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## Pacific Gas and Electric_Green Book_Enclosure 2

*Additional submitted attachment is included below.*

**PACIFIC GAS AND ELECTRIC COMPANY**

**COMMENTS ON CPUC'S**

**JUNE 22 CUSTOMER CHOICE EN BANC**

**JULY 11, 2018**

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## A. Introduction

Pacific Gas and Electric Company ("PG&E") respectfully submits comments on the Customer Choice *En Banc* led by the California Public Utilities Commission (CPUC) and supported by the California Energy Commission (CEC).

PG&E appreciates the leadership of the CPUC, CEC and the California Customer Choice Project (Project), bringing stakeholders together to address challenges associated with California's evolving electric market. PG&E looks forward to collaborating with stakeholders across the state to address the critical issues outlined in the Green Book.

Given the discussion at the *En Banc* regarding the various energy procurement and supply functions needed to ensure that the California energy market can successfully satisfy the three key objectives of affordability, reliability and decarbonization, PG&E will use these comments to: 1) clarify the key distinctions between provider of last resort (POLR) and centralized procurement; 2) express its support for a central procurement entity for local RA and preferred resources; and 3) offer recommendations regarding how the CPUC can identify a central procurement entity.

## B. Provider of Last Resort Versus Central Procurement Entity

At the *En Banc*, there was a significant amount of discussion throughout several panels regarding the energy supply and/or procurement responsibilities associated with the POLR as compared to a Central Procurement Entity (CPE) for various types of energy products. While these roles have traditionally been played by the investor owned utilities (IOUs) within their respective service areas, they are distinct functions. Furthermore, they can be assumed by different entities, which may or may not be the IOUs.

**POLR**: The Draft Green Book defines the POLR as:

> a back-up load serving entity that is available to offer retail service as a safety net for customers whose chosen load serving entity is unable to

continue service. Term is relevant in states that have restructured where customers have a choice of load serving entity.

In California, the term also applies to customers who do not choose an alternative load serving entity (or for whom the choice has not been made on their behalf by a Community Choice Aggregator, or CCA). In order to perform this function, the POLR needs to be able to generate and/or procure power products consistent with the state's regulatory requirements.

Consistent with statute and various court decisions, the IOUs carry out the POLR responsibilities within their respective service areas. PG&E's position is that, going forward, there must be some entity (or entities) that has/have the role of POLR, even if that entity is no longer the IOU. The POLR should have both the administrative capacity and financial standing to absorb an uncertain number of customers and uncertain load, and should receive adequate compensation to perform this function. Irrespective of which entity ultimately has the POLR role, the energy supply market needs to include appropriate incentives, rules, oversight and accountability structures that encompass all market participants.

**CPE**: PG&E believes that, in order to ensure that the electric system is able to provide reliable supply at affordable prices, and in a manner that is consistent with the state's decarbonization and/or preferred resource objectives, there is a strong need for a CPE to ensure that key products are actually acquired. While some may argue that a central procurement <u>approach</u>, as opposed to a central procurement <u>entity</u>, can ensure reliable and clean supply, PG&E is not convinced that the separate procurement efforts undertaken by a growing number of load serving entities (LSEs) will seamlessly and reliably deliver the products and services that the electric system needs to satisfy critical state objectives. Most notable among the products that make sense for a CPE are local RA and certain state preferred ("policy") resources.

## C. PG&E Supports a Central Procurement Entity for Local RA and Preferred Resources

At the *En Banc*, Southern California Edison (SCE) witness Cushnie on the "Maintaining Reliability" panel discussed the lack of non-IOU participation in procuring local RA resources in the Moorpark subarea in the aggregated Big Creek-Ventura local area. In particular, he described the fact that several large projects needed for reliability in this area were only maintained as a result of SCE's recognition of the critical role that they play.

This example highlights several features of a fragmented energy supply market overlaid on top of the current local RA construct -- which was designed consistent with a dominant procurement entity -- that leads to under-acquisition of local RA when left to the collective action of a significant number of LSEs.

- The first misalignment is derived from the fact that the current RA framework sets local RA requirements at an aggregated level, combining the requirements of multiple local areas or sub-areas; this local aggregation rule was established to address the concern that some generators in local areas might be able to exercise market power. Under this framework, it can be the case that each LSE meets its share of the aggregated local obligation, while the total procurement leaves a deficiency in one or more of the individual local areas. In this instance, the CAISO can act as a "backstop" to procure the resource, and allocate the procurement to all LSEs. This is generally an inefficient and costly outcome for all customers.
- Moreover, a single LSE procuring for all, or nearly all, of the service area generally had the combination of load and visibility into whether its procurement was sufficient to meet local area needs to support contracting with needed larger resources located in certain subareas. In contrast, under today's environment smaller LSEs have a reduced capability to contract with larger resources, while IOUs experiencing significant levels of load departure generally have no need to procure from larger local resources and no incentive to do so (since they would face inadequate cost recovery due to, among other things, the existing PCIA mechanism).

With fragmentation, no single entity has a holistic view to balance procurement of the right resources in all local areas to avoid CAISO deficiency backstop procurement. Moreover, there is no longer incentive for any individual LSE to take steps -- at higher cost to only its customers -- to reduce the likelihood of CAISO deficiency backstop procurement -- the costs of which are allocated to all LSEs. , This leads to higher costs to be borne by all customers than would be the case under a more structured approach.

Regarding preferred resources, the IOUs have traditionally been entrusted by the CPUC and/or legislature with the responsibility of procuring power from designated resources where a policy rationale underpins the requirement that certain resource types be included in the resource mix. Two somewhat recent examples include Combined Heat and Power (CHP), and biomass. Fragmented procurement undertaken by a larger number of LSEs challenges the Commission's ability to enforce compliance with these state goals.

The most effective means of maintaining a reliable and affordable electric system, in concert with state's decarbonization goals, would be through the establishment of a local and policy procurement framework that includes the following key features:

- a multiple-year-ahead local RA framework that ensures adequate revenues are provided to those generation resources determined to be needed to reliably and cost-effectively meet local reliability needs;
- a central buyer buying approach that focuses on "front-stop" procurement of the effective set of resources to maintain local reliability (while considering the contribution of widely allocated local reliability resources through the Cost Allocation Methodology portfolio), in order to minimize the likelihood of out-of-market "backstop" procurement by the CAISO. In addition to developing a least cost portfolio for local reliability resources, this CPE could also identify alternative portfolios, including a preferred ("policy") resource portfolio. The Commission could then decide which portfolio best meets the state's goals.
- an equitable cost allocation process that ensures fair allocation and recovery of all local RA procurement and preferred resource costs.

### D. PG&E's Recommendations on How the CPUC Can Identify a Central Procurement Entity

The logical choices for a CPE include CAISO, a special entity created for the designated purpose of procuring resources and established through legislation (a Designated Purpose Entity or DPE) a private entity selected through a solicitation process, or the IOU in a Transmission Access Charge area.

Based on earlier comments, neither CCAs nor generators consider the IOU to be the best candidate for the central buying role. Among many other issues, there is likely to be concern with the interaction between any IOU procurement activity as the central buyer and IOU procurement in its role as an LSE. Further, IOUs currently face significant risk associated with inverse condemnation, which is adversely impacting the credit standing and cost of capital for the utilities. These risks have resulted in downgrades of credit quality and uncertainty about the future stability of the IOUs. If these issues are not addressed, the ability of the IOUs to procure on behalf of the market would be significantly hindered. There are also challenges to having the CAISO be the central buyer, including the substantial changes that would need to be made to the CAISO tariff under Federal Energy Regulatory Commission (FERC) jurisdiction, with the CPUC having only an advisory role.

PG&E recommends that the DPE approach be adopted as it would allow for policy-based procurement in selecting resources to meet local reliability needs. And, structured properly, a DPE could have credit quality superior to that of the IOUs, thus reducing credit costs. Additionally, it could be independent of all of the LSEs, including the IOUs. Enabling legislation may be required to complete this function, which is otherwise well understood and straight forward. A transition period would likely be required to staff and start up the DPE, and to put the necessary service agreements in place.

## E. Conclusion

PG&E appreciates the Commission's leadership to engage all key stakeholders to examine the important issues included in the Draft Green Book. PG&E commends the Commission's efforts to ensure safety and reliability while delivering clean and affordable energy to all customers, and looks forward to participating in the next steps in the process.