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CMUA Comments on AB 209 POU PRM Workshop

Additional submitted attachment is included below.

STATE OF CALIFORNIA ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

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

COMMENTS OF THE CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION ON THE NOVEMBER 16, 2023 ASSEMBLY BILL 209 PUBLICLY OWNED UTILITY PLANNING RESERVE MARGIN WORKSHOP

I. INTRODUCTION

The California Municipal Utilities Association ("CMUA") provides these written comments on the California Energy Commission ("CEC" or "Commission") Assembly Bill ("AB 209") Publicly Owned Utility ("POU") Planning Reserve Margin ("PRM") Workshop, held November 16, 2023 ("Workshop").

As publicly owned electric utilities, many of whom have operated in service of their customers for many, many, decades (some over a century), CMUA's members are firmly committed to reliable system operation and practical rules that govern market participant behavior and contribute to overall system reliability. As consumer-owned utilities, we are also keenly focused on ensuring affordable rates for electric service. Ensuring reliability and affordable rates is the hallmark tension when developing procurement rules and why, at a fundamental level, key choices on overall procurement levels are properly housed with the ratemaking body of the relevant utility. For load-serving entities ("LSEs") as defined under the Public Utilities Code,[1] this is the California Public Utilities Commission ("CPUC"). For local publicly owned utilities that are CMUA members, this is their local governing body.

[1] Cal. Public Util. Code § 380.

This dual system has worked well. It has been memorialized in the California Independent System Operator ("CAISO") rules on Resource Adequacy ("RA"). CMUA members recognize that changing load and resource characteristics have increased challenges for electric utilities. However, as Vice-Chair Gunda remarked at the Workshop, the solution to these challenges need not be one size fits all.[2] We look forward to continued collaboration with the Commission on this critical matter.

II. Background on Current Resource Adequacy in the CAISO Balancing Authority Area ("BAA"), Application to CMUA Members in the CAISO BAA

A. General Rules and Role of the Local Regulatory Authority

The CAISO rules for RA, reflected in Section 40 of the CAISO Tariff, contain generally applicable RA rules for all entities that serve load within the CAISO Balancing Authority Area ("BAA"). CMUA will not enumerate every detail as the CAISO has provided that in the Workshop. The basic structures, however, bear emphasis.

Section 40.2.2.1(a) contains the overall reserve margin rules for the CAISO BAA POUs. This section appropriately provides symmetrical authority and discretion to the local regulatory authority ("LRA") of the POU, comparable to that of the CPUC for CPUC-jurisdictional LSEs, to set a PRM for a local publicly owned utility. Section 40.2.2.1(b) provides that if the LRA does not establish such a PRM, a default PRM of no less than 15% of the peak hourly Demand in the applicable month shall be applied.[3] This basic structure of deference to the ratemaking authority on overall levels of forward procurement reflects that this decision is not just about system reliability. Rather, it is a fundamental driver of overall costs to consumers, and as such the

[2] Siva Gunda, *Assembly Bill 209 Publicly Owned Utility Planning Reserve Margin Workshop*, Cal. Energy Commission (Nov. 16, 2023).
[3] CAISO Tariff Section 40.2.2.1, https://www.caiso.com/Documents/RevisedDraft-ISOTariffLanguage-Section40.pdf (last visited Nov. 30, 2023).

entities that are accountable to consumers for those costs, the LRAs, should have a primary role in how those decisions are made.

There are other components of the overall RA rules that, due to technical considerations regarding grid reliability, lend themselves toward more uniformity across all LRAs within the CAISO BAA. For example, Local Capacity obligations set forth in Section 40.3 of the CAISO Tariff apply to all Scheduling Coordinators for LSEs within the CAISO and identify a minimum amount of Local Capacity that is required in certain identified areas to ensure that contingencies that arise can be responded to consistent with reliability criteria. The CAISO Tariff allocates the obligations for this local capacity to LSEs in proportion to their load share of peak demand in the relevant Transmission Access Charge ("TAC") Area,[4] which generally equates with the service territories of Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company.

The key take away is that these are uniform amounts for entities that serve load, irrespective of the applicable local regulatory authority. Similarly, but with a key distinction set out below, Flexible Capacity obligations are allocated using a common methodology that is contained in the CAISO Tariff and applies to all Scheduling Coordinators for LSEs.[5]

B. An Example of Tailored Rules to Reflect Differing Circumstances; Flexible Capacity Obligations.

When the need for increased ramping capability became clear, the CAISO introduced the concept of a flexible capacity obligation that would be a component of the overall RA obligation for load in the CAISO BAA. The initial proposal for allocation of the Flexible Capacity obligation was simply to spread the cost on a proportionate load share basis, similar to how the

[4] CAISO Tariff Section 40.3.
[5] *See e.g.* CAISO Tariff Section 40.10.

Local Capacity was handled, and similar to how some view the current PRM discussion. This was supported by the CPUC, for example, because it approved the procurement for what was then three large LSEs and viewed there to be commonality in the directed procurement that supported a load-ratio allocation of obligations.

CMUA members objected, showing the CAISO and stakeholders that there were fundamental differences in loads and resources that drove increasing ramping requirements, notably the lower investment in early-state solar that was driving the "Duck Curve" and higher investment in high-capacity factor geothermal resources. As a result, a more fact-based attribution was arrived at that is contained in Section 40.10.2 of the CAISO Tariff, which allocates the obligation of the total Flexible Capacity Need based on the contribution of each LRA's jurisdictional LSEs to the maximum Three Hour Net-Load Ramp used to calculate the total need. As such, this allocation methodology attempts to track cost-causation by explicitly recognizing that each entity may impose differing burdens on the system in terms of Flexible Capacity obligations, based on load and resource characteristics. This principle can be true as it relates to system PRMs, as entities' load and resource characteristics can vary widely from entity to entity.

This background in RA design supports Vice-Chair Gunda's observation that one-size-does-not-fit-all, and that any PRM recommendations should appropriately reflect individual utility circumstances.

III. Presentations of NCPA and Six Cities Demonstrate that POUs are Directing Procurement Prudently and Consistent with Prevailing Industry Practices.

A. CMUA Members Generally Follow Prevailing Practices.

Presentations by the Northern California Power Agency ("NCPA") and the Six Cities at the Workshop demonstrate that POU-established PRMs are generally in line with industry practices. Both NCPA and Six Cities indicate that established PRMs for members are at 15%[6] and their members serve almost all POU load within the CAISO BAA. It is worth noting that since CMUA members serve roughly 6% of the CAISO BAA load, each incremental percentage increase in PRM, even if achievable, results in only an additional 30 megawatts ("MW"). This is not a significant driver of overall system reliability.

Six Cities indicate that their members generally use the Net Qualifying Capacity ("NQC") report finalized by the CAISO. NCPA stated that its units have specific and demonstrable operating history and characteristics, and therefore NCPA makes adjustments to the Draft NQC report consistent with practical and observable unit operation, consistent with the LRA's authority under the CAISO Tariff.[7] As such, the actions of POUs in the CAISO support grid reliability. Any underlying suggestion that there is a wide gulf of RA practices between the CPUC and non-CPUC LRAs that leads to significant capacity shortfalls is simply not supported on the record, and the Commission's recommendations in this docket should reflect that fact.

IV. The Commission Must Recognize that the Current Lack of Liquidity in Capacity Markets Inhibits Any Significant Effort to Increase Capacity Purchases in the Near Term.

The Six Cities show that market prices for eligible capacity resources have increased markedly in the last few years.[8] Both NCPA and Six Cities indicate that significant barriers exist

[6] *Resource Adequacy Program Overview & PRM Goals*, Nor. Cal. Power Agency (Nov. 16, 2023), https://efiling.energy.ca.gov/GetDocument.aspx?tn=253145&DocumentContentId=88350; *Resource Planning and*

in the current market to procure new capacity at a reasonable price, and furthermore that market rules are contributing to the lack of liquidity. We also commend to the Commission's attention the September 2023 RA Report prepared by the California Community Choice Association ("CalCCA"),[9] which argues that in fact there likely is not enough eligible NQC available to California to meet the aggregated obligations of LSEs. CalCCA also points to the same significant increases in RA prices observed by NCPA and Six Cities that are driving rate increases at all levels.

What this demonstrates is an immediate need to increase RA supply throughout the state. As such, CMUA submits that any report on PRMs should include affirmative suggestions on what immediate issues should be tackled in the very near term to increase RA supply. This will do much more to actually improve the real-world reliability assessment than near term recommendations on increasing system PRMs. CMUA suggests the following topics of emphasis in any PRM report, as well as other Commission reports and documents that will bear upon this issue in the coming year.

- Fast-tracking consideration of changes to the CAISO deliverability methodology that can increase available NQC from existing and short lead-time resources, and also reduce the need for Network Upgrade requirements that can increase costs and delay project development. Stakeholders have argued that the current

Procurement: Policy Overview and Current Challenges, Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside California (Nov. 16, 2023), https://efiling.energy.ca.gov/GetDocument.aspx?tn=253144&DocumentContentId=88351.

[7] *Resource Adequacy Program Overview & PRM Goals*, Nor. Cal. Power Agency (Nov. 16, 2023), https://efiling.energy.ca.gov/GetDocument.aspx?tn=253145&DocumentContentId=88350.

[8] *Resource Planning and Procurement: Policy Overview and Current Challenges*, Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside California (Nov. 16, 2023), https://efiling.energy.ca.gov/GetDocument.aspx?tn=253144&DocumentContentId=88351.

[9] *California's Constrained Resource Adequacy Market: Ratepayers Left Standing in a Game of Musical Chairs*, CalCCA (Sept. 15, 2023), https://cal-cca.org/wp-content/uploads/2023/09/CalCCA-Stack-Analysis-2023-2026-updated-9_15_23.pdf.

methodology is overly conservative for some time and this process can be fast-tracked.

- Better integration of projects that may be small-scale and interconnected at lower voltages, but may face significant study and process requirements nonetheless. While we need to protect grid reliability, small scale resources don't often flow out to the grid due to their locations in load centers. CMUA members report that study requirements and restrictions on these types of resources inhibit rapid development and counting toward RA. This should be reassessed.
- Simplify rules for imported capacity. The CAISO has rules developed over a decade ago for determining and allocating how much RA capacity can come from outside the CAISO BAA. Not only the limitations on amounts, but also the allocation of so-called Maximum Import Capability ("MIC") can inhibit procurement of imported RA by California load entities from resources that otherwise can be counted on to reliably serve load, even though they do not meet the CAISO's RA counting requirements. MIC reform is overdue.
- Long-term procurement targets. No immediate jump in PRM targets will increase supply. A collaborative forum should be convened to think forward beyond the current near-term supply shortfall to provide greater certainty and allow sufficient lead times to plan for increasing procurement targets.

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V. CONCLUSION

CMUA appreciates the opportunity to provide these comments and looks forward to continued collaboration with the Commission on this matter.

Dated: December 1, 2023

Respectfully submitted,

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