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

**Senator Ben Hueso, Chair**

**2021 - 2022 Regular**

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<b>Bill No:</b>	SB 529	<b>Hearing Date:</b>	4/26/2021
<b>Author:</b>	Hertzberg		
<b>Version:</b>	2/17/2021	Introduced	
<b>Urgency:</b>	No	<b>Fiscal:</b>	Yes
<b>Consultant:</b>	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) Establishes the CPUC has regulatory authority over public utilities, including electrical corporations. (California Constitution, Article XII)
- 2) 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. Authorizes the CPUC to consider a centralized RA mechanism, among other options, to most efficiently and equitably meet specified RA objectives. (Public Utilities Code §380)
- 3) 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 authorize direct transactions for nonresidential end-use customers, subject to an annual maximum allowable total kilowatt-hour (kWh) limit established, as specified, for each electrical corporation, to be achieved following a now-completed 3-to 5-year phase-in period. (Public Utilities Code §365.1)

- 4) 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 service territory, existing law Requires the CPUC to ensure that the 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. Existing law suspends this latter requirement if the CPUC approves a centralized RA mechanism. (Public Utilities Code §365.1)

This bill:

- 1) Authorizes the CPUC to consider a multiyear centralized RA mechanism, among other options, to most efficiently and equitably meet specified RA 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 RA 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 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 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.* Current law ensures the costs associated with the RA program are recovered on a nonbypassable basis, a process called the Cost

Allocation Mechanism (CAM). The CAM is a regulatory process for allocating capacity costs of utility procurement across all benefitting customers. The CAM was conceived in a 2004 CPUC decision, adopted in a 2006 CPUC decision (D.06-07-029), affected by changes in law (SB 695, Kehoe, Chapter 337, Statutes of 2009), and continues to be adapted to new issues and circumstances. The CAM is a fixture of the CPUC's Long Term Procurement policy and is based on the principle that costs and benefits of new generation should be shared by all benefitting customers within an IOU's service territory. The mechanism for CAM is a one-way tool; 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. CAM allows 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 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 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 megawatts (MWs). Backstop procurement had been on the decline. However, in 2017, the CAISO contracted for resources, mostly to address local reliability shortfalls. In subsequent years, additional

waivers have been filed by LSEs, including 20 waivers in 2021, according to the CPUC website. It is 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 growth in migration of energy load to non-IOU entities has posed challenges to the existing RA framework. In response to these 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 of providing better incentives to generators to enter into contracts with LSEs, instead of relying on CAISO backstop procurement. The CPUC has also proposed and adopted (Decision 20-06-002) a central procurement entity, namely the electric IOU, to procure the local RA in the Pacific Gas & Electric and Southern California Edison areas. In the same decision, the CPUC adopted the use of a CAM to allocate costs for the use of the central procurement entity.

*Need for this bill.* According to the author, SB 529 would modify existing RA law to ensure when the CPUC implements a multiyear RA mechanism that includes a central procurement entity, that the CAM would not be suspended. As such this bill, attempts to largely reflect the CPUC decision adopted in June 2020 (D. 20-06-002).

### **Prior/Related Legislation**

SB 350 (Hertzberg) of the 2019-20 Session (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.

AB 56 (E. Garcia, 2020) would have authorized the CPUC to request the California Alternative Energy and Advanced Transportation and Financing Authority to procure energy on behalf of the state's LSEs to meet specified gaps in procurement. The bill died in the Senate Energy, Utilities, and Communications Committee.

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 greenhouse gases. The bill also adds 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, direct access and CCA customers.

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

**SUPPORT:**

None received

**OPPOSITION:**

None received

**ARGUMENTS IN SUPPORT:** According to the author:

SB 529 ensures 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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