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

Senator Ben Hueso, Chair

2019 - 2020 Regular

Bill No:	SB 350	Hearing Date:	3/27/2019
Author:	Hertzberg		
Version:	2/19/2019 As Introduced		
Urgency:	No	Fiscal:	Yes
Consultant:	Nidia Bautista		

SUBJECT: Electricity: resource adequacy: multiyear centralized resource adequacy mechanism

DIGEST: This bill authorizes the California Public Utilities Commission (CPUC) to consider changes within the resource adequacy (RA) program, including the use of a multiyear centralized resource adequacy mechanism, among other options.

ANALYSIS:

Existing law:

- 1) Authorizes the CPUC to fix rates, establish rules, examine records, issue subpoenas, administer oaths, take testimony, punish for contempt, and prescribe a uniform system of accounts for all public utilities, including electrical corporations, subject to its jurisdiction. (Article 12 of the California Constitution)
- 2) Requires that all charges demanded or received by any public utility for any product, commodity or service be just and reasonable, and that every unjust or unreasonable charge is unlawful. (Public Utilities Code §451)
- 3) Requires the CPUC, in consultation with the California Independent System Operator (CAISO), to establish RA requirements for all load-serving entities (LSEs), including electrical corporations, electric service providers (ESPs), and community choice aggregators (CCAs), in accordance with specified objectives. Further requires each LSE to maintain physical generating capacity adequate to meet its load requirements, including peak demand and planning and operating reserves, deliverable to locations and at times as may be necessary to provide reliable electric service. Requires the CPUC to determine and authorize the most efficient and equitable means for LSEs to achieve specified purposes when meeting their RA requirements. (Public Utilities Code §380)

- 4) Requires the CPUC to authorize and facilitate direct transactions between electricity suppliers and retail end-use customers, but suspends direct transactions, except as expressly authorized. Requires the CPUC to ensure that net capacity costs of those generation resources are allocated on a fully nonbypassable basis consistent with specified departing load provisions and to ensure that those resources meet a system or local reliability need in a manner that benefits all customers of the electrical corporation, if the CPUC authorizes or orders an electrical corporation to obtain generation resources that the CPUC determines are needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation's distribution services territory. However, the existing law suspends this requirement if the CPUC approves a centralized resources adequacy mechanism. (Public Utilities Code § 365.1)

This bill:

- 1) Authorizes the CPUC to consider a multiyear centralized resource adequacy mechanism, among other options, to most efficiently and equitably meet specified resource adequacy objectives.
- 2) Suspends the requirement to allocate costs on a fully nonbypassable basis for the net capacity costs of generation resources meeting a system or local reliability need, if the CPUC approves a multiyear resource adequacy mechanism, and only if the mechanism, does not include a central procurement entity.

Background

Resource adequacy. Following the California energy crisis of 2000-01, the California Legislature enacted legislation to prevent future incidents of widespread black outs and rolling brown outs due to lack of electric generating capacity. Among the reforms 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 investor-owned utilities (IOUs), ESPs, and now also includes CCAs which did not exist at the time of the crisis. 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.

Cost Allocation Mechanism (CAM). The CAM is a regulatory process for allocating capacity costs of utility procurement across all benefitting customers. Conceived in a 2004 CPUC decision, adopted in a 2006 CPUC decision, affected by changes in law (SB 695, Kehoe, Chapter 337, Statutes of 2009), and continuing to be adapted to new issues and circumstances, the CAM remains a contentious issue in law and regulation. It is a fixture of the CPUC's Long Term Procurement policy and is based on the principle that the costs and benefits of new generation should be shared by all benefitting customers in an investor-owned utility's service territory. The mechanism for CAM is a one-way tool only. It exists for the IOUs to purchase resources on behalf of all who rely on the electric grid, including direct access customers and the customers of the CCAs. It allows for the IOUs to spread costs of generation resources to the other LSEs.

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 Energy Regulatory Commission (FERC) rules, the CAISO, like all other balancing authorities, must ensure system reliability or face penalties by FERC. 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 FERC approved tariffs. RMR contracts are expensive relative to procurement through the CPUC process, especially considering their limited operating parameters. The use of RMR contracts declined after implementation of the local RA program, except RMR for the Oakland peaker powerplants (~150 megawatts (MW)). 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 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.

Recent challenges meeting local RA. Of important note, the Local RA requirements provide measures to mitigate market power and to address resource availability. For example, LSEs can request a waiver for the deficiency in cases where the LSE is unable to secure enough capacity to meet its local RA requirements, subject to specified conditions. The conditions include a demonstration that the LSE made a good faith effort to solicit bids and that no bids were received or bids with unreasonable terms were received. These provisions

had rarely been exercised. However, in the fall of 2017, 11 LSEs filed waiver requests to cover local deficiencies totaling roughly 270 MW. Backstop procurement had been on the decline, except for the above noted contract for the Oakland peaker powerplants. However, in 2017, the CAISO contracted for resources, mostly to address local reliability shortfalls. In the fall of 2018, there were additional waivers filed, however, the full list is currently not available. It's currently unclear whether the increase in waiver requests is a short-term issue due to the transitions in the energy landscape, particularly with load migrating away from IOUs to other LSEs (especially CCAs) and the retirement of natural gas power plants which have historically (and currently) served the capacity for local RA.

CPUC RA proceeding. The RA rules had largely worked in a landscape that was designed to have the three large IOUs procure the RA. However, the recent migration of energy load to non-IOU entities has posed challenges to the existing RA framework. Specifically, CCAs have launched or expanded at times of the year that do not necessarily correspond with the year-ahead RA process. Without CCA's participation in the year-ahead process, it was assumed that the departing load would continue to be served by IOUs, and associated RA requirements were assigned to those utilities, who then had to procure for that load. For example, by the end of 2017, the CPUC had approved 11 CCA implementation plans for launch or expansion in 2018, corresponding to over 3,100 MW, but none of this load migration was captured in the year-ahead RA process. In response to these and other challenges, the CPUC has proposed new rules for RA, including a multi-year local RA requirement to ensure that resources needed for reliability are procured in the hopes providing better incentives to generators to enter into contracts with LSEs, instead of relying on CAISO backstop procurement. The CPUC had also proposed a central buyer, namely the IOU, to procure the local RA. However, in a recent decision, the CPUC has delayed adopting the central buyer framework, opting for continued workshops and a final decision in the fourth quarter of 2019. In the same decision, the CPUC declined to make changes to the use of the CAM to allocate for costs of capacity for non-renewable local resources absent adoption of a central procurement mechanism.

Need for bill. According to the author, SB 350 would modify existing Resource Adequacy law to ensure, if the CPUC implements a multiyear central RA mechanism that includes a central procurement entity, that the CAM would not be suspended. As such this bill, attempts to largely reflect the current changes being considered at the CPUC for the RA program. However, the CPUC RA proceedings remain active and may result in additional changes. With that in mind, the committee may wish to pull the bill back further review should additional changes be necessary to reflect or inform changes in the RA program. As such, this bill may still be a work in progress.

Prior/Related Legislation

SB 1136 (Hertzberg, Chapter 851, Statutes of 2018) required the CPUC, in establishing resource adequacy 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 greenhouse gases. The bill adds as a specified purpose minimizing the need for backstop procurement by the CAISO.

SB 695 (Kehoe, Chapter 337, Statutes of 2009), required that the net capacity costs of new generation resources deemed "needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation's distribution service territory" must be passed on to bundled service customers, DA and CCA customers.

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

SUPPORT:

Environmental Defense Fund, support if amended

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the author:

"SB 350 ensures that California's leadership on renewable energy and reliability continues in a cost-effective manner. The bill authorizes a central procurement mechanism for electricity that will efficiently and equitably meet customer needs and our statewide climate goals across all customer bases."

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