

Resource Adequacy (RA) Workshop

R.17-09-020

Local Comprehensive Procurement Framework
November 1st, 2019



*Pacific Gas and
Electric Company*[®]



Agenda

1

**Review developments since Track 2 workshop
(July 2018)**

2

**PG&E's proposal is for a Central Procurement Entity
(CPE) for full ("front-stop") procurement of Local RA**

3

**PG&E's proposal provides efficiency, cost-
effectiveness, and the "right" mix of resources for
Local RA with equitable cost allocation**

4

**Full procurement is consistent with Section 380 of the
Cal. Pub. Utils. Code and does not "eliminate[] LSE
procurement autonomy"**



Key Developments Since Track 2 Workshop

- **Track 2 Decision [Decision 19-02-022]**
 - Adoption of multi-year requirements for Local RA (3 years)
 - Disaggregation of “Other PG&E Area”
 - Parties to undertake a series of workshops to develop workable central buyer proposals for Local RA
- **Track 2 Workshops (April and May 2019)**
 - Total of 6 workshops held by the parties on the topics of: (1) a central procurement model, (2) the identity of CPE, and (3) implementation and other issues; facilitated by the IOUs, CalCCA and Shell Energy, respectively
 - Workshop reports concluded that no consensus was reached among the parties on a workable central buyer structure (Sent to service list on July 17)



Overview of PG&E's Proposal

Local Comprehensive Procurement Framework

- CPE (a state entity) performs full procurement of Local RA and all associated attributes
 - 3 5 years ahead at 100% per year
 - Transmission alternatives weighed against procurement of new and existing resources
 - Flexible and System RA associated with local procurement allocated to LSEs
- Expand CAM treatment for non-RPS UOG and non-RPS IOU contracts in local areas to reduce procurement needs for CPE
- CPE develops a minimum of 2 portfolios to meet the local reliability needs for Commission approval
- Equitable allocation of costs and benefits of local reliability resources that addresses load migration issues

Note:

- PG&E's original proposal included a transition period during which: (1) a CPE would be established, (2) LSEs would have Local RA requirements for 2 years ahead at 100% per year; (3) and the "Other PG&E Area" would be disaggregated
- Strikeouts are updates from original proposal to reflect changes



Portfolio Selection and Approval Process

1. Determine Local Need

The need procured by the CPE is equal to:

- CAISO LCR less CPUC-approved local resources designated for broad cost allocation (e.g., local CAM resources).

2. Collect Generation and Transmission Alternatives

CPE considers both generation and transmission to meet need:

- New or existing generation: Submitted directly to CPE through CPE solicitation. Each generation bid has a price and capacity.
- Transmission projects: Submitted to CAISO through TPP. CAISO provides CPE with a price and corresponding local need reduction or "capacity" for each project.

3. Develop Portfolios

CPE develops a minimum of 2 portfolios:

1. Least Cost Portfolio: Lowest cost combination of transmission and generation projects that meet need.
2. Policy Portfolio: Lowest cost combination of transmission and generation projects that meet need and CPUC directed policy objectives (e.g., minimum storage).

4. Seek Regulatory Approval

Requires different approvals from CPUC and CAISO, may be iterative:

- CPUC: assesses cost difference between portfolios, selects portfolio as part of annual RA proceeding
- CAISO: approves transmission projects, confirms selected portfolio meets reliability criteria, as part of annual TPP

5. Procures Selected Portfolio

CPE Procures the following:

- Selected portfolio
- All capacity attributes (system, local and flex attributes)

Associated capacity attributes reduce the procurement for all LSEs



Criticisms of PG&E's Proposal

- “[E]liminates LSE procurement autonomy”
 - Note: Cal. Pub. Utils. Code § 380(h)(5) expressly requires the Commission to determine and authorize the most efficient and equitable means for achieving the objective of ensuring that CCAs can determine the generation resources used to serve their customers
 - Full procurement model is the most efficient and equitable means and is consistent with Cal. Pub. Utils. Code § 380(b)(5) and (h)(5)
 - LSEs can still determine the generation resources used to serve their customers.
 - LSEs can bid resources into the CPE’s solicitation.
 - If selected, the CPE will compensate the LSE at bid price.
 - If not selected, the LSE can still use capacity to meet system and flexible requirements.
- “The stranded cost risk inherent in the [f]ull procurement model could disincentivize LSEs from developing [l]ocal resources entirely.”
 - RA requirements or rules are subject to change each year and therefore, forward contracting in the [RA] program is associated with some amount of risk.
 - LSEs are still incented to procure preferred resources to meet their LSE-specific targets and through state targets or mandates.
 - Similarly, LSEs may bid new or existing local capacity into CPE’s solicitation and be compensated.
 - Capacity not chosen by CPE would still be available to meet LSE’s system and flexible requirements.



Known Challenges to the Local RA Program

- 1. Costly out-of-market RA procurement due to local procurement deficiencies;**
 - Expansion of CAM to meet local reliability needs
 - Recognizes purpose and value of procured local resources
 - Equitably allocate local resources costs and benefit
- 2. Load migration and equitable allocation of costs to all customers;**
 - CPE will allocate costs using an ex post methodology based on load share.
- 3. Cost effective and efficient coordinated procurement;**
 - Centralized and coordinated structure that ensures the most efficient resources are procured to meet capacity needs
 - CPE will procure resources based on cost effectiveness
- 4. Treatment of existing local RA contracts;**
 - LSEs may voluntarily offer existing local RA contracts to the CPE and get paid for the capacity if selected or keep the capacity to use for system and flexible RAR
- 5. Opportunity for and investment in procurement of local preferred resources, and**
 - Competitive evaluation of transmission alternatives vs. new and existing generation
 - Mitigates market power, encourages preferred resources
 - Orderly transition from GHG emitting resources
- 6. Retention of California's jurisdiction over procurement of preferred resources**
 - CPE will construct two portfolios for submission to the Commission for approval

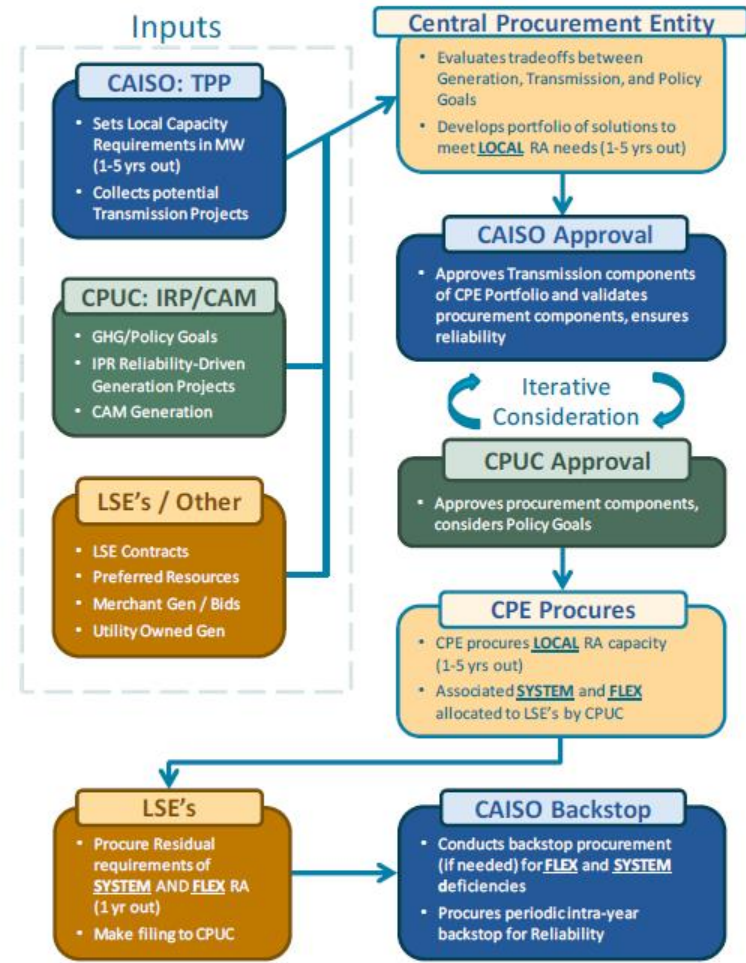
Questions?

Appendix

Overview of RA Timeline

- PG&E does not anticipate any changes to the current RA timeline

- Local RA requirements would be established by CAISO
- LSEs and suppliers will submit bids into the CPE solicitation
- CPE will develop portfolios to meet defined objectives
- CPE will seek regulatory approval to procure resources
- CPE will procure the respective resources upon CPUC approval
- LSEs conduct procurement activities, as needed, to meet residual system and flexible RA requirements





Cal. Pub. Utils. Code § 380(b) and (h)

Cal. Pub. Utils. 380(b) States:

In establishing [RA] requirements, the Commission shall ensure the reliability of electrical service in California while advancing, to the extent possible, the state's goals for clean energy, reducing air pollution, and reducing emissions of greenhouse gases. The [RA] program shall achieve all of the following objectives:

1. Facilitate development of new generating, non-generating, and hybrid capacity and retention of existing generating, non-generating, and hybrid capacity that is economic and needed.
2. Establish new or maintain existing demand response products and tariffs that facilitate the economic dispatch and use of demand response that can either meet or reduce an electrical corporation's resource adequacy requirements, as determined by the commission.
3. Equitably allocate the cost of generating capacity and demand response in a manner that prevents the shifting of costs between customer classes.
4. Minimize enforcement requirements and costs.
5. Maximize the ability of community choice aggregators to determine the generation resources used to serve their customers.

Cal. Pub. Utils. 380(h) States:

The Commission shall determine and authorize the most efficient and equitable means for achieving all of the following:

1. Meeting the objectives of this section.
2. Ensuring that investment is made in new generating capacity.
3. Ensuring that existing generating capacity that is economic is retained.
4. Ensuring that the cost of generating capacity and demand response is allocated equitably.
5. Ensuring that community choice aggregators can determine the generation resources used to serve their customers.
6. Ensuring that investments are made in new and existing demand response resources that are cost effective and help to achieve electrical grid reliability and the state's goals for reducing emissions of greenhouse gases.
7. Minimizing the need for backstop procurement by the Independent System Operator.