BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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**REPLY COMMENTS OF THE CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES ON TRACK 3 PROPOSALS AND WORKSHOP AND ON ADMINISTRATIVE LAW JUDGE'S RULING ON EFFECTIVE LOAD CARRYING CAPACITY**

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For: CENTER FOR ENERGY EFFICIENCY AND RENEWABLE TECHNOLOGIES

March 29, 2019

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The Center for Energy Efficiency and Renewable Technologies (CEERT) respectfully submits these Reply Comments on Track 3 Proposals and Workshop, and Administrative Law Judge's (ALJ's) Ruling on Effective Load Carrying Capacity (ELCC) in Rulemaking (R.) 17-09-020 (Resource Adequacy (RA)). These Reply Comments are filed and served pursuant to the Commission's Rules of Practice and Procedure, the Amended Scoping Memo and Ruling of Assigned Commissioner, issued on January 29, 2019 (Amended Scoping Memo) and the ALJ's Ruling on ELCC (ALJ's ELCC Ruling), issued on February 13, 2019.

## I.
## MULTIPLE PARTIES SUPPORT CEERT'S "PORTFOLIO NET QUALIFYING CAPACITY (NQC)" PROPOSAL WITH QUALIFICATIONS

In their opening comments, numerous parties expressed qualified support for CEERT's "Portfolio NQC" proposal.[1] By far the most important "qualifier" in these comments was that more

[1] Opening Comments of Green Power Institute (GPI), at p. 5, Opening Comments of Wellhead Electric Company, Inc. (Wellhead), at p. 3, Opening Comments of California Energy Storage Alliance (CESA), at pp. 11-12, Opening Comments of Joint Demand Response Parties (Joint DR Parties), at p. 5, Opening Comments of Calpine Corporation (Calpine), at p. 13, Opening Comments of NRG Energy, Inc. (NRG), at p.17, Opening Comments of Western Power Trading Forum (WPTF), at p. 5, Opening Comments of Southern California Edison (SCE), at pp. 5-6, Opening Comments of California Community Choice Association (CalCCA), at pp.8-9, Opening Comments of California Efficiency and Demand Management Council (Council), at p. 3, and Opening Comments of Sierra Club, California Environmental Justice Alliance and Union of Concerned Scientists (Sierra Club/CEJA/UCS), at p. 4.

detail needed to be fleshed out before proposal adoption than could be decided in time for a June decision in Track 3. CEERT will address this legitimate concern below.

A few of the "qualified support" comments could be classified more as damning with faint praise. These came mainly from parties who may be threatened by such a proposal, such as those that have an outsized share of the local capacity requirement (LCR) market; those who have an interest in creating and arbitraging fungible, tradeable products; and/or those who possess prospective market power granted by a position as pivotal supplier. Typical of these comments was that of NRG who stated: "NRG suggests consideration of CEERT's portfolio approach be put off to a future proceeding or track of this proceeding."[2]

Only the California Independent System Operator (CAISO) expressed outright opposition to the proposal.[3] CEERT believes that is because there is a fundamental misunderstanding between the parties concerning the concept. Given the pivotal nature of CAISO in this process, CEERT commits to a one-on-one discussion with CAISO, taking much more time than was available during the Workshop or in these formal Track 3 filings, before starting back and forth assertions at the Commission. CEERT believes that this process will result in significant narrowing of differences, if any, between CAISO and CEERT.

Many of the other specific "qualifiers" deserve mention. To begin with, Calpine asks: **How would the Portfolio be represented in CAISO markets?**[4] CEERT responds that the portfolio as a portfolio would at least initially be only represented as an LCR resource and bid into CAISO's ancillary services markets as appropriate for that use and settled as any other resource in those markets. Individual elements of the portfolio could be bid into any other CAISO market as appropriate by existing rules. To the extent that those elements received an

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[2] Opening Comments of NRG, at p. 17.
[3] Opening Comments of CAISO, at pp. 2 and 11.
[4] Opening Comments of Calpine, at p. 13.

award in those other markets, they would be considered to have been pre-contingency dispatched for purposes of the LCR portfolio value.

Calpine and Southern California Edison (SCE) ask: **How would CAISO commit and dispatch the portfolio?**[5] CEERT responds that the portfolio could consist of three classes of resources: load modifiers such as energy efficiency, "non-dispatchable" generation such as solar photovoltaic (PV), or dispatchable resources such as storage and demand response (DR). The load modifiers would be in place and reduce the LCR need without further real time action. The non-dispatchable generation would presumably already be synchronized and generating but could be under curtailment due to system limits. The curtailment would be lifted simultaneously when the spin and/or operating reserves were called with the onset of the contingency.

The dispatchable resources that had not already received an award in the Integrated Forward Market (if any) would be committed in the ancillary services market day-ahead when load in the load pocket was forecast to be greater than the contingency constrained transmission import limit into the load pocket. If not done in the Integrated Forward Market, this would be done in Reliability Unit Commitment or Short-Term Unit Commitment as any other reserve resource. If and when the contingency event occurred, the Scheduling Coordinator for the Load-Serving Entity (LSE) who "owned" the portfolio would be issued dispatch instructions (the reserves would be called) by the CAISO software, but the actual dispatch of individual resource components to match the dispatch instructions would be left to the discretion of the Scheduling Coordinator and the LSE. The Scheduling Coordinator/LSE would be responsible for issues such as battery State-of-Charge once the portfolio was committed, notification and verification of performance of DR resources, etc. CEERT notes that, except for that "worst case" 1 in 10 peak hour, if the Portfolio is the marginal resource, the actual dispatch instructions would be less than

[5] Opening Comments of Calpine, at p. 13 and Opening Comments of SCE, at pp. 5-6.

the Portfolio NQC value allowing the LSE to exercise discretion about which subset of portfolio resources were actually dispatched.

Calpine asks: **How would performance be quantified and enforced?**[6] CEERT responds that the first check would be upon nomination for a Portfolio NQC value by the LSE. The portfolio NQC would be assigned by the same process and data that the CAISO used to calculate the LCR need using an ELCC portfolio in/portfolio out comparison. Once the portfolio was constructed and available for service, there would be an acceptance test to demonstrate that the portfolio could meet its assigned Portfolio NQC value. Enforcement in real time would be accomplished in the same manner as any other resource.

Calpine asks: **Is not the avoidance of a Cost Allocation Mechanism (CAM) charge by the LSE inconsistent with state law?**[7] CEERT responds that it should have clarified that the CAM avoidance provision in its proposal was prospective only. Any existing CAM charge or exit fee owed by the LSE would be subject to the provisions of Rulemaking (R.)17-06-026 (the Power Charge Indifference Adjustment (PCIA) proceeding).

SCE asks: **How would the resource portfolio be optimized and how would price formation work?**[8] CEERT responds that the portfolio would be "optimized" by the LSE given its portfolio acquisition costs, avoided cost structure and availability of non-CAISO market revenue streams. Price formation akin to conventional resources is a rather foreign concept in a market designed to optimize resource short run marginal cost, but, most, if not all, of the portfolio elements have zero or de minimus short run marginal cost. Clearly, year ahead RA payments to the LSE, and CAISO market revenues for ancillary service commitment and energy if and when the operating reserves in the portfolio are called would be subject to some sort of

[6] Opening Comments of Calpine, at p. 13.
[7] *Id*.
[8] Opening Comments of SCE, at pp. 5-6.

"avoided cost" methodology. Rather than try to sort out all of the permutations and combinations generically, CEET proposes to, at least initially, deal with this issue case by case when the Portfolio NQC value is established. As experience is gained, it is likely that this aspect of the proposal could be streamlined and updated.

## II.
## CEERT REQUESTS THAT THE COMMISSION TAKE ACTION REGARDING CEERT'S PROPOSAL IN TRACK 3

CEERT acknowledges that its proposal is not fleshed out in all relevant detail and possible permutations of portfolio elements. By its nature, it will *never* be so. That does not indicate a weakness but a strength of the proposal as long as there are appropriate valuation, validation and enforcement provisions in place. CEERT believes it has outlined such provisions based on specific, discrete Portfolio applications by individual LSEs.

As experience is gained, it is entirely possible and completely expected that future Commission RA proceedings and CAISO stakeholder initiatives will expand, enhance and hone the details of how preferred resource portfolio values can serve the common goals of cost effectiveness, grid reliability, ratepayer equity, social justice, and achievement of state policy objectives -- just as that process has occurred for conventional resources over the past fifteen or so years. We should expect that it will be necessary to back out of cul de sacs or correct unforeseen and unintended consequences based on experience – just as that process has occurred for conventional resources over the past fifteen or so years.

As CEERT has consistently stated over those years, unless and until preferred resources take their place as grid reliability resources consistent with their growing share of the energy supply, the state will continue to face vexing issues ranging from resource adequacy to revenue adequacy for conventional resources required for grid reliability to cost effective achievement of state policy goals. The gas on gas competition necessary to police market power when gas is the dominant supplier of LCR will be impossible to sustain as renewables take larger and larger market share for energy and unnecessary carbon emissions are squeezed out of the mix. Multi-year procurement may speak to revenue adequacy, but has little impact on RA given the CAISO's backstop authority, and arguably makes achievement of State policy goals more complicated.

That evolutionary process of continual improvement has completely stalled at a time when resource supply and demand are coming into balance for the first time in well over a decade. CEERT notes that SCE just this week has held a series of ex parte meetings arguing that resource deficiencies loom as early as 2021.[9] Given the general shrinkage of the state's planning reserve margin, and current risks not considered in the RA program to date related to, e.g., IOU bankruptcy, significant distractions in orderly procurement due to load migration, wildfire and landslide liabilities, a fragile and brittle gas supply system in Southern California that has cost CA ratepayers well over $1B and counting in the last 8-9 months with no near term end in sight, and the potential for early closure of Diablo Canyon with no contingency plan in place, CEERT agrees with SCE's assessment. There is no time to defer consideration of CEERT's proposal to some unnamed future proceeding as recommended by self-interested market participants such as NRG, Calpine and WPTF.

CEERT urges that the following Commission actions be taken in the June 4 Track 3 decision to allow its proposal to become part of the near-term solution:

- Define the term "Portfolio NQC" for LCR purposes.
- Allow unbundling of local, system and flexible RA showings for portfolios that have been granted a Portfolio NQC.

[9] *See, e.g.,* SCE's (U 338-E) Notice of Ex Parte Communication in R.16-02-007, dated March 27, 2019.

- Deny with prejudice the CAISO proposal to limit the use of availability-limited resources for LCR purposes as long as they are part of a portfolio that has been granted a Portfolio NQC.
- Remove any "eligibility restrictions" such as 20-min DR response time or battery storage minimum 4-hr duration as long as these resources are part of a portfolio that has been granted a Portfolio NQC.
- Establish an "auto-pilot" program to allow LSE innovation to occur organically for future LCR showings of portfolios that have been granted a Portfolio NQC -- subject to validation through acceptance testing and application of standard enforcement protocols.

## III.
## CONCLUSION

For the reasons detailed above, CEERT recommends that its "Portfolio NQC" proposal be part of the Commission's near-term solution and not deferred to a later proceeding or track of this proceeding. CEERT once again reiterates its support for preferred resources to take place as grid reliability resources consistent with their growing share of the energy supply.

Respectfully submitted,

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