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

Order Instituting Rulemaking to Oversee
the Resource Adequacy Program, Consider
Program Refinements, and Establish
Annual Local and Flexible Procurement
Obligations for the 2019 and 2020
Compliance Years.

Rulemaking 17-09-020

**REPLY COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)
ON THE TRACK 3 PROPOSALS AND MARCH 12-13, 2019 WORKSHOP**

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Per the Assigned Commissioner’s Amended Scoping Memo and Ruling, issued on January 29, 2019 (“Scoping Memo”), Southern California Edison Company (“SCE”) respectfully submits its reply comments on the Track 3 proposals and the March 12-13, 2019 workshop to discuss the Track 3 proposals.

Also included in these reply comments is a discussion about the gap in the Local Resource Adequacy (“RA”) year-ahead allocation that does not appropriately account for load migration. The underlying issue, when left unaddressed, can result in cost shifting among Load Serving Entities (“LSEs”) and can provide pervasive incentive for certain LSEs to avoid Local RA obligations. The issue can be exacerbated under the newly established multi-year forward procurement requirement. To address the issue, SCE proposes that the Local RA year-ahead allocation should appropriately account for load migration and that each LSEs’ local obligation, for each month they serve load, be calculated based on August load share for all months during an RA year even if the LSE does not propose to serve load until after August.

I.

A GAP IN THE LOCAL RA YEAR-AHEAD ALLOCATION AND SCE'S PROPOSAL TO ADDRESS THE ISSUE

A. **The Gap in the Current Local RA Year-Ahead Allocation Needs To Be Addressed Because the Underlying Issue Can Be Exacerbated by the Newly Established Multi-Year Forward Procurement Requirement**

Currently, a LSE is only required to procure Local RA based upon the amount of load it serves in the month of August. Further, the Local RA process is primarily a year-ahead process with no monthly true-up other than the potential need to replace a resource on outage. The result is that an LSE serving increased load beginning September 1¹ or later within any year will not have to procure any Local RA even though the Local RA is reflected as a monthly requirement. Conversely, an LSE serving increased load as of August 31 or earlier within a given year will have to procure Local RA for all months of the year, inclusive of the months in which they have not even commenced serving load.

These aspects of the current rules and processes, if left unaddressed, can result in a pervasive incentive for a LSE to shift its new load serving date to begin in September through December to avoid its Local RA obligation. This can result in significant cost shifting between the LSE that experiences a loss of load and the LSE that gains the load. Moreover, the cost shifting due to the timing of the load migration itself is a significant issue that needs to be addressed. The issue can be exacerbated under the newly established multi-year forward procurement requirement,² because, under this requirement, the forward procurement obligation for the second and third years in the three-year time frame is based on a LSE's load share in the first year.³ Thus a new LSE could avoid all its forward Local RA procurement obligation for the

¹ For this purpose, SCE is assuming that the CAISO will perform the LCR study based upon the peak load in the month of August. Should the CAISO utilize a different month (e.g. September) then the dates referenced here will move respectively.

² Decision 19-02-022.

³ *Id.* at 28.

entire time frame (*i.e.*, three years out) during its first RA cycle by setting its initial load serving date on September 1 or later. This is a material issue and to SCE's knowledge, it has not been discussed within this proceeding. While Pacific Gas and Electric Company's ("PG&E") proposal to require all LSEs to submit a multi-year load forecast for each of the three forward years⁴ may mitigate the issue for the second and third years under the multi-year procurement timeframe, it would not address the issue for the first year. SCE proposes a resolution of this issue below and respectfully requests the Commission adopt its proposal in order for this issue to be addressed in Track 3.

B. The Local RA Year-Ahead Allocation Should Account For Load Migration and the Local RA Monthly Obligation Should Be Based on the August Load Ratio For All Months

To address the gap described above, the year-ahead process should account for all load migration, including its impact on Local RA. To do so, the year-ahead process should account for load migration regardless of which month the load migrates. The California Energy Commission ("CEC") could perform a load forecast to determine the amount of load the migrating customers would have had that contributed to the local requirement developed in April and trued up in August of the previous year. This load ratio would then determine the amount of Local RA obligation that the load-gaining LSE would take on once it starts serving customers and the load-losing LSE would have reduced from its requirement. This process could also be repeated for new LSEs with staged implementation plans by breaking load into smaller subsets and performing more granular August load forecasts.

For example, a new LSE expects to begin serving load on September 1. The load-losing LSE has a forecast for 100 megawatts ("MW") in August. Of the 100 MW August forecast, the CEC determines the amount of that load which will now be served by the load-gaining LSE. For simplicity, in this example, assume that the CEC determines that the load-gaining LSE

⁴ PG&E Track 3 Proposals at 5-6.

customers represent 40 MW of the 100 MW August peak. This would establish a 40% load ratio share for the load-gaining LSE and a 60% load ratio share for the load-losing LSE.

The year-ahead RA process should then show that the load-losing LSE is responsible for 100% of the local requirement for January 1 through August 31 and 60% of the local requirement for September 1 through December 31. The load-gaining LSE would have no local requirement for January 1 through August 31 as it would not be serving the load. Given the anticipated commencement of load service on September 1, the load-gaining LSE would then pick up 40% of the local requirement in the year-ahead RA process for September 1 through December 31.

This methodology would provide three benefits that the current process does not offer:

1. Better alignment with the process for system and flexible resources;
2. Ensured responsibility for a LSE's respective portion of reliability requirements for the load it serves; and
3. No double counting of reliability requirements amongst LSEs.

As discussed in its opening comments, SCE continues to believe the Local RA allocation should be based on load share during the August peak consistent with when the Local RA requirements are set.⁵ However, SCE proposes that the Local RA year-ahead process should be modified to account for load migration by calculating LSE Local RA obligations for each month based on its customers load share during the August peak.

II.

REPLY COMMENTS ON THE PARTIES' TRACK 3 COMMENTS

A. The Commission Should Reject CalCCA's RA Sales Framework Proposal

The California Community Choice Association ("CalCCA") proposes a RA sales framework that requires investor-owned utilities ("IOUs") to (i) "offer all Local RA to the market in excess of the amount needed to serve bundled load plus a small 'buffer'; (ii) establish a

⁵ SCE Track 3 Comments at 4-5.

schedule for the IOUs' offers, possibly even employing an Electronic Bulletin Board [(“EBB”)], to ensure the products are offered sufficiently in advance of compliance dates to enable compliance by other LSEs; and (iii) establish standard terms and conditions for those sales to ensure the greatest participation in any IOU offers.”⁶ The Commission should reject CalCCA's proposal.

As PG&E and San Diego Gas & Electric Company (“SDG&E”)⁷ have previously argued, CalCCA's proposal is out of scope,⁸ discriminates against IOUs' bundled service customers, and creates an inequitable competitive balance.⁹ As asserted by the Public Advocates Office (“Cal Advocates”),¹⁰ which also reviews IOU procurement activities, the IOUs are required, as part of their Bundled Procurement Plans (BPPs), to ensure they possess enough RA capacity to meet their RA requirements; the current process requires IOU procurement in a manner that mitigates over-procurement and allows for sales of owned or contracted capacity and portfolio optimization when excess capacity is held.¹¹ Each IOUs' BPP sets forth regulatory requirements and authorizes IOU procurement activities that also address an IOU's RA position, including any excess capacity; as such, any additional rules that address the IOUs' position could be duplicative of what is already established in their BPPs. Mandating that the IOUs only use an EBB is inappropriate as it does not have the full vetting of a complete procurement framework.

⁶ CalCCA's Track 3 Proposals at 4-8. CalCCA's Track 3 Comments at 8. As listed in CalCCA's Track 3 Proposals, at 6-7, the components of CalCCA's proposal include: “[f]our actions [that] will maximize the opportunity for timely matching of supply and demand within the RA market. First, as the Track 2 Decision directs, Energy Division Staff will issue a report with ‘Resources on the Net Qualifying Capacity list that are not shown in RA filings as under contract to an LSE(s).’ Second, the Commission should provide guidance on how the IOUs should manage their excess RA capacity, including a requirement that the IOU offer to the market 100 percent of all RA in excess of the IOU's forecast bundled load plus a reasonable “buffer.” Third, the Commission should prescribe the IOUs' solicitation schedules to maximize the opportunity for other LSEs to meet compliance obligations. Fourth, the Commission should obligate the IOUs to post their excess RA capacity on an Electronic Bulletin Board (EBB) to facilitate bilateral transactions in the beginning of each year.”

⁷ PG&E Track 3 Comments at 19-21; SDG&E Track 3 Comments at 17-20.

⁸ PG&E Track 3 Comments at 20. SDG&E Track 3 Comments at 18.

⁹ SDG&E Track 3 Comments at 18-19.

¹⁰ The Public Advocates Office Track 3 Comments at 7.

¹¹ *Id.* at 7.

SCE has actively managed its RA position through a variety of solicitation processes including issuing requests for offers (“RFO”) for purchases and sales, electronic solicitations, participating in other LSEs’ RFOs, bilateral contracting, and participation in the broker markets.

Further, even if an IOU may be “long” on a local RA requirement, the IOU may have an overall “short” system and/or flexibility RA position and not be able to sell its “long” local RA resources without creating an increased need for system and/or flexibility RA capacity. If non-IOUs cannot meet their local RA requirements because the service territory IOU did not make its local RA capacity available for sale, the deficient LSEs can petition the Commission for a waiver from non-compliance with the subject local RA requirement provided the LSEs can demonstrate that there were no other local RA resources available to contract.

B. SCE’s Qualifying Capacity Proposals for Hybrid Resources

In its opening comments, the California Independent System Operator (“CAISO”) expressed support for SCE’s specific proposals for determining qualifying capacity for hybrid resources (*i.e.*, a storage resource paired with a dispatchable resource, a storage resource paired with a non-dispatchable resource, and a storage resource paired with a demand response resource)¹² but believes “there has not been sufficient opportunity to develop fully the necessary assessment and counting tools in Track 3 of this proceeding.”¹³ SCE notes that its proposals build on applicable existing processes, *i.e.*, the Net Qualifying Capacity (“NQC”) process at the CAISO and the existing effective load carrying capacity (“ELCC”) process at the CPUC. SCE is not aware of any new assessment and counting tools required in addition to these existing processes to implement its proposals. Moreover, the exact same proposals referenced here have been submitted multiple times before in Track 2 of this proceeding, including the Track 2 Testimony submitted on July 10, 2018 and Opening Comments filed on August 8, 2018.¹⁴

¹² SCE Track 3 Proposals at 4-7.

¹³ CAISO Track 3 Comments at 7.

¹⁴ SCE Track 2 Testimony, submitted on July 10, 2018, at 27-29; SCE Track 2 Comments, filed on August 8, 2018, Appendix A, at A27-A29.

However, should the CAISO continue to find a workshop is needed for further discussion, SCE suggests a workshop on this topic be scheduled during the month of April of this year for timely adoption in Track 3.

C. Parties' Proposals on the Planning Reserve Margin

The Independent Energy Producers ("IEP") proposed that the Commission should consider adopting a Planning Reserve Margin ("PRM") for Flexible RA and question whether the adopted 15% PRM for System RA is sufficient.¹⁵ The California Energy Storage Alliance ("CESA") supported the IEP proposal in its comments while realizing the matter is less urgent.¹⁶ However, the underlying needs for the proposal, or any other similar proposals, have not been fully articulated. Quantitative analysis must be conducted and the needs must be demonstrated and well understood before changing the existing planning standards, including the 15% PRM, 1-in-2 load forecast for System RA, or a new PRM for Flexible RA. In addition, under the CAISO RA Enhancements Initiative, the CAISO and stakeholders are evaluating potential comprehensive changes to the RA program considering various needs including operational needs. As such, SCE recommends the Commission consider such proposals if necessary *after* the CAISO RA Enhancements Initiative concludes. SCE believes that the CAISO RA Enhancements Initiative will be the most appropriate way to develop a record of the intricate interactions of forced and planned outages, forecast error, and operational needs. Once such a record is developed, it can be introduced into the RA proceeding and a decision can then be rendered.

D. SCE's Proposal on Flexible RA Unbundling

In its comments, the Alliance for Retail Energy Markets ("AReM") tentatively supported SCE's proposal to unbundle Flexible RA attributes from System and Local RA attributes,

¹⁵ IEP Track 3 Proposals at 3, 5.

¹⁶ CESA Track 3 Comments at 13-14.

provided that “the adopted proposal also addresses how unbundling will affect allocations associated with utility RA procurement through non-bypassable charges.”¹⁷ SCE’s proposal does not create an issue for new resources as the procurement of new resources through non-bypassable charges are subject to Advice Letter or Application process, which provide a venue to address potential issues related to the unbundling. For existing resources, where SCE has procured RA from a resource that will be allocated to all benefitting customers, SCE has utilized contractual language that conveys all RA attributes to SCE as the buyer. As such, for all existing cost allocated resources (whether CAM or distribution charges), the flex RA attribute, if applicable, has been procured and SCE would work with the Energy Division to ensure that the Flexible RA capacity is allocated to all benefitting customers.

In addition, during the March 12-13 workshops, a representative from AReM stated that it was their belief that there may be a small amount of storage resources that were procured by SCE and recovered either through distribution rates or through public purpose program charges for which the RA attributes were not being allocated. SCE has researched this matter. SCE has found that there are a small number of battery storage devices that are behind the meter devices that are being recovered through distribution rates and public purpose programs charges. These resources are behind the meter, load modifying resources that do not have associated RA attributes to be allocated. Instead, the capacity value of these behind the meter energy storage contracts is realized by all benefitting customers through a reduction in their Load Serving Entities’ load forecasts.

Given the above, SCE continues to believe it is appropriate for the Commission to adopt SCE’s proposal in Track 3 of this proceeding given the potential benefits of the proposed unbundling, *e.g.*, freeing up stranded flexible capacity in an LSE’s portfolio and allowing more liquidity in flexible capacity procurement.

¹⁷ AReM Track 3 Comments at 12-13.

E. Procedural Clarification Regarding Third-Party Demand Response Resources

In its comments, OhmConnect suggested that the stakeholder process in Application (“A.”) 17-01-012 et al. (*Demand Response Programs, Pilots and Budgets for Program Years 2018-2022*) be deemed the appropriate venue to discuss the topic of determining qualifying capacity for third-party Demand Response (“DR”) resources, including those procured through the DR Auction Mechanism (“DRAM”).¹⁸ There was also a discussion during the March 12-13 RA workshop regarding the need to ensure cohesiveness in policies on this topic given the multiple proceedings involved. SCE notes that in Resolution E-4728, issued on July 23, 2015, the Commission agreed that “a request to modify RA requirements is ‘...more appropriately addressed in the RA proceeding’” and further directed the IOUs to address matters on RA penalties “associated with any post-pilot DRAM through the RA docket.”¹⁹ With the same reasoning and the clear guidance provided in this Resolution, SCE believes that RA counting rules for third-party DR resources, including DRAM resources, should be determined in this proceeding.

F. Comments on Load Forecast

In its comments, CalCCA stated its support for SCE’s RA load forecast proposal with the caveat that “if it provides the CEC another check on its overall forecast.” As SCE responded at the workshop, SCE’s proposal of developing aggregated CCA and ESP load forecast would provide additional values to CEC’s overall reconciliation process. CEC would have the ultimate responsibility in performing the forecasting reconciliation work with each LSE including IOUs and individual CCAs. Without implementing SCE’s proposal, CEC would only be comparing IOU’s forecast for each individual CCA against each CCA’s own forecast. SCE’s proposal provides additional value to CEC’s reconciliation process by creating another check for CEC on the aggregate CCA and ESP forecast. SCE’s proposal doesn’t change the basic nature of CEC’s

¹⁸ OhmConnect’s Track 3 Comments at 1.

¹⁹ Resolution E-4728 at 16.

reconciliation process and has no bearing on how the CEC or the CPUC would treat an IOU forecast versus an individual CCA forecast. SCE's proposal would only help CEC improve its existing reconciliation efforts and minimize the "pro rata" adjustment among all LSEs. CalCCA's concerns about SCE's explanation at the workshop about the additional "CEC and SCE reconciliation" is unwarranted. The CEC has the overall responsibility to reconcile forecasts with all LSEs through the process. SCE's explanation only refers to the unique or confidential forecasts IOUs produce for CEC's reconciliation purpose. Any further inference about how this additional aggregated forecast information may give IOU preferential treatment over CCAs has no sound basis as the CPUC will have the same governance over IOUs and CCAs through RA requirement determination process.

AReM objected to SCE's proposal due to an apparent misunderstanding of SCE's proposal. AReM believes that "the improvements to the load forecasting process proposed by Commission and CEC staff achieve the same objective in a more efficient and competitively-neutral manner." SCE believes that its proposal would offer strong value to the CEC's forecast reconciliation efforts and benefits all LSEs ultimately. AReM's argument about the competitiveness between IOUs and CCAs has no merit given that the clear objective of SCE's proposal is to help improve the CEC's forecast reconciliation efforts.

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III.
CONCLUSION

SCE appreciates the opportunity to file these reply comments to assist in the further development, including a reform, of the Commission's RA program.

Respectfully submitted,

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