
**SENATE COMMITTEE ON ENERGY, UTILITIES AND
COMMUNICATIONS**

Senator Ben Hueso, Chair

2021 - 2022 Regular

Bill No:	SB 1432	Hearing Date:	4/26/2022
Author:	Hueso		
Version:	3/16/2022 Amended		
Urgency:	No	Fiscal:	Yes
Consultant:	Nidia Bautista		

SUBJECT: Electricity: resource adequacy requirements: electric service providers

DIGEST: This bill makes largely clarifying changes to the statutes regarding the resource adequacy program administered by the California Public Utilities Commission (CPUC) and codifies a report routinely published of the program.

ANALYSIS:

Existing law:

- 1) Establishes the CPUC with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)
- 2) Requires the CPUC, in consultation with the California Independent System Operator (CAISO), to establish resource adequacy requirements for all load-serving entities (LSEs), including community choice aggregators (CCAs) and electric service providers (ESPs). Requires the resource adequacy (RA) program to achieve certain objectives, including maximizing the ability of CCAs to determine the generation resources used to serve their customers. Requires the CPUC to determine and authorize the most efficient and equitable means for achieving certain goals, including meeting the RA requirement objectives, ensuring that CCAs can determine the generation resources used to service their customers, and minimizing the need for backstop procurement by the CAISO. (Public Utilities Code §380)

This bill:

- 1) Includes, as objectives of the RA program, maximizing the ability of ESPs to determine generation resources used to serve their customers and the incorporation of industry planning standards when setting compliance obligations.

- 2) Requires the CPUC to analyze, compile, and publish on its internet website an annual report on the compliance status of LSEs.
- 3) Includes, as goals, ensuring that ESPs can determine the generation resources used to serve their customers and ensuring that the cost of backstop procurement by the CAISO and associated greenhouse gas (GHG) attributes are equitably allocated.

Background

Resource adequacy (RA). Following the California energy crisis of 2000-01, the California Legislature enacted legislation to prevent future incidents of widespread blackouts and rolling brownouts due to lack of electric generating capacity. Among the reforms adopted in response to the crisis was the adoption of Public Utilities Code §380 as an effort to better ensure reliability of electric supply. The statute directs the CPUC, in consultation with the CAISO, to establish RA requirements for all LSEs, including electric investor-owned utilities (IOUs), ESPs, and now includes CCAs, which did not exist at the time of the crisis. The program is designed to ensure that LSEs have sufficient forward capacity to meet peak load with a 15 (recently adjusted to 17) percent reserve margin. The current RA program consists of system, local, and flexible requirements for each month of a compliance year. In October of each year, LSEs must demonstrate that they have procured 90 percent of their system RA obligations for the five summer months (May-September) of the following year, as well as 100 percent of their local requirements, and 90 percent of their flexible requirements for each month of the coming compliance year. The CPUC issues citations and initiates enforcement actions when LSEs do not fully comply with RA program rules. LSEs have the opportunity to appeal these citations.

CAISO backstop procurement. If California RA rules fail to provide sufficient resources, the CAISO is compelled to utilize centralized backstop procurement mechanisms in order to maintain electric system reliability. Centralized backstop procurement is whereby the CAISO contracts with a generator to address the shortfall. Under federal rules, the CAISO, like all other balancing authorities, must ensure system reliability or face penalties. The CAISO has two mechanisms for centralized backstop procurement: Reliability Must Run (RMR) and Capacity Procurement Mechanism (CPM). A resource receiving RMR designation must continue to operate and is compensated by a rate set by the CAISO, per Federal Energy Regulatory Commission (FERC) approved tariffs. RMR contracts can be expensive relative to procurement through the CPUC process, especially considering their limited operating parameters. CPM can be used for resources that may be needed in the following year and where the resource is at risk of

retirement. Like RMR contracts, CPM contracts are also often at a higher price relative to generation procured through the CPUC process. These costs are generally shouldered by ratepayers in the insufficient Local Capacity Area or by all ratepayers of the LSE(s) lacking the adequate RA. According to the CPUC, the CAISO does not typically need to engage in backstop procurement for LSE procurement deficiencies.

Comments

SB 1432. This bill makes clarifying changes to the existing RA program in relation to procurement discretion by ESPs and the use of industry planning standards. This bill also adds language to ensure the GHG emissions associated with CAISO backstop procurement is accounted for by the CPUC within the RA program. Lastly, SB 1432 codifies the current practice of the CPUC to produce a report that reviews the RA program and instructs the CPUC to report on the compliance status of LSEs.

Need for this bill. The proponent of this bill, NRG, notes there is extensive set of electric industry research on industry planning standards, including for reasonable Loss of Load Expectation and Expected Unserved Energy for planning purposes. NRG believes the explicit addition of this requirement within the RA statute will help provide greater consistency across CPUC and CAISO procurement planning. Additionally, NRG notes that the RA statute is explicit about the CCAs discretion regarding specific generation procurement decisions. However, the RA statute lacks similar explicit language about the ESPs procurement discretion, though, in practice they both have the same discretion. NRG also notes the need to account for the GHG emissions from CAISO backstop procurement to ensure all LSEs are allocated their share of any backstop procurement for their load. Lastly, this bill codifies an existing report on the RA program by the CPUC, with the additional requirement to provide performance information for each LSE. In soliciting comments from the CPUC, agency staff believe this bill largely clarifies in statute existing practices within the RA program.

Prior/Related Legislation

SB 1158 (Becker, 2022) proposes changes to the GHG accounting of procurement with the Integrated Resources Planning process, RA program, and Power Source Disclosure program. The bill is pending consideration in this committee.

SB 529 (Hertzberg, 2022) authorizes the CPUC to consider changes within the RA program, including the use of a multiyear centralized RA mechanism, among other

options. The bill is currently pending referral in the Assembly Committee on Rules.

SB 350 (Hertzberg, 2020) (before it was amended the Golden State Energy Act (Hill, Chapter 27, Statutes of 2020)) was identical to SB 529 and would have modified existing RA law to ensure, if the CPUC implements a multiyear central RA mechanism that includes a central procurement entity, that the CAM is suspended.

SB 1136 (Hertzberg, Chapter 851, Statutes of 2018) required the CPUC, in establishing RA requirements, to ensure the reliability of electrical service in California while advancing the state's goals for clean energy, reducing air pollution, and reducing emissions of GHGs. The bill also adds a specified purpose minimizing the need for backstop procurement by the CAISO.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT:

NRG Energy, Sponsor

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: In support of this bill, NRG states:

This bill would update the state's resource adequacy program for reliability planning. By aligning planning assumptions with established industry planning standards, California would be better positioned to maintain reliability using robust analytical tools. SB 1432 would also provide the California Public Utilities Commission (CPUC) with clear guidance to address greenhouse gas emissions resulting from any dispatch of resources procured through the state's backstop procurement mechanisms, thereby ensuring that these emissions can be better accounted for in future resource planning efforts.