

## **Statement of Scott Miller**

### **Executive Director, Western Power Trading Forum**

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I want to thank the California Public Utilities Commission (CPUC) and its staff for the opportunity to address issues raised in the recent Green Book proceeding as part of its “California Customer Choice Project.” This project examines critical issues regarding the goals of achieving the customer benefits that can come with customer choice, while maintaining reliability of the wholesale electric system and meeting California’s ambitious carbon emission reduction goals.

WPTF is uniquely positioned to offer a useful perspective and recommendations on the questions raised in the Green Book as we have members who span the electric value chain to include competitive generation, direct access energy service providers, community choice aggregators, suppliers of renewable generation, storage providers, investor-owned utilities, municipal utilities, public power and others.

There are two critical areas of the draft Green Book where WPTF may offer a valuable perspective: 1) The ways to accommodate choice; and 2) the most reliable manner in which to accommodate customer choice.

#### **Customer Choice: Accommodate CCAs and Direct Access**

The very existence of WPTF is predicated on support for competitive markets which, in turn, relies on choice. Currently, Community Choice Aggregation (CCA) is flourishing while Direct Access (DA), applicable to commercial and industrial customers, remains capped – with the cap fully subscribed and an extensive list of customers who desire DA waiting for room to open. For retail choice to flourish, there should be minimal restrictions on customer choice, whether through DA or CCA and the changes to the current regulatory framework should be modified to accommodate both. Indeed, the issues being examined in ongoing proceedings to reform exit

fees, address multi-year forward resource adequacy constructs are good examples of the type of changes that need to occur for retail choice to thrive.

Moreover, if and when Direct Access is reopened, there will need to be a forum to discuss market rules to ensure that Energy Service Providers (ESPs) and CCAs are both able to appropriately manage their supply portfolios. Presumably any reopening of direct access would provide a forum for such discussions.

In addition, for retail choice to work for ESPs and CCAs in a reliable manner, what policy direction the CPUC sets for procurement to ensure Resource Adequacy (RA) is crucial. The reform of the RA market must also work for utilities as well and for this reason, an explicit focus on this area is necessary.

### **Meeting Reliability Needs Even as Customers (Load) Shifts**

While examining various approaches to meeting customer choice, the Green Book correctly notes that expanding choice involves customers switching suppliers in ways that can be challenging for bilateral RA market structures.

The Green Book contains a section that identifies ERCOT as a market that meets its reliability needs via an “energy only” construct that does not have a centralized structure for meeting RA while accommodating robust retail competition. While WPTF acknowledges the robust retail competition that exists in Texas and believe there is much that California can learn from its retail competition model WPTF does not believe that the Texas reliability construct would work well in California at this time. Here’s why.

The ERCOT model relies on the possibility of customers being exposed to very high prices if they do not procure or own adequate capacity to meet their peak needs plus some additional margin. Thus, a bid cap of \$9,000/MWh serves as a very real incentive for parties that serve customers (load) to contract, own or hedge in some way for their own needs. Secondly, while ERCOT has very large levels of renewable resources, there are few mandates by the state requiring the procurement of these resources and thus the competition for generation is initially one for simple capacity while the procurement of renewables, storage or other resources that California defines as “preferred” is simply a matter of customer choice. These

are central elements to bilateral procurement in a retail choice environment that would seem to be anathema to California's traditional regulatory direction.

This fact – how resources are procured – requires a reminder as to central tenet of grid maintenance: The grid is more than wires and poles. It is about energy, voltage and the supply necessary to provide the services necessary to meet reliability standards. Should the CPUC overly rely upon utilities as its focus for ensuring reliability, vital elements that underpin reliability will be over-looked. The grid – which is administered by CAISO – is supported by supply from IOUs and other suppliers. The very tight nexus between generation supply and grid reliability is why recent federal court decisions have indicated that federal jurisdiction over the grid is directly affected by generation supply. Consequently, we urge the CPUC to work diligently in this proceeding to ensure that a proper RA procurement underpins structures to meet customer choice *reliably*.

Many members of WPTF have argued for several years of the need for a centralized capacity market that allows for the competitive procurement of capacity of at least 3 years. RA capacity market structures similar to those existing in the New York ISO (NYISO) or in PJM with an administratively determined “sloped demand curve” that is intended to reflect the Cost of New Entry (CONE). There are other alternatives as well that do not involve the administrative demand curve. In this regard, it is a hopeful sign that the CPUC has indicated in its RA docket its willingness to pursue a centralized RA or capacity market of some kind but the details around such a structure are crucial.

WPTF and its member companies will have very specific testimony on how to structure such a centralized RA or capacity market in Track 2 of R.17-09-020. In the Green Book context, it is important to point out that an RA capacity market construct serves to meet demands for customer choice and the possibility of load migrating from one supplier to another, including potentially to and from IOU service.

Under such circumstances, the RA procurement market must allow for there to be an ability buy or sell capacity quickly and at a competitive price. Such an RA market must, therefore be deep enough and populated with enough buyers and sellers (i.e., “liquid”) to allow for quick

and efficient transfer of load responsibilities as necessitated for reliability and for rational economic arrangements. For this reason, such a market would need to be centralized and not fragmented or drained of depth (“liquidity”) by having IOUs procure on behalf of customers that are being served by other suppliers. It also must provide for enough duration of procurement (multi-year) so that owners of generation can rationally make decisions on investments to keep supply on-line or initiate retirement.

Finally, the ability to allow for quick and efficient buying and selling of RA helps to enable the most efficient manner to manage credit related issues or, stated differently, the issue of carrying capacity as customers switch among suppliers. The management of the RA or capacity obligation is critical to the ability to build and maintain an adequate balance sheet to sustain generators in a competitive retail market. Consequently, credit is best managed in an environment where obligations can be eliminated or met through a deep and liquid market for the necessary commodity (RA) in question.

### **Conclusion**

WPTF appreciates the thoughtful recognition that times have changed and thus plans must be made to deal with customer choice while maintaining reliability and meeting state policy goals such as those on carbon reduction. Customer choice can be very successful in meeting expectations and bringing about greater efficiency to the procurement of electricity over time. However, as has been suggested by the Green Book, meeting the new environment of shifting load and reliability requires a plan. It is for this reason WPTF offers its suggestions for maximizing customer choice while still meeting reliability and environmental goals.