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Six Cities' Comments - AB 209 Workshop (Docket 21-ESR-01)

Additional submitted attachment is included below.

STATE OF CALIFORNIA
BEFORE THE
CALIFORNIA ENERGY COMMISSION

In the Matter of: **Energy System Reliability**	**Docket No. 21-ESR-01**

POST-WORKSHOP COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA

Pursuant to the Notice issued by the California Energy Commission ("Commission" or "CEC") in the above-referenced proceeding on November 6, 2023, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") hereby submit their comments on the topics discussed during the Commission's Assembly Bill 209[1] Publicly Owned Utility Planning Reserve Margin Lead Commissioner Workshop held on November 16, 2023 (the "Workshop"). The Six Cities appreciate the opportunity to reiterate the positions expressed during their workshop presentation and look forward to collaborative engagement and continued dialogue with the CEC as it formulates recommendations regarding approaches to determining an appropriate minimum planning reserve margin ("PRM") for local publicly owned utilities ("POUs") within the California Independent System Operator Corporation ("CAISO") balancing authority area ("BAA").

[1] CAL. PUB. RES. CODE § 25704.5(b), Assemb. B. 209, 2021-2022 Reg. Sess., ch. 251 § 14, 2022 Cal. Stat.

I. COMMENTS

A. The Recommended PRM Should Reflect Current Procurement Challenges and Include a Transition Period

As outlined at the workshop, it is critical that the Commission's recommendations under AB 209, including recommendations as to the minimum PRM and the applicable timelines for implementation of a minimum PRM, reflect consideration of the current structural challenges in the bilateral market for resource adequacy ("RA") capacity and capacity that is eligible to meet state renewable portfolio standard requirements, including conditions of scarcity and substantially elevated pricing. At the same time, the recommendations should reflect that POUs, including the Six Cities, already engage in robust integrated resource planning that is designed to assure reliability and continuity of service to their respective loads while meeting local policy needs. As municipal systems, POUs are directly accountable to their customer-owners, which are comprised of businesses and residents within POU service territories. POUs are likewise responsible for meeting state and, if applicable, local environmental policy requirements, and they support regional reliability through adherence to CAISO RA program requirements as implemented by their local regulatory authorities ("LRAs").

Each of the Six Cities performs its own resource planning and procurement to meet a targeted minimum PRM of 15% based upon its CEC-adjusted forecast, and the Cities' goals in resource planning are to procure resources that are highly reliable, cost effective, and capable of meeting RPS requirements. Unfortunately, resource planning and procurement has become increasingly challenging in recent years, due to a variety of macroeconomic and regulatory factors that are outside of the control of any individual POU, but have severely hampered the ability of many or even most POUs to engage in procurement of capacity resources to meet even their currently-applicable minimum PRM levels at a reasonable cost. As shown in the data

compiled by certain of the Six Cities and presented during the Workshop, prices for forward procurement of capacity that is eligible to provide system RA capacity within the CAISO have increased, in some instances, by a factor of 10 relative to 2019 pricing:

	Q3 Marks – System RA (kw-mo)
2019	Under $10.00
2020	$10.00-$15.00
2021	$15.00-$20.00
2022	$20.00-$40.00
2023	$35.00-$55.00
2024	$65.00-$100.00

Source: City Internal Data

In particular, 2024 prices show significant increases in System RA for the months of July, August, and September, with more modest increases during shoulder months:

	System RA – 2024
Jan.	$2.75
Feb.	$2.75
Mar.	$8.25
April	$11.00
May	$14.50
June	$31.50
Jul.	$72.50
Aug.	$95.00
Sept.	$100.00
Oct.	$16.00
Nov.	$2.50
Dec.	$2.50

Source: Broker data

Average prices for annual System RA have increased by a factor of five since 2019:

	Average Annual System RA Marks
2019	$5.00
2020	$6.50
2021	$7.00
2022	$8.50
2023	$15.00
2024	$25.00

Source: Broker data

Unless and until more RPS and RA-eligible resources are able to attain full or partial capacity deliverability status under the CAISO's interconnection and deliverability rules, including construction of new transmission facilities and network upgrades that are necessary to accommodate additional resources and storage, the challenges of meeting the currently-applicable target PRMs that the Six Cities use, much less an increased PRM target, will continue to persist. For this reason, the Six Cities respectfully urge the CEC to consider (i) recommendation of a reasonable transition period in the event that the CEC's analysis supports implementation of a higher PRM level than currently employed by POUs such as the Six Cities; and (ii) support for the use of locally-installed capacity resources in meeting PRM requirements, as outlined in more detail below.

B. The Six Cities Generally Support the Commission's Recommended Principles for PRM Development, with Refinements to Address POU Discretion as to Resource Qualification and Considerations of Cost

In general, the Six Cities support most of the principles identified by the CEC staff in its Workshop presentation. Specifically, the Six Cities agree that the PRM recommendations should be conceptually accessible, capable of replication and usable by POUs in their planning efforts (including with respect to the identification of default assumptions and the use of utility-specific information), incorporate the unique characteristics of individual POUs, and acknowledge BAA interdependencies. With respect to the fourth principle, pertaining to workability with the CAISO's existing compliance accounting mechanisms, the Six Cities are concerned that, as worded, this principle is too prescriptive and would limit the ability of local POUs to rely on capacity, such as locally-installed resources or imported resources, in meeting the recommended PRM. Such resources may be relied upon by the local POU for energy and participate consistently in CAISO markets, but may not be considered fully or partially deliverable by the

CAISO and, hence, may not qualify to provide RA under the CAISO's rules. The Six Cities therefore suggest the following reformulation of this principle:

> 4. Rely on local POU determinations of capacity values that are eligible to meet PRM values, as determined by POUs' LRAs and utilized within POUs' resource planning.

The Six Cities do not support limiting measurements of PRM compliance to only resources based only upon CAISO-determined net qualifying capacity ("NQC") values for resources. Such an approach would be inappropriately restrictive and may exclude resources that local POUs rely upon for their resource planning to meet the needs of their loads and that are consistently made available via CAISO markets.

Additionally, the Six Cities support the addition of concepts of feasibility and cost-effectiveness as important principles that are necessary in light of current and anticipated market conditions for capacity, framed as follows:

> 6. Consider the feasibility and cost-effectiveness of achieving the proposed PRM recommendation.

These factors are enumerated in the AB 209 statute's list of criteria for formulation of the recommended PRM.[2]

C. The Six Cities Support Further Evaluation of and Data Analysis Regarding the CEC's Proposed Methodology

The CEC's overview of the proposed approaches for setting the recommended PRM during the Workshop shows that there are a number of options and decision points underlying any particular analytical approach. The Six Cities believe that there would be value in further discussion of methodological issues in future workshops and encourage continued dialogue

[2] *See* CAL. PUB. RES. CODE § 25704.5(b) (2022).

among the CEC, local POUs, and affected stakeholders to refine the approaches that are under consideration.

In addition, there are areas with respect to which additional information and data would be informative to the discussion of the recommended methodology for formulation of the PRM. As an initial matter, the Six Cities request additional analyses of relative contributions to system reliability by local POUs as compared with load-serving entities under the jurisdiction of the California Public Utilities Commission ("CPUC"). While available data show that members of the Six Cities group for which data is reported have generally been able to meet or exceed a 15% PRM in recent years,[3] the same may not be true for CPUC-jurisdictional entities, or such entities may be authorized to utilize types of resources that have less reliable performance data and are not typically relied upon by members of the Six Cities group, for example, to meet PRM needs.[4]

The Six Cities also support additional analysis and consideration of potential transition approaches toward meeting a recommended PRM. For the reasons discussed above, macroeconomic drivers of scarcity and price increases in the bilateral capacity markets have limited the ability of local POUs to engage in additional resource procurement at a reasonable cost in recent years, and data show these conditions continuing into 2024. The Six Cities have no reason to anticipate near term improvements in these factors, such as for the 2025, 2026, and potentially the 2027 procurement periods, as it will take some time for reforms under consideration in various CAISO initiatives[5] to take effect. Therefore, any consideration of

[3] *See* CAL. ENERGY COMM'N, DRAFT 2023 INTEGRATED ENERGY POLICY REPORT, Pub. No. CEC-100-2023-001-CMD, App. E (2023), https://www.energy.ca.gov/publications/2023/2023-integrated-energy-policy-report.

[4] As discussed during the Workshop, for example, the individual Six Cities do not utilize within their RA programs any demand response resources at this time, whereas the CPUC may have adopted different rules.

[5] The Generation Deliverability Methodology Review ("GDMR") initiative is at the Draft Final Proposal stage. Although the CAISO has determined that the policy changes in the Draft Final Proposal do not require tariff revisions to be filed at the Federal Energy Regulatory Commission, the revisions in the deliverability rules, even with CAISO management's ability to provide prompt implementation (*see* Draft Final Proposal at 25), can be

increased or augmented PRM targets in future years should include a transition period to allow POUs to come into compliance with new or revised requirements. Simply put, increasing the PRM without considering the feasibility and cost of additional procurement will do nothing to increase regional reliability or enhance local POU planning, but it will increase costs to consumers and exacerbate the already-severe scarcity challenges within the RA markets. Any transition period should be formed with a view toward bridging current market conditions based on a realistic timeline for significant quantities of new resources to be brought online and enter the market. The Six Cities would support the CEC relatedly reserving flexibility to adjust the transition period in the future if warranted by market conditions.

D. The Recommended PRM Should Permit the LRAs for Local POUs to Establish the Counting Rules that are Needed to Verify PRM Compliance and Should Accommodate Local Installed Capacity Resources

As discussed during the Workshop, the CAISO process for determining the resources that are eligible to count toward meeting its RA requirements narrows the universe of resources from those that are online and eligible to participate in the CAISO markets to include only a subset of such resources that have transmission planning deliverability status.[6] For example, a resource located within the City of Riverside, even if it is small relative to the City's load and is unlikely to ever contribute to an outflow of energy from the City due to its size in comparison with the

expected to take time to fully manifest in the resource interconnection and transmission planning deliverability processes. In the Interconnection Process Enhancements ("IPE") initiative, the CAISO is endeavoring to meet an accelerated timeline for a package of interconnection-related reforms to enable resumption of Queue Cluster 15 studies in 2024, but the complexity and importance of the issues in this initiative has recently resulted in a stakeholder letter seeking an extension in the initiative timeline. In any event, like the GDMR initiative, the policy revisions in the IPE initiative may take several years to come to fruition in the form of new resources. The CAISO's RA Modeling and Program Design initiative is in the working group stage.

[6] *See, e.g.*, Cal. Indep. Sys. Operator Corp., *Deliverability Assessment Methodology Revisions Draft Final Proposal* 7 (Nov. 6, 2023), http://www.caiso.com/InitiativeDocuments/Draft-Final-Proposal-Generation-Deliverability-Methodology-Review-Nov132023.pdf (explaining that the "goal of the on-peak deliverability study methodology is to determine if the aggregate of available generation output that is counted as RA capacity in a given area can be simultaneously transferred to the remainder of the ISO [BAA] during resource shortage conditions, considering transmission constraints").

City's demand, particularly in peak conditions, cannot count toward meeting RA requirements in the CAISO unless the CAISO "deems" it deliverable throughout its footprint.[7] It does not matter if the resource is scheduled into and dispatched by the CAISO's markets every hour of every day; it is not considered to be an RA-eligible capacity resource absent full or partial capacity deliverability status. Achieving an allocation of transmission planning deliverability may entail the installation of network upgrades on the CAISO grid, and planning for and implementing the upgrades that are needed to ensure deliverability of new resources is not a rapid process. Unfortunately, importing additional capacity is not an option that is available to local POUs in many cases; the CAISO caps the amount of imported resources that can be used to meet RA requirements based on historical values and, although the CAISO has procedures to expand import deliverability (referred to as "Maximum Import Capability"), in practice, the expansion rules are unlikely to provide a timely path forward for incremental procurement of RA-eligible resources.

Given the challenges associated with attempting to engage in incremental procurement of resources within the CAISO or imported resources, the Six Cities strongly encourage the CEC to acknowledge the role of POUs' LRAs in determining the resources that would be eligible to meet and be counted toward formulation of a recommended PRM. Rather than limiting these resources to those that are considered countable by the CAISO based on NQC values, which includes only a subset of resources participating in the CAISO energy markets, POU LRAs should, at a minimum, have the flexibility to count toward PRM compliance any locally-installed capacity resources within the POU's system that can offset POU load, provided that such

[7] *Id*. at 6 (stating that "[r]esources that seek to provide [RA] capacity must have deliverability. Resources only meeting reliability requirements can operate as energy-only resources, without deliverability and not providing [RA] capacity").

resources are included in the POU's integrated resource planning. Ideally, such resources would also be eligible to count for meeting applicable CAISO RA rules, and the Six Cities will work with the CAISO in its RA Modeling and Program Design initiative to explore options to enable a quantity of local RA resources to qualify for the purposes of the CAISO's RA program.

II. CONCLUSION

WHEREFORE, for the going reasons, the Six Cities respectfully request that the Commission develop PRM recommendations for local POUs in accordance with the comments provided above.

Respectfully submitted,

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