferred resources. The Commission stated:

As discussed above, a hybrid model does not disincentive procurement of local resources because LSEs procure local resources for many reasons beyond the local RA value. However, we recognize that a financial credit mechanism potentially provides LSEs with additional incentives for

⁷ See *id.* at 20.

⁸ SCE Track 3.A Comments at 2, SDG&E Track 3.A Comments at 5, PCF Track 3.A Comments at 10, PG&E Track 3.A Reply Comments at 17.

⁹ SCE Track 3.A Comments, at 2.

investments in preferred and energy storage local resources in constrained local areas.¹⁰

Prior to D.20-06-002, CalCCA proposed one of the more developed financial credit mechanisms, which would give a one-for-one MW value to LSEs for existing preferred or energy storage local resources shown to the CPE.¹¹ The Commission declined to adopt CalCCA's proposal, which was viewed as a must-take mechanism that guarantees a local premium value without consideration for a resource's effectiveness at reducing LCR needs. However, the Commission stated it was willing to consider a financial credit mechanism that met certain parameters:

The Commission recognizes that a financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value would more closely align the financial compensation with the actual LCR MW reduction the resource provided.¹²

A working group process was established in D.20-06-002 to develop a potential credit mechanism, referred to as the LCR reduction compensation mechanism (or LCR RCM). The Commission directed that:

The working group report shall address the resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources. The working group report shall also address the following issues to the fullest extent possible:

- a. How granular the premium should be (*e.g.*, should different premiums be developed for different types

¹⁰ D.20-06-002 at 39-40.

¹¹ *Id.*

¹² *Id.* at 42.

- of preferred resources, for new versus existing resources, and/or for sub areas, individual local areas, or TAC-wide local areas);
- b. How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;
 - c. Whether the compensation mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation (or require potential revisions to the iterative process), due to the complexity of overlaying both of these mechanisms into the bid evaluation process; and
 - d. How to best adjust the local compensation from year to year to account for changes in the effectiveness of the resource reducing the local requirements.¹³

The Commission stated it was “not open to considering a one-for-one-credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered resources).”¹⁴ The working group was also directed to “submit a proposal on the treatment of existing contracts, which may include consideration of whether any proposed LCR reduction compensation mechanism should be applied to existing contracts.”¹⁵ Lastly, the working group was directed to “consider how the CPE will incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource bids are not selected over preferred resources in instances in which price differentials are relatively small.”¹⁶

¹³ *Id.* at Ordering Paragraph (OP) 5.

¹⁴ *Id.* at 43.

¹⁵ *Id.* at 46.

¹⁶ *Id.* at 45.

The LCR RCM Working Group Report, submitted by PG&E and CalCCA, presented proposals from CalCCA, SDG&E, and PG&E, as summarized below.

3.2.1. CalCCA's Working Group Proposal

CalCCA puts forward two proposals (referred to as Option 1 and Option 2) and recommends Option 2 as its preferred methodology. Option 1 is CalCCA's initial proposal submitted prior to D.20-06-002, which is the must-take model where the CPE would be required to take any local attributes from preferred and energy storage resources that are shown by the LSE.

The Option 2 proposal would also apply to all shown preferred and energy storage resources, but the CPE would not be required to accept the shown resource and could reject it after considering the effectiveness value alongside bid resources. The CPE would use its own guidelines and methodology to determine the resource's effectiveness. Under Option 2, CalCCA proposes a "pre-determined price" that would use the following calculation:¹⁷

Year 1: Use the median price from the last four quarters of Energy Division [Power Charge Indifference Adjustment] responses for both system and local RA; subtract system RA price from local RA.

Subsequent Years: Use the median price from the last four quarters of Energy Division PCIA responses for system RA and the most recent reported CPE solicitation results (prior year's results) for local RA price; subtract system RA price from local RA price.¹⁸

¹⁷ Track 3.A Working Group Report on Consensus and Non-Consensus Items Regarding Development of Local Capacity Requirement Reduction Compensation Mechanism and Proposal on Treatment of Existing Contracts (LCR RCM Working Group Report), at Attachment 1-12.

¹⁸ In Track 3.A comments, CalCCA provides a conflicting methodology that would "[u]se the median price from the last two quarters of Energy Division PCIA responses for both system

Footnote continued on next page.

CalCCA states that an LSE can opt to show a resource to the CPE for local credit “at a price lower than the pre-determined price if desired.”¹⁹ The price would be differentiated by local area or sub-local area, unless a higher level of aggregation is required to mask individual resource prices. Resources committed as a shown resource would have a 3-year commitment with a start date of any year within the 3-year forward compliance period. The showing would be documented through a confirm under the Edison Electric Institute (EEI) Master Agreement.

Since preferred and storage resources are covered by the Option 2 proposal, CalCCA recommends that legacy treatment should only apply to existing fossil contracts, but not investor-owned utility (IOU) fossil resources.²⁰ CalCCA states that utility-owned generation (UOG) for fossil resources should not receive legacy treatment because D.20-06-002 did not extend to the IOU the option to show fossil resources and IOU UOG is required to bid into the CPE solicitation. CalCCA proposes that existing fossil contracts receive legacy treatment for five years from the CPE’s implementation. CalCCA defines eligible legacy contracts as resources that are currently online and contracted by an LSE on or before June 11, 2020 (the date D.20-06-002 was issued).²¹

and local RA...” See CalCCA Track 3.A Comments at 6 (emphasis added). Because the Working Group Report contained the proposed calculation with the “last four quarters,” and CalCCA has not explained the basis for the modification, we rely on the Working Group proposal.

¹⁹ LCR RCM Working Group Report at Attachment 1-12.

²⁰ *Id.* at Attachment 1-13.

²¹ *Id.*

3.2.2. SDG&E's Working Group Proposal

SDG&E proposes that the LCR RCM apply to three categories of shown resources: all energy storage, all preferred resources, and existing contracts of existing fossil resources. To determine the local premium, SDG&E proposes using the weighted average price of CPE procured local resources minus the relevant PCIA System RA Market Price Benchmark (MPB), either north of Path 15 or south of Path 15 for the compliance year.²²

SDG&E proposes that effectiveness factors for shown resources should be calculated based on the percentage resulting from the local or sub-local area LCR divided by the total amount of capacity shown and CPE-procured capacity. SDG&E proposes that resources are shown annually on a 3-year rolling basis.²³

3.2.3. PG&E's Working Group Proposal

PG&E does not propose a specific LCR RCM but recommends principles for the LCR RCM.²⁴ PG&E puts forward a proposal for the treatment of existing contracts and existing owned resources. PG&E recommends that for existing resources, legacy treatment should not be given to local resource contracts procured outside of an LSE's transmission access charge (TAC) area because those resources were not procured to meet local requirements, but likely system requirements. PG&E proposes that legacy treatment should only be afforded to local contracts executed, or owned resources that were acquired, before the issuance of D.19-02-022 (March 4, 2019), since the Commission affirmed its intent to adopt a central procurement framework for local requirements in that

²² *Id.* at Attachment 1-15.

²³ *Id.*

²⁴ *See id.* at Attachment 1-17.

decision. PG&E proposes that legacy treatment should not be applied for the full term of an existing contract or the life of an existing owned resource.²⁵

3.2.4. Comments on Proposals

Several parties support CalCCA's Option 2 proposal with modifications, such as MRP, PG&E, SCE, and PCF. MRP supports the proposal but seeks additional workshops to understand how the CPE will evaluate bid and shown resources.²⁶ SCE and PG&E state that Option 2 has merit, and PG&E notes it is the only workable solution put forth by the Working Group.²⁷

However, SCE, PG&E and SDG&E disagree with CalCCA's position that the show option does not apply to IOUs' fossil resources. CalCCA claims that D.20-06-002 left unclear whether IOUs acting as the CPE could voluntarily show local RA attributes to the CPE for no compensation.²⁸ The IOUs counter that D.20-06-002 is clear that all LSEs should have the same bid/show options, including IOUs, and thus, the Option 2 proposal should apply to all LSEs.²⁹ SCE argues that the Commission decided in D.20-06-002 that the ability for LSEs to show their resources without compensation was an important feature of the hybrid procurement model.³⁰ SCE recommends that if Option 2 is adopted, the Commission should "retain the option for all LSEs to show a local resource (whether the resource is a fossil fueled resource or not and whether its UOG or

²⁵ *Id.*

²⁶ MRP Track 3.A Comments at 10.

²⁷ SCE Track 3.A Comments at 3, PG&E Track 3.A Reply Comments at 11.

²⁸ CalCCA Track 3.A Comments at 9.

²⁹ SCE Track 3.A Comments at 3, PG&E Track 3.A Reply Comments at 11, SDG&E Track 3.A Reply Comments at 2.

³⁰ SCE Track 3.A Reply Comments at 6.

an IOU contracted resource) to the CPE without direct compensation as discussed in D.20-06-002....”³¹

SDG&E comments that Option 2 eliminates the “voluntary show” option because the CPE is permitted to reject or accept the LCR RCM resource, which in effect turns the hybrid framework into a full procurement framework.³² PG&E agrees with this assessment.³³ SCE disagrees with this concern stating that under a full procurement model, there was no option to show a resource to the CPE.³⁴

PCF states that CalCCA offers the most complete proposal but recommends modifications, such as adding a premium for prioritized resources.³⁵ PG&E points out that PCF’s proposal was not presented during the working group process as required by D.20-06-008, and is ineligible for consideration.³⁶

AReM opposes Option 2’s pre-determined price because it relies on stale benchmarks based on old market data which cannot “provide an equivalent comparison to what the CPE will be seeking to procure in the auction due to differences in contract terms, resource, types, and temporal aspects....”³⁷

³¹ *Id.* at 8.

³² SDG&E Track 3.A Comments at 5.

³³ PG&E Track 3.A Reply Comments at 11.

³⁴ SCE Track 3.A Reply Comments at 9.

³⁵ PCF Track 3.A Comments at 3-7.

³⁶ PG&E Track 3.A Reply Comments at 16.

³⁷ AReM Track 3.A Reply Comments at 3.

Regarding SDG&E's LCR RCM proposal, PG&E expresses concerns that the proposal may overestimate shown resources, resulting in customers paying for resources that do not offer ratepayer value or local reliability benefits.³⁸

Regarding the treatment of existing contracts, CalCCA and the IOUs disagree as to whether "existing contracts," as provided in D.20-06-002, applies to existing IOU fossil resources. CalCCA asserts that IOU's UOG assets do not qualify as an existing "contract."³⁹ PG&E, SCE, and SDG&E contend that the Commission intended to allow IOU fossil resources to be eligible for legacy treatment and that despite references to "existing contracts" in D.20-06-002, there are also references to grandfathering "resources" more generally.⁴⁰

3.2.5. Discussion

The Commission agrees with the IOUs' position that D.20-06-002 granted the IOUs the option to show local resources into the CPE's solicitation process. Ordering Paragraph 9 of D.20-06-002 states that "[a] distribution utility shall have the same options as other load-serving entities in deciding whether to bid or show its resource into the central procurement entity's solicitation process."⁴¹ In Ordering Paragraph 11 of D.20-06-002, the Commission directed that a distribution utility acting as the CPE "shall bid its own resources, that are not already allocated to all benefiting customers, into the solicitation process at their levelized fixed costs."⁴² Ordering Paragraph 11 is narrowly focused on the cost

³⁸ LCR RCM Working Group Report at Attachment 1-26.

³⁹ CalCCA Track 3.A Comments at 9-11.

⁴⁰ PG&E Track 3.A Reply Comments at 14, SDG&E Track 3.A Reply Comments at 3, SCE Track 3.A Reply Comments at 5.

⁴¹ D.20-06-002 at OP 9.

⁴² *Id.* at OP 11.

at which an IOU should bid its own resources into the CPE solicitation, and does not modify Ordering Paragraph 9's granting of the IOUs the same options as other LSEs in deciding whether to bid or show resources into the CPE solicitation.

CalCCA argues that allowing IOUs to show a local resource creates a cost shift between pre-2009 direct access (DA) customers and CCA customers because pre-2009 DA customers would get free benefits while CCAs pay the local RA value through PCIA rates.⁴³ AReM disputes CalCCA's argument as misleading, stating that pre-2009 DA customers are subject to pre-2009 vintage PCIA and have been discharged of obligations to compensate IOUs via PCIA for stranded costs when they departed bundled service. On the other hand, CCA customers must still fulfill their PCIA obligations.⁴⁴ PG&E disagrees with CalCCA's premise that customers that do not pay for the local RA attribute should not benefit from the attribute. PG&E states that the hybrid framework allows voluntarily showing a resource for no compensation which lowers the total local RA requirement for the benefit of all customers, including those that do not pay for the resource.⁴⁵ SDG&E comments that the Commission already rejected CalCCA's argument in D.20-06-002.⁴⁶

The Commission agrees with PG&E's and AReM's comments. We also agree with SDG&E that CalCCA's general argument was considered and rejected in D.20-06-002. In D.20-06-002, we stated:

⁴³ CalCCA Track 3.A Comments at 10.

⁴⁴ AReM Track 3.A Reply Comments at 4.

⁴⁵ PG&E Track 3.A Reply Comments at 13.

⁴⁶ SDG&E Track 3.A Reply Comments at 2.

We disagree with CalCCA's assertions. Resources shown by the IOU will presumably reduce the local RA need and therefore, needed local RA will not be withheld. Further, shown resources are still subject to the local PCIA benchmarks adopted in D.19-10-001, which provide an RA capacity offset to the PCIA charge.⁴⁷

We decline to relitigate this issue. D.20-06-002 is clear that IOUs have the same bid and show options as other LSEs, which includes showing resources to the CPE for no compensation and being eligible for any potential LCR RCM.

Of the Working Group proposals for an LCR RCM, CalCCA's Option 2 appears to best address the objectives outlined in D.20-06-002. The proposal allows the CPE to evaluate the shown resource alongside bid resources to assess the effectiveness of the portfolio. The CPE would use the same guidelines and criteria as for bid or shown resources to determine the effectiveness of the eligible resource and thus, the mechanism would only compensate local resources to the extent they provided ratepayer value. Option 2 offers a transparent, pre-determined premium calculation that potentially reflects the cost to ratepayers and compensates LSEs for investing in preferred resources close to load, rather than extending market power premiums to LSEs.

The proposed Option 2 pre-determined price calculation applies "the median price from the last four quarters of Energy Division PCIA responses for both system and local RA" for Year 1. For subsequent years, it would apply the median price from the CPE solicitation results (prior year's results) for local RA. However, using the median price would not accurately reflect market prices because the prices are not weighted by contracted MWs. A more accurate

⁴⁷ D.20-60-006 at 77.

measure of market prices would be the use of weighted average prices, which are used in setting the PCIA benchmarks⁴⁸ for RA capacity.

SDG&E's pre-determined price proposal applies the "weighted average price of CPE procured local resources minus the relevant PCIA System RA Market Price Benchmark (MPB), either north of Path 15 or south of Path 15 for the compliance year." While we believe that using the weighted average would more accurately reflect market prices, SDG&E's proposal did not address Year 1 when CPE local RA procurement prices are not yet identified, whereas CalCCA's proposal does. We conclude that modifying CalCCA's proposed calculation to use weighted average prices, as proposed by SDG&E, would better reflect system and local market prices for capacity.

CalCCA's proposal appears to consider preferred resources to include all resources, other than fossil-based resources. The proposed Option 2 would then apply to all new and existing preferred and energy storage resources. As discussed, D.20-06-002 gives IOUs the same bid and show options as other LSEs, which would allow UOG preferred and energy storage resources to be eligible for the LCR RCM. We next consider the volume of resources that would be eligible under the Option 2 proposal, if adopted.

In reviewing the CAISO's Final 2021 NQC list (posted October 1, 2020), there are ~7,100 MW⁴⁹ of non-Cost Allocation Mechanism (CAM) existing

⁴⁸ See D.19-10-001.

⁴⁹ This figure was calculated using the August value posted in the 2021 NQC list. Preferred resources were identified by cross-referencing the list to identify fuel source. CAM resources were identified by cross-referencing the NQC list with the 2021 CAM list posted on the Commission's RA compliance website. Energy Division Staff defined preferred resources as resources with the following fuel types: solar, wind, water, biomass, biogas, and limited energy storage resource (LESR).

preferred and energy storage resources in SCE's and PG&E's service territories. That amount makes up 36 percent of the total 2021 local requirement for these service areas (or 19,599 MW).⁵⁰ Of the 7,100 MW, approximately 45 percent are UOG preferred and energy storage resources (or 3,175 MW). Based on this analysis, a significant percentage of existing preferred and storage resources would qualify for the proposed Option 2 LCR RCM.

The Commission is concerned that applying the Option 2 mechanism to 36 percent of the total 2021 local requirements, in addition to new preferred and energy storage resources, introduces risks and uncertainties that were not contemplated under the adopted hybrid framework. The hybrid framework adopted in D.20-06-002 was the result of two years of exhaustive discussion by stakeholders and the Commission in the form of proposals, comments, and working groups. The Commission adopted the hybrid framework as a reasonable balance between the residual and full procurement models in that it offers an LSE the option to either: (a) bid a resource into the solicitation, (b) voluntarily show the resource to reduce the CPE's overall procurement obligation, or (c) elect not to show or bid the resource and use the resource to meet its own system or flexible RA needs. But Option 2 presents a considerable deviation from the adopted "voluntary show" avenue that was not vetted during two years of central procurement discussions. We are concerned about the unintended consequences that may result from giving a large volume of existing resources a new local premium option when the resource may not have been

⁵⁰ See CAISO 2021 LCR Study, available at: <http://www.caiso.com/Documents/Final2021LocalCapacityTechnicalReport.pdf>.

procured at a premium in the first place, which could lead to increased costs to ratepayers.

The Commission's original rationale for considering a potential LCR RCM was to incentivize, or at the very least not allow the CPE framework to discourage, LSE development of new preferred or energy storage resources in local areas to meet their system or flexible RA requirements. In D.20-06-002, we stated that "we recognize that a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas."⁵¹ In declining to adopt CalCCA's "Option 1" proposal, we stated that a LCR RCM developed in line with the objectives in D.20-06-002:

...would address the concern CalCCA's proposal seeks to address – namely, that the CPE should not discourage LSEs from procuring local preferred or energy storage resources - and it could do so in a manner that ensures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value, and (2) only compensating LSEs for additional costs of procuring resources close to load rather than simply extending market power premiums to these LSEs.⁵²

For these reasons, we conclude that applying the Option 2 proposal to existing preferred and energy storage resources departs from our stated rationale for an LCR RCM and undermines the hybrid framework by injecting uncertainty into the central procurement process without sufficient opportunity to evaluate the consequences.

⁵¹ D.20-06-002 at 40.

⁵² *Id.* at 43.

As discussed, however, we find the Option 2 proposal otherwise best addresses the objectives outlined in D.20-02-006 and is the most workable solution put forth by the Working Group. Therefore, while we decline to apply the Option 2 mechanism to existing preferred and energy storage resources, we find it is reasonable and prudent to adopt the Option 2 mechanism to apply only to new preferred and energy storage local resources with the modifications discussed in this section. Regarding the definition of preferred resources, it is reasonable to apply the existing definition of preferred resources from the State's Energy Action Plan II, as adopted by the Commission in D.14-03-004.⁵³ Accordingly, we apply this definition to the LCR RCM.

We consider the eligibility timeframe for new preferred or energy storage resources. In D.20-06-002, the Commission adopted the implementation details of the CPE framework and notified LSEs that an LCR RCM may be considered if one can be developed based on the outlined objectives. Thus, we find it reasonable to apply the issuance date of D.20-06-002 as the starting date to qualify for the LCR RCM. Accordingly, any new preferred or energy storage resource with an original contract executed on or after the issuance date of D.20-06-002 – June 17, 2020 - shall be eligible for the adopted LCR RCM. Existing preferred or energy storage resources with new contracts or amended contracts executed on or after June 17, 2020, are not eligible for the LCR RCM. In the case of UOG resources, resources approved by the Commission or by Advice Letter on or after June 17, 2020, shall be eligible for the LCR RCM.

⁵³ D.14-03-004 at 6-7.

CalCCA recommends that the Option 2 proposal allow an LSE to either bid or show a resource, but not both.⁵⁴ SCE agrees that this is reasonable given the potential for gaming bids upon knowing the minimum premium values and resultant efficiency process.⁵⁵ We find it reasonable that if a resource eligible for the LCR RCM elects to use the LCR RCM, the resource cannot also provide a bid into the CPE's solicitation. However, we do not apply CalCCA's recommendation to all resources, as this could potentially result in lost local value, which was the rationale for adopting that option as part of the hybrid framework. Likewise, if a resource eligible for the LCR RCM elects to bid into the solicitation, it may still have the option to show for no compensation, as was established under the adopted hybrid framework.

The Option 2 proposal did not contemplate eligibility only applying to new preferred and energy storage resources; therefore, it also did not contemplate how long eligibility requirements should apply to these resources. We find it reasonable that a local preferred or energy storage resource may be eligible for the LCR RCM up to the life of the resource's original contract. We note that because the CPE must consider the resource's effectiveness in reducing local requirements to determine whether to award the local premium, not all resources will be awarded compensation for the life of their contract. The CPE shall track the eligibility of resources as part of its procurement process.

⁵⁴ LCR RCM Working Group Report at Attachment 1-14.

⁵⁵ SCE's Informal Comments, August 3, 2020, Appendix D to the LCR RCM Working Group Report at D-43.

Accordingly, CalCCA's Option 2 LCR RCM is adopted to apply to new preferred resources and new energy storage resources, with modifications, as follows:

- (a) The CPE may accept or reject the shown local resource if more cost-effective resources are available.
- (b) The CPE shall apply all of the methodology and criteria set forth in Ordering Paragraph 14 of D.20-06-002 to shown resources in the same way the methodology and criteria are applied to bid resources.
- (c) If selected, the LSE shall be paid the showing price (pre-determined price or below) without annual adjustment for effectiveness. The showing price shall not exceed the pre-determined local price, which is calculated as follows:
 - Year 1: Use the weighted average price from the last four quarters of Energy Division PCIA responses for both system and local RA; subtract system RA price from local RA.
 - Subsequent Years: Use the weighted average price from the last four quarters of Energy Division PCIA responses for system RA and the most recent weighted average price reported in the CPE solicitation results (prior year's results) for local RA price; subtract system RA price from local RA price.
- (d) The weighted average price shall be differentiated by local area or sub-local area, unless a higher-level aggregation is required to mask individual resource prices.
- (e) For a resource eligible for the LCR RCM, if the LSE elects to show for the LCR RCM, the LSE cannot also provide a bid into the CPE's solicitation for that resource. If an LSE with a resource eligible for the LCR RCM elects not to show for the LCR RCM, it still has the options available under D.20-06-002: (1) show the resource for no compensation in advance of the CPE's solicitation,

- (2) bid the resource into the CPE's solicitation, (3) bid the resource into the CPE's solicitation and indicate that the resource will be available to show the local RA attribute for no compensation if the bid is not accepted, and
- (4) retain all RA attributes for the LSE.
- (f) A new local preferred or energy storage resource may be eligible for the LCR RCM up to the life of the resource's original contract, or in the case of utility-owned generation, up to the original life of the resource.
- (g) A shown resource that qualifies for the LCR RCM shall have a commitment equivalent to the period the resource is under control or contracted for, that corresponds to the 3-year forward compliance period, where the start date may be any year within the 3-year forward compliance period.
- (h) A shown resource shall be documented on an agreement as determined by the CPE, which may include the Edison Electric Institute Master Agreement. LSEs intending to show resources to the CPE should enter into an enabling agreement with the CPE in advance of the CPE's solicitation.

Lastly, we consider whether legacy treatment should be afforded to existing contracts. Because we have declined to apply the LCR RCM to existing preferred or energy storage solutions, the remaining issue is whether legacy treatment should apply to existing fossil resources. The IOUs and CalCCA disagree about whether legacy treatment should apply to UOG fossil resources. In D.20-06-002, the Commission directed a working group to "submit a proposal on the treatment of existing contracts, which may include consideration of whether any proposed LCR [RCM] should be applied to existing contracts."⁵⁶ CalCCA cites the decision's use of "existing contracts," as opposed to "existing

⁵⁶ D.20-06-002 at 46.

resources,” to support its claim that IOU UOG should not qualify for legacy treatment since it is not a contract.⁵⁷ We clarify that in directing the Working Group to consider legacy treatment for existing contracts, we intended that both existing IOU and non-IOU fossil resources could potentially qualify for legacy treatment, regardless of UOG status.

We next consider the magnitude of existing fossil resources at issue under the legacy treatment proposals. The Commission is unable to provide a complete picture of fossil resources under multi-year contracts that would be eligible for legacy treatment, if adopted.⁵⁸ However, we can consider the magnitude of UOG fossil resources that would be eligible, as a partial representation of the existing fossil resources. According to the 2020 NQC list, SCE’s and PG&E’s local UOG fossil resources sum to 1,795 MW (based on September NQC values). Based on the UOG values alone, a substantial amount of existing gas resources could be eligible for the LCR RCM under the legacy treatment proposals.

Similar to the discussion of existing preferred and storage resources, the Commission is concerned that providing legacy treatment for a large amount of existing fossil resources under any of the proposed timeframes introduces a new optionality to the hybrid framework that was neither contemplated nor vetted. As with existing preferred and storage resources, there may be unintended consequences of granting legacy treatment for these existing gas resources, such as that the resource may not have been procured at a premium, leading to

⁵⁷ CalCCA Track 3.A Comments at 9-10.

⁵⁸ Energy Division Staff attempted to estimate the magnitude of resources using the 2020 year ahead local RA filings; however, the contract start and end dates provided in these filings did not give Staff confidence that this data represented an accurate picture of the MWs that would be eligible for this mechanism.

increased ratepayer costs and potentially costly local premiums for existing assets. For these reasons, we conclude that applying legacy treatment to a large amount of existing gas resources was not intended and undermines the hybrid procurement framework. Accordingly, we decline to grant legacy treatment for existing fossil resources.

Under the hybrid framework, existing fossil (as well as all other) resources may still bid into the CPE's solicitation to be selected or can choose to be shown to the CPE to reduce total local procurement, but retained by the LSE to meet a system or flexible need. Further, we have heard no compelling argument that these existing resources would be "stranded." The Commission required additional resources to be procured to replace retiring gas resources beginning in 2021⁵⁹ and anticipates further procurement will be necessary to address the impending retirement of Diablo Canyon. In this context, it is difficult to imagine these assets could be considered "stranded."

In D.20-06-002, Energy Division was authorized to prepare a report by 2025 assessing the effectiveness of the CPE framework. In that report, Energy Division shall also assess the adopted LCR RCM as applied to new preferred and energy storage resources, including how many LSEs utilized the LCR RCM and the total amount of premiums received. The Commission will continue to monitor the use of the LCR RCM and may make adjustments to the mechanism as warranted.

3.3. Competitive Neutrality Rules

In D.20-06-022, the Commission stated that:

⁵⁹ See D.19-11-016.

Within the central procurement process, potentially market-sensitive information relates to confidential, competitive information received from generators, LSEs, or third-party marketers in the process of enabling the distribution utility to perform duties necessary to conduct solicitations and procure local resources as part of its central procurement role. The Commission recognizes that this competitive information should be appropriately protected in an effort to address anti-competitive concerns and facilitate confidence and certainty in the central procurement process.⁶⁰

The Commission thus directed each CPE:

...to establish a rule or procedure that will govern how confidential, market-sensitive information received by the CPE from generators, LSEs, or third-party marketers as part of the central solicitation and procurement process will be protected, as well as what firewall safeguards will be implemented to prevent the sharing of information beyond those employees involved in the central solicitation and procurement process.⁶¹

3.3.1. SCE's Proposed Rule

SCE proposes the following competitive neutrality protocol:⁶²

If SCE in its performance of its duties as the central procurement entity (CPE) for local resource adequacy (RA) for SCE's distribution service area receives confidential, market sensitive information from load serving entities (LSEs), generators, or third-party power marketers, or from the CAISO related to LSEs, generators, or third-party power marketers, SCE shall limit access to that information to SCE staff who are responsible for performing and supporting SCE's CPE responsibilities, which are defined by the California Public Utilities Commission (CPUC).

⁶⁰ D.20-06-022 at 64.

⁶¹ *Id.* at 64-65.

⁶² SCE's Proposed Competitive Neutrality Rules at 6-7.

SCE shall not knowingly use such confidential information to the benefit of SCE's bundled service customers' RA procurement or to gain a competitive advantage for SCE in the RA market.

To that end, SCE CPE staff shall not knowingly share such confidential, market sensitive information with other individuals in SCE who are directly responsible for discharging SCE's roles and responsibilities with respect to procurement, sales, or portfolio management of RA for SCE's bundled service customers unless the information is necessary for such employees to perform their duties, in which case those employees may not knowingly act as a conduit of such information to employees who do not need such information to discharge their professional duties.

Bids received for new generation procurement shall not be subject to this competitive neutrality rule because such bids are not considered confidential, market sensitive information that can provide an unfair advantage to SCE's bundled service customers.

Inadvertent disclosures of confidential, market sensitive information shall be reported and addressed as proscribed by the CPE Code of Conduct.

SCE also proposes that the competitive neutrality rules should not apply to "new generation solicitations that are exclusively designed for new resources."⁶³

3.3.2. PG&E's Proposed Rule

PG&E proposes the following competitive neutrality protocol:⁶⁴

Confidential, competitive information received by PG&E from load serving entities (LSEs), generators, third-party power marketers or demand response providers (DRPs), or from the CAISO related to LSEs, generators, third-party power

⁶³ *Id.* at 13.

⁶⁴ PG&E's Proposed Competitive Neutrality Rules, Appendix at A-9.

marketers or DRPs, in connection with PG&E's performance of its duties as the central procurement entity (CPE) for local resource adequacy (RA) for PG&E's distribution service area shall be limited to PG&E staff who are responsible for performing or administratively supporting PG&E's CPE responsibilities for local RA in accordance with Commission decisions and guidance. Such confidential, competitive information shall not be used to promote PG&E's RA-related services to its bundled service customers or gain a competitive advantage for PG&E in the RA market, or to advantage utility-owned generation (UOG) resources or PG&E-contracted resources that can provide local RA and are eligible to bid or show to the CPE.

PG&E staff receiving such confidential, competitive information from LSEs, generators, third-party marketers, DRPs or the CAISO in the discharge of PG&E's roles and responsibilities as the CPE for PG&E's distribution service area shall not share such confidential, competitive information with other individuals in PG&E who are directly responsible for discharging PG&E's roles and responsibilities with respect to procurement, sales, or portfolio management of RA on behalf of PG&E's bundled service customers or in preparing and submitting bids to the CPE.

3.3.3. Discussion

AReM and CalCCA comment that PG&E's proposed rule contains insufficient detail as compared to SCE's proposal, such as the lack of enforcement for inadvertent disclosure.⁶⁵ PG&E responds that while it does not object to additional compliance procedures, D.20-06-002 permitted the CPE to use D.13-12-029 as relevant guidance in developing the rules and that decision did not provide every detail regarding the utility's activities.⁶⁶ PG&E states that, as

⁶⁵ AReM Track 3.A Comments at 2, CalCCA Track 3.A Comments at 4.

⁶⁶ PG&E Track 3.A Reply Comments at 3.

directed in D.20-06-002, it intends to create a strict code of conduct that includes details regarding prevention of disclosure of information in collaboration with the Independent Evaluator (IE), the Procurement Review Group (PRG), and Energy Division.⁶⁷ We agree with PG&E that D.20-06-002 established a procedure for the CPE to create a code of conduct in collaboration with the IE, PRG, and Energy Division, and it is unnecessary for PG&E to include it in its proposal.⁶⁸

AReM recommends that PG&E adopt a rule that its Utility Bid Development Team submit bids to the PRG and IE at least one business day before the receipt of third-party bids, as SCE has proposed. PG&E states that D.20-06-002 already requires the CPE to submit procurement bids to the PRG and IE before receiving bids from other entities and it is unnecessary to include such a requirement.⁶⁹ We agree that it is unnecessary to adopt such a requirement.

Regarding SCE's proposed rule, AReM, MRP, PCF, and CalCCA oppose the recommendation that SCE's rule would not apply to new generation solicitations. CalCCA and AReM state that SCE's explanation is insufficient, in that it merely states that SCE's bundled customers would be disadvantaged and that evaluating new generation bids is resource intensive.⁷⁰ MRP comments that while it is unlikely that new generation will submit bids into the CPE solicitation,

⁶⁷ *Id.* at 4.

⁶⁸ D.20-06-002 at OP 25.

⁶⁹ PG&E Track 3.A Reply Comments at 6.

⁷⁰ CalCCA Track 3.A Comments at 3, AReM Track 3.A Comments at 3.

it is not impossible.⁷¹ SCE responds that it agrees to allow the proposed rules to apply to new generation procurement, except for where SCE “is mandated to procure new generation capacity in one or more local areas, such as incremental LCR procurement, which is conducted on behalf of all benefitting customers, that activity should not be subject to walls.”⁷² SCE reasons that significant resources are devoted to incremental new generation procurement and requiring separate procurement teams would substantially increase costs to customers.⁷³

The Commission agrees with SCE that while it is unlikely that the CPE will engage in significant new generation procurement, if the CPE does so, SCE’s competitive neutrality rules should apply, except where SCE is mandated to procure new local generation on behalf of all benefitting customers.

Cal Advocates seeks clarification as to the reporting of CPE contract management in PG&E and SCE’s respective Energy Resource Recovery Account (ERRA) compliance applications since an IOU’s ERRA application typically includes market-sensitive information, such as contract prices and negotiation issues.⁷⁴ Cal Advocates recommends that PG&E and SCE file a separate chapter or supplemental testimony on CPE contract administration in the ERRA compliance that is developed by CPE staff and not shared with bundled-service contract staff.⁷⁵

⁷¹ MRP Track 3.A Comments at 13.

⁷² SCE Track 3.A Reply Comments at 11.

⁷³ *Id.*

⁷⁴ Cal Advocates Track 3.A Comments at 2.

⁷⁵ *Id.*

PG&E does not object to the recommendation but believes that a modification is unnecessary.⁷⁶ SCE agrees with Cal Advocates' concern and proposes to address it by (1) including confidential, market-sensitive information in either a separate chapter of testimony or supplemental testimony, (2) redacting the information from public filings, and (3) only allowing CPE personnel and support personnel (including contract management, law, and regulatory compliance) to sponsor, prepare, and view non-public versions of the filing.⁷⁷ We find SCE's clarification of Cal Advocates' recommendation to be reasonable and accordingly, we adopt it here to apply to all CPEs.

With the modifications discussed above, the Commission finds that PG&E and SCE's respective competitive neutrality procedures are reasonable and responsive to the concerns raised in D.20-06-002. Accordingly, we adopt PG&E's competitive neutrality proposal for PG&E's service territory. We also adopt SCE's competitive neutrality proposal for SCE's service territory with the modification for new generation procurement discussed above.

We note that D.20-06-002 provided additional measures to provide oversight as to the neutrality of the CPE's procurement process, including that (1) the IE will prepare an annual report on the neutrality of the procurement process, among other issues, and (2) that the CPE shall create a strict code of conduct (in collaboration with the IE, PRG, and Energy Division) that prevents the sharing of confidential, market-sensitive information beyond those employees involved in the solicitation and procurement process.⁷⁸ The

⁷⁶ PG&E Track 3.A Reply Comments at 7.

⁷⁷ SCE Track 3.A Reply Comments at 12.

⁷⁸ D.20-06-002 at OP 21.

Commission will monitor these processes to ensure market-sensitive, confidential information from third-party market participants is appropriately protected and may modify the adopted procedures as warranted.

3.4. Behind-the-Meter Hybrid Storage/Solar Issues

D.20-06-031 set forth a Joint Agency Workshop between the Commission, CAISO and the CEC to plan the joint agency steps necessary to establish NQC values for BTM hybrid storage and solar resources with the goal of counting these resources in the RA program. The Amended Scoping Memo included this issue as a Track 3.A issue where “[t]he outcome of this joint agency workshop will flow into Track 4.”⁷⁹

The Joint DER Parties and other parties submitted comments on topics to discuss at the Joint Agency Workshop, including the need for DERs to provide supply-side or load modifying RA capacity.⁸⁰ There will be an opportunity to provide comments on this workshop, scheduled for November 2020, in Track 4 of this proceeding and parties are encouraged to submit further comments at that time.

4. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code section 311 and comments were allowed under Rule 14.3 of the Commission’s Rules of Practice and Procedure. Comments were filed by CalCCA; Calpine Corporation (Calpine); CESA; Center for Energy Efficiency and Renewable Technologies (CEERT); Cal Advocates; CPower, Enel X, and Council (collectively, the Joint Parties); Independent Energy

⁷⁹ Amended Scoping Memo at 4.

⁸⁰ Council Track 3.A Comments at 1.

Producers Association (IEP); PCF; PG&E; SCE; SDG&E; and Vistra Corp. (Vistra) on November 12, 2020. Reply comments were filed by AReM, Cal Advocates, CalCCA, Calpine, CEERT, California Large Energy Consumers Association (CLECA), Direct Access Customer Coalition (DACC), Diamond Generating Corporation (DGC), MRP, PG&E, PCF, SCE, and Wellhead Electric Company (Wellhead) on November 17, 2020.

All comments have been considered. Significant aspects of the proposed decision that have been revised in response to comments are mentioned in this section. However, additional changes have been made to the proposed decision in response to comments that may not be discussed here. We do not summarize every comment but focus on major arguments made in which the Commission did or did not make revisions in response to party input. We note that under Rule 14.3, comments on a proposed decision must focus on factual, legal, or technical errors in the proposed decision, and other comments will be afforded no weight.

As an initial matter, some parties raise comments on the LCR RCM that either were not raised during the working group process, or contradicted summarized comments in the Working Group Report. As evident by the Working Group Report, participants undertook a robust discussion and comment schedule,⁸¹ followed by two comment rounds after the Report's issuance. Raising new comments for the first time here on topics discussed in the working group both undermines the working group process and does not give participants adequate opportunity to vet new comments. Further, to understand parties' positions, the Commission relied on the Report's summary of proposals

⁸¹ LCR RCM Working Group Report at 2.

and consensus and non-consensus items, as well as comments submitted after the Report. Parties should ensure that the Report accurately summarizes their positions or lodge objections in comments, as the Commission cannot realistically review the approximately 280 pages of informal comments attached to the Report to verify parties' positions.

Some parties object to defining a "new" resource as on or after June 17, 2020, including CESA and CalCCA. CESA states that D.20-06-002 did not indicate that "'new' is defined as resources on a going-forward basis, effective June 17, 2020" and that recently procured storage resources should be eligible.⁸² CalCCA comments that "new" contracts executed after November 13, 2019, (based on the issuance date of D.19-11-016 in the Integrated Resource Planning (IRP) proceeding) should be eligible since that decision mandated procurement of 3,300 MW of new system resources and otherwise, early actors are being penalized.⁸³ AReM disagrees with CalCCA, stating that the November 13 date is unrelated to the CPE decision, that LSEs were on notice as of the issuance of D.19-02-022 that a CPE framework was forthcoming, and LSEs should have planned their portfolios accordingly.⁸⁴ SDG&E seeks clarification as to whether eligibility should be limited to the term of the contract between the resource and the directly-contracted LSE (and not subsequent contracts with another LSE), and whether contract extensions or modifications impact eligibility.⁸⁵

⁸² CESA Comments on Proposed Decision at 3.

⁸³ CalCCA Comments on Proposed Decision at 4.

⁸⁴ AReM Reply Comments on Proposed Decision at 2.

⁸⁵ SDG&E Comments on Proposed Decision at 5.

The Commission first notes that D.20-06-002 did not guarantee adoption of an LCR RCM but stated that the Commission “will develop an LCR reduction compensation mechanism, if details can be assessed and developed” through the working group process.⁸⁶ We agree with AReM that LSEs were on notice after D.19-02-022 that a CPE framework would be implemented. For the reasons discussed in the decision, we maintain that June 17, 2020, is the appropriate cut-off for the contract execution date to differentiate new versus existing resources. We agree with SDG&E that the applicable contract should be the original contract between the resource and the directly-contracted LSE, and have modified the decision to clarify this.

Some parties seek clarification on the definition of preferred resources. Cal Advocates objects to the proposed decision’s definition of preferred resources as conflicting with the existing definition developed in the Energy Action Plan (EAP) II and adopted in D.14-03-004, which includes energy efficiency, demand response, renewable resources, and distributed generation.⁸⁷ Cal Advocates notes that in D.14-03-004, the EAP II definition excludes energy storage from the definition of a preferred resource. CalCCA comments that large hydro should be removed from the preferred resources definition,⁸⁸ while PG&E responds that CalCCA provides no justification for removing large hydro.⁸⁹ The Commission agrees with Cal Advocates that the definition of preferred resources should be consistent with the State’s EAP II definition, as adopted by the

⁸⁶ D.20-06-002 at 43.

⁸⁷ Cal Advocates Comments on Proposed Decision at 2.

⁸⁸ CalCCA Comments on Proposed Decision at 4.

⁸⁹ PG&E Reply Comments on Proposed Decision at 3.

Commission in D.14-03-004. Thus, the decision has been modified to revise the definition of preferred resources.

Multiple parties, including Calpine, CESA, CalCCA, IEP, SDG&E, MRP, and Vistra, comment that the LCR RCM should apply to existing preferred and energy storage resources. Alternatively, Calpine and IEP recommend that existing preferred and storage resources that execute new contracts on or after June 17, 2020, should be eligible. PG&E, AReM and Cal Advocates, on the other hand, support the decision's limitation of the LCR RCM to new preferred and energy storage resources. PG&E argues that including existing resources will not increase development of new preferred resources and could result in fewer new resources since more resources would be eligible for the mechanism, diluting the mechanism's purpose as an incentive.⁹⁰

We are not persuaded by parties that wish to have the LCR RCM apply to existing preferred and energy storage resources, and the decision provides a lengthy discussion of our rationale for including only new preferred and energy storage resources. We also decline to allow existing resources to be eligible if those resources sign new contracts after June 17, 2020, as this does not incentivize the development of new preferred and storage resources. PG&E and SDG&E request clarification that "new" resources do not include existing resources that signed new contracts on or after June 17, 2020. This clarification is in line with what the Commission intended and we have modified the decision to clarify this.

SDG&E argues that excluding existing resources implicates Pub. Util. Code § 366.3, which provides that departing load should not result in cost increases from cost allocation that is not incurred on behalf of the departing

⁹⁰ *Id.* at 3.

load.⁹¹ SDG&E contends that excluding existing resources creates a potential cost shift because local attributes of existing resources are taken from one LSE and shared among other LSEs. SDG&E adds that the LCR RCM may incentivize existing resources to be offered into the CPE solicitation, which can increase the CPE's procurement costs.

The structure of the hybrid framework adopted in D.20-06-002 allows the CPE to procure on behalf of all LSEs and the costs incurred by the CPE are allocated to all customers based on their load share.⁹² Likewise, an LSE may voluntarily show a resource, for compensation or not, which lowers the total local RA requirement for all customers. Thus, to the extent the Commission understands SDG&E's argument, it is unclear what is unique about the allocation of costs under the LCR RCM that was not already considered and resolved in D.20-06-002. Further, we are not persuaded by SDG&E's argument that existing preferred resources will be more likely to be submitted into the CPE's solicitation and increase procurement costs. If the resource is a needed resource, and meets the CPE's selection criteria,⁹³ it will be selected by the CPE as the hybrid framework was designed.

CESA and IEP argue that hybrid resources should be considered as a new energy storage resource, including storage resources added to an existing preferred resource or a fossil-fuel facility.⁹⁴ We find it reasonable that a hybrid resource consisting of a preferred resource and energy storage resource should

⁹¹ SDG&E Comments on Proposed Decision at 3.

⁹² See D.20-06-002 at 26.

⁹³ D.20-06-002 at OP 14.

⁹⁴ CESA Comments on Proposed Decision at 4, IEP Comments on Proposed Decision at 5.

be eligible for the LCR RCM if either component is a new resource. In the case of a new hybrid resource, the entire resource shall be eligible for the LCR RCM, as the CPE cannot reasonably procure only the new component of the hybrid. In the case of a new storage resource added to an existing preferred resource, in which the resources are co-located, only the new component shall be eligible for the LCR RCM. The decision has been modified to clarify this.

For a hybrid resource consisting of a storage and fossil resource, the mechanism was never intended to apply to fossil resources and thus, this hybrid resource would not be eligible. However, in the case of a new battery co-located with a fossil resource, the storage component should be treated equivalently to a standalone battery and therefore, the new storage component may be eligible for the LCR RCM.

SDG&E, SCE, Calpine, and Cal Advocates comment that it does not make sense to require a three-year commitment when some resources may have less than that left in their contract.⁹⁵ SDG&E and SCE state that this requirement should be revised to allow up to a three-year term. PG&E recommends modifying the commitment to state that resources under the LCR RCM should be evaluated by the CPE for the 3-year forward period.⁹⁶ IEP seeks clarification as to whether the pre-determined price is fixed for the 3-year period or varies annually.⁹⁷ We agree with SCE's and SDG&E's proposed modification to the 3-year commitment as reasonable and have modified the decision to reflect this.

⁹⁵ SDG&E Comments on Proposed Decision at 4, SCE Comments on Proposed Decision at 6, Cal Advocates Reply Comments on Proposed Decision at 2, Calpine Reply Comments on Proposed Decision at 1.

⁹⁶ PG&E Comments on Proposed Decision at 10.

⁹⁷ IEP Comments on Proposed Decision at 8.

We also clarify that the pre-determined price is fixed for the duration of the contract period.

PG&E comments that additional implementation details should be resolved in a later phase of the proceeding, including those related to market power and gaming.⁹⁸ PG&E cites concern about potential “unbundling” of system and local RA attributes and that the LCR RCM price could act as a floor on prices for non-eligible LCR RCM resources.⁹⁹ Calpine disagrees with PG&E’s statements, commenting that it is unclear how “unbundling” could lead to the same capacity being counted more than once. Calpine also views “unbundling” of attributes as a way to satisfy all RA requirements by providing the CPE and LSEs more ways to meet separate requirements.¹⁰⁰

The potential unbundling of attributes should be addressed by the contract signed between the CPE and the LSE that receives the LCR RCM. This will ensure that the LSE cannot resell the capacity to another LSE or supplier making it unavailable as a local resource to the CPE and the CAISO. Regarding potential market power and gaming issues, parties should address these issues in Track 4 proposals. We recognize that changes to the LCR RCM as it relates to gaming concerns may not be implementable for the first CPE solicitation, which is expected to launch in Spring 2021. Therefore, future changes on this issue may flow into the next CPE solicitation cycle. To the extent that market power and gaming issues do arise, Energy Division should raise these issues to parties in the current RA proceeding. Additionally, the annual Independent Evaluator report

⁹⁸ PG&E Comments on Proposed Decision at 5.

⁹⁹ *Id.* at 6.

¹⁰⁰ Calpine Reply Comments on Proposed Decision at 2.

on the CPE solicitation process and contract execution process will also assess market power concerns that arise.¹⁰¹

SCE, CalCCA, and PG&E point out an error in the Option 2 proposal's calculation, which should not have included "multiplied by the effective MW."¹⁰² CalCCA agrees that this was inadvertently included in the final table but that the CPE will assess effectiveness for shown resources and not discount the number of MW based on effectiveness.¹⁰³ The Commission agrees that removing the inadvertent text is reasonable and have modified the decision.

Regarding the documentation through the EEI Master Agreement, SCE states that it is unnecessary to require an IOU to enter into a contract with itself as the CPE for a shown resource and there are other ways the Commission can ensure the IOUs comply with their showing requirements.¹⁰⁴ For resources shown by non-IOUs or an IOU not acting as the CPE, SCE states that documentation should not be limited to the EEI Master Agreement, as the CPE may not have time to execute this and there should be greater flexibility for LSEs. SCE adds that LSEs who intend to show resources should be encouraged to enter into an enabling agreement with the CPE before the solicitation. PG&E states that the Commission should not dictate the form that the contract must be on.¹⁰⁵

We agree with PG&E and SCE that the Commission should not dictate what form the contract must be on and that the CPE may determine this.

¹⁰¹ See D.20-06-002 at OP 21.

¹⁰² SCE Comments on Proposed Decision at 2, CalCCA Reply Comments on Proposed Decision at 2, PG&E Reply Comments on Proposed Decision at 5.

¹⁰³ CalCCA Reply Comments on Proposed Decision at 2.

¹⁰⁴ SCE Comments on Proposed Decision at 6.

¹⁰⁵ PG&E Comments on Proposed Decision at 8.

However, we believe the CPE acting as the IOU should still execute a contract when it shows its resource to the CPE. This is consistent with all LSEs, including IOUs, being subject to the same requirements and options, and fosters transparency.

PG&E comments that Ordering Paragraph 3 could be viewed as limiting the CPE to apply only the local effectiveness factors from Ordering Paragraph 14(b) of D.20-06-002 when evaluating shown resources. The Commission did not intend to limit the CPE's use of the factors listed in Ordering Paragraph 14 to only the local effectiveness factors, and the decision has been modified to clarify this.

SCE states that since new UOG preferred and energy storage resources are eligible for the LCR RCM, the decision should specifically reference this since UOG resources do not have a contract.¹⁰⁶ We agree and have made modifications to clarify this. SCE also seeks clarification that when a resource elects to show for the LCR RCM but is not selected, the resource does not have the option to show for no compensation, as this "could lead to gaming and unnecessarily complicate the CPE selection process."¹⁰⁷ It is unclear what gaming issues SCE refers to and we encourage SCE to provide more specificity for consideration in Track 4 proposals.

PG&E notes that the decision did not include an aspect of CalCCA's Option 2 proposal, which is that the showing price should not exceed the pre-determined price.¹⁰⁸ We agree this was omitted from the decision and have revised the decision to include this.

¹⁰⁶ SCE Comments on Proposed Decision at 5.

¹⁰⁷ *Id.*

¹⁰⁸ PG&E Comments on Proposed Decision at 10.

SDG&E recommends that Energy Division include information in their 2025 CPE report regarding how many LSEs utilized the LCR RCM and the total amount of premiums received.¹⁰⁹ We agree with this proposal.

5. Assignment of Proceeding

Liane Randolph is the assigned Commissioner and Debbie Chiv is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Additional time is warranted for the LCR Working Group to evaluate the CAISO's LCR reliability criteria and recommend necessary improvements.
2. In D.20-06-002, the Commission set forth a working group process to develop a potential LCR reduction compensation mechanism for preferred and energy storage resources that addressed several specific objectives.
3. Ordering Paragraph 9 of D.20-06-002 directed that a distribution utility acting as the CPE shall have the same options as other LSEs to bid or show its resource into the CPE's solicitation.
4. CalCCA's proposed Option 2 mechanism, with modifications, best addresses the objectives outlined in D.20-06-002 and is the only workable solution put forth by the Working Group.
5. A more accurate measure of market prices would be the use of weighted average prices, which are used in setting the PCIA benchmarks for RA capacity.
6. Applying the Option 2 proposal to existing preferred and energy storage resources departs from our stated rationale for an LCR RCM and undermines the hybrid framework by injecting uncertainty into the CPE framework without sufficient opportunity to evaluate the consequences.

¹⁰⁹ SDG&E Comments on Proposed Decision at 3.

7. It is reasonable to apply the issuance date of D.20-06-002 as the starting date to qualify for the LCR RCM for new preferred and energy storage resources.

8. Applying legacy treatment to a large volume of existing gas resources was not intended and undermines the hybrid framework by injecting uncertainty into the CPE framework without sufficient opportunity to evaluate the consequences.

9. In D.20-06-002, the Commission authorized Energy Division to prepare a report by 2025 assessing the effectiveness of the CPE framework.

10. SCE's proposed competitive neutrality protocol is reasonable, with modifications.

11. PG&E's proposed competitive neutrality protocol is reasonable.

Conclusions of Law

1. As adopted in D.20-06-002, IOUs have the same bid or show options as other load-serving entities, which includes showing resources to the CPE for no compensation and being eligible for the LCR RCM.

2. CalCCA's Option 2 proposal should be adopted, with modifications, to apply only to new preferred resources or energy storage resources.

3. CalCCA's Option 2 proposed price calculation should be modified to use the weighted average price, rather than the median price.

4. The issuance date of D.20-06-002 should be adopted as the starting date to qualify for the LCR RCM for new preferred and energy storage resources.

5. Legacy treatment should not be afforded to existing fossil fuel resources.

6. SCE's proposed competitive neutrality protocol should be adopted with modifications.

7. PG&E's proposed competitive neutrality protocol should be adopted.

O R D E R

IT IS ORDERED that:

1. The Local Capacity Requirements (LCR) Working Group shall submit a draft Working Group Report and/or proposals into this proceeding no later than January 22, 2021. A final Working Group Report and/or proposals shall be submitted no later than February 12, 2021.

2. As adopted in Decision 20-06-002, a distribution utility shall have the same options as other load-serving entities in deciding whether to bid or show its resources into the central procurement entity's (CPE) solicitation process, including showing resources to the CPE for no compensation and being eligible for the local capacity requirements reduction compensation mechanism.

3. California Community Choice Association's Option 2 local capacity requirements (LCR) reduction compensation mechanism (RCM) is adopted to apply to new preferred resources and new energy storage resources, including utility-owned generation, with modifications, as follows:

- (a) The central procurement entity (CPE) may accept or reject the shown local resource if more cost-effective resources are available.
- (b) The CPE shall apply all of the methodology and criteria set forth in Ordering Paragraph 14 of Decision (D.) 20-06-002 to shown resources in the same way the methodology and criteria are applied to bid resources.
- (c) If selected, the load-serving entity (LSE) shall be paid up to the showing price without annual adjustment for effectiveness. The showing price shall not exceed the pre-determined local price, which is calculated as follows:
 - Year 1: Use the weighted average price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both

system and local RA; subtract system Resource Adequacy (RA) price from local RA price.

- Subsequent Years: Use the weighted average price from the last four quarters of Energy Division PCIA responses for system RA and the most recent weighted average price reported in the CPE solicitation results (prior year's results) for local RA price; subtract system RA price from local RA price.
- (d) The price shall be differentiated by local area or sub-local area, unless higher-level aggregation is required to mask individual resource prices.
- (e) For a resource eligible for the LCR RCM, if the load-serving entity (LSE) elects to show for the LCR RCM, the LSE cannot also provide a bid into the CPE solicitation for that resource. If an LSE with a resource eligible for the LCR RCM elects not to show under the LCR RCM, it still has all of the options available under Decision 20-06-002: (1) show the resource for no compensation in advance of the CPE's solicitation, (2) bid the resource into the CPE's solicitation, (3) bid the resource into the CPE's solicitation and indicate that the resource will be available to show the local RA attribute for no compensation if the bid is not accepted, or (4) retain all RA attributes for the LSE.
- (f) A new local preferred or energy storage resource may be eligible for the LCR RCM up to the life of the resource's original contract, or in the case of utility-owned generation, up to the original life of the resource.
- (g) A shown resource that qualifies for the LCR RCM shall have a commitment equivalent to the period the resource is under control or contracted for, that corresponds to the 3-year forward compliance period, where the start date may be any year within the 3-year forward compliance period.
- (h) A shown resource shall be documented on an agreement as determined by the CPE, which may include the Edison Electric Institute Master Agreement. LSEs intending to

show resources to the CPE are encouraged to enter into an enabling agreement with the CPE in advance of the CPE's solicitation.

4. The existing definition of preferred resources from the State's Energy Action Plan II, as adopted in Decision 14-03-004, shall apply to the local capacity requirement reduction compensation mechanism.

5. Any new preferred resource or energy storage resource with an original contract executed on or after June 17, 2020, shall be eligible for the local capacity requirement reduction compensation mechanism (LCR RCM). For utility-owned generation, any resource approved by the Commission or by Advice Letter on or after June 17, 2020, shall be eligible for the LCR RCM. An existing preferred or energy storage resource with a new contract or amended contract executed on or after June 17, 2020, is not eligible for the LCR RCM.

6. A hybrid that consists of a preferred resource and an energy storage resource may be eligible for the local capacity requirement reduction compensation mechanism (LCR RCM), if either the preferred or the energy storage resource is a new resource.

- (a) In the case of a new hybrid resource, the entire hybrid resource may be eligible for the LCR RCM.
- (b) In the case of a new energy storage resource added to an existing preferred resource, in which the resources are co-located, only the new component shall be eligible for the LCR RCM.
- (c) The LCR RCM shall not apply to hybrid resources that consist of a fossil resource and a new energy storage resource. If the new energy storage resource is co-located with a fossil resource, the energy storage resource may be separately eligible as a standalone component.

7. Energy Division's 2025 report on the effectiveness of the central procurement entity framework, authorized in Decision 20-06-002, shall provide an assessment of the adopted local capacity requirement reduction compensation mechanism (LCR RCM) for new preferred and energy storage resources, including how many load-serving entities utilized the LCR RCM and the total amount of premiums received.

8. Southern California Edison's (SCE) proposed competitive neutrality protocol is adopted with modifications, as follows:

If SCE in its performance of its duties as the central procurement entity (CPE) for local resource adequacy (RA) for SCE's distribution service area receives confidential, market sensitive information from load serving entities (LSEs), generators, or third-party power marketers, or from the CAISO related to LSEs, generators, or third-party power marketers, SCE shall limit access to that information to SCE staff who are responsible for performing and supporting SCE's CPE responsibilities, which are defined by the California Public Utilities Commission (CPUC).

SCE shall not knowingly use such confidential information to the benefit of SCE's bundled service customers' RA procurement or to gain a competitive advantage for SCE in the RA market.

To that end, SCE CPE staff shall not knowingly share such confidential, market sensitive information with other individuals in SCE who are directly responsible for discharging SCE's roles and responsibilities with respect to procurement, sales, or portfolio management of RA for SCE's bundled service customers unless the information is necessary for such employees to perform their duties, in which case those employees may not knowingly act as a conduit of such information to employees who do not need such information to discharge their professional duties.

Bids received for new generation procurement shall be subject to this competitive neutrality rule except where SCE is mandated to procure new generation capacity in one or more local areas, such as

incremental LCR procurement, which is conducted on behalf of all benefitting customers.

Inadvertent disclosures of confidential, market sensitive information shall be reported and addressed as prescribed by the CPE Code of Conduct.

9. Pacific Gas and Electric Company's (PG&E) proposed competitive neutrality protocol is adopted, as follows:

Confidential, competitive information received by PG&E from load serving entities (LSEs), generators, third-party power marketers or demand response providers (DRPs), or from the CAISO related to LSEs, generators, third-party power marketers or DRPs, in connection with PG&E's performance of its duties as the central procurement entity (CPE) for local resource adequacy (RA) for PG&E's distribution service area shall be limited to PG&E staff who are responsible for performing or administratively supporting PG&E's CPE responsibilities for local RA in accordance with Commission decisions and guidance. Such confidential, competitive information shall not be used to promote PG&E's RA-related services to its bundled service customers or gain a competitive advantage for PG&E in the RA market, or to advantage utility-owned generation (UOG) resources or PG&E-contracted resources that can provide local RA and are eligible to bid or show to the CPE.

PG&E staff receiving such confidential, competitive information from LSEs, generators, third-party marketers, DRPs or the CAISO in the discharge of PG&E's roles and responsibilities as the CPE for PG&E's distribution service area shall not share such confidential, competitive information with other individuals in PG&E who are directly responsible for discharging PG&E's roles and responsibilities with respect to procurement, sales, or portfolio management of RA on behalf of PG&E's bundled service customers or in preparing and submitting bids to the CPE.

10. For the Energy Resource Recovery Account (ERRA) compliance filings, the central procurement entity (CPE) shall: (1) include confidential, market-sensitive information in either a separate chapter of testimony or supplemental testimony,

(2) redact the information from public filings, and (3) only allow CPE personnel and support personnel (including contract management, law, and regulatory compliance) to sponsor, prepare, and view non-public versions of the filing.

11. Rulemaking 19-11-009 remains open.

This order is effective today.

Dated December 3, 2020, at San Francisco, California.

MARYBEL BATJER

President

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

Commissioners