# Proposals to Modify the Central Procurement Entity (CPE) Structure

Energy Division Workshop in R. 21-10-002

December 14, 2021: 1-5 PM

California Public Utilities Commission

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## Logistics

- All attendees have been muted upon entry
- To ask questions, please "raise your hand" and a moderator/presenter will unmute you so you can ask your question.
- If you would rather type, use the Q + A function and send to “all panelists”. Q + A questions will be read aloud by moderators/presenters; attendees may be unmuted to respond to the answer verbally.

  *Reminder: Please press mute when done speaking
- Keep chat conversations only for questions and comments about workshop subject
- This workshop is being recorded. The recording, along with slides will be posted on Commission website after workshop

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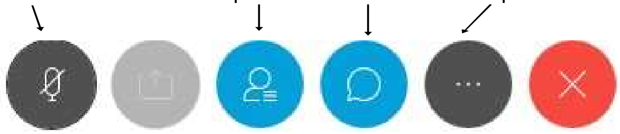
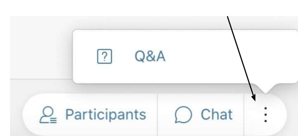
Participant List

Chat

Audio Options



Q + A: on the bottom right of screen, click"3 dots"

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# Agenda

| | | |
|---|---|---|
| **A.** | **Introductions** | **1:00 – 1:10 PM** |
| B. | **Presentations** | |
| | 1. Energy Division, Resource Adequacy Section | 1:10 – 1:40 PM |
| | 2. PG&E | 1:40 – 2:10 PM |
| | 3. SCE | 2:10 – 2:40 PM |
| | 10-Minute Break | |
| | 4. CalCCA | 2:50 – 3:20 PM |
| | 5. Calpine Corp. | 3:20 – 3:50 PM |
| | 6. AReM | 3:50 – 4:20 PM |
| C. | **Final Q + A, Adjourn** | 4:20 – 4:45 PM |



# Background: Process + Timeline

- In June 2020, the Commission adopted a Hybrid Central Procurement Entity (CPEs) framework in Decision (D).20-06-002, which allows LSEs to both sell and/or show resources to CPEs
- In December 2020, the Commission adopted a Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) in D. 20-12-006
- In Spring 2021, the CPEs launched first RFOs for 2023 and 2024 local procurement
- On December 2, 2021, a Scoping Memo was issued in the new RA proceeding (R. 21-10-002), identifying a Phase 1 Implementation Track to consider critical modifications to the CPE structure
- On December 10, 2021, ALJ issued email ruling granting a motion to allow new or revised Phase 1 proposals to be filed on December 23, 2021

# Background: Scope of Phase 1 Implementation Track

- Phase 1 of Implementation Track will consider critical modifications to the Central Procurement Entity (CPE) structure. Specifically:
  1. Implementation details of the "shown" resource component of the hybrid framework;
  2. Whether the CPE should be permitted to procure local resources outside of the annual all-source solicitation process set forth in D. 20-06-002;
  3. Changes to the CPE timeline; and
  4. Whether modifications are needed to the requirements that SCE and PG&E (acting on behalf of their bundled load) bid their utility-owned generation and contracted resources into the CPE solicitation at their levelized fixed costs





# Implementation Track Phase 1 Schedule

| Phase 1 Schedule | |
|---|---|
| Phase 1 Proposals filed | December 13, 2021 |
| Workshop on Phase I Proposals facilitated by Energy Division | December 14, 2021 |
| New or Revised Phase 1 Proposals filed | December 23, 2021 |
| Comments on Proposals and Workshop | January 4, 2021 |
| Reply Comments on Proposals and workshop | January 13, 2022 |
| Proposed Decision on Phase 1 | February 1, 2022 |
| Final Decision on Phase 1 | March 1, 2022 |

# Energy Division Proposals



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## Proposal A: LCR RCM Calculation

D. 20-12-006 Ordering Paragraph 3(c), outlines the LCR RCM is to be calculated as follows:

*If selected, the load-serving entity (LSE) shall be paid up to the showing price without annual adjustment for effectiveness. The showing price shall not exceed the pre-determined local price, which is calculated as follows:*

- *Year 1: Use the weighted average price from the last four quarters of Energy Division Power Charge Indifference Adjustment (PCIA) responses for both system and local RA; subtract system Resource Adequacy (RA) price from local RA price.*
- *Subsequent Years: Use the weighted average price from the last four quarters of Energy Division PCIA responses for system RA <u>and the most recent weighted average price reported in the CPE solicitation results (prior year's results) for local RA price</u>; subtract system RA price from local RA price.*



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## Proposal A: LCR RCM Calculation (con't)

- Energy Division believes it is not possible to implement calculation for subsequent years given limited CPE contracting in some local areas due to LSE self-shown resources, contracts that include energy settlement/RA with put option, and the need for additional CPE procurement in PG&E's service area for 2023
- Propose continuing to use PCIA price data to determine local RA prices as done in Year 1
- Data includes CPE and LSE local RA-only contracts
- Large enough data set to allow individual prices for each local area while maintaining confidentiality





## Proposal B: Modify CPE Timeline

- RA timeline adopted in D.20-06-002 provided:
  - **April-May:** LSEs in SCE and PG&E TAC areas commit to CPE to show self-procured local resources in RA filing for 2023 and 2024
  - **Late September:** CPE and LSEs that voluntarily committed local resources to the CPE make local RA showing to the Commission and the CAISO.
  - **Late September/early October 2021:** For PG&E and SCE's TAC areas, LSEs are allocated final CAM credits (based on coincident peak load shares) for any system and flexible capacity that was procured by the CPE during the local RA procurement process or by CAISO through its RMR process.

## Proposal B: Modify CPE Timeline (con't)

- Issue with the current RA timeline
  - System and flexible capacity CPE CAM credits are distributed to LSEs in late September/early October
  - CPE CAM credits may significantly alter an LSE's YA system and flexible position.
  - <u>The current timeline may not provide enough time for LSEs to plan for their system and flexible YA RA positions due at the end of October.</u>





## Proposal B: Modify CPE Timeline (con't)

- Energy Division's proposed timeline
  - **Late July:** CPE and LSEs that voluntarily committed local resources to the CPE make local RA showing to the Commission (this new deadline requires that CPE procurement be finalized by late-July).
  - **Mid-August:** Preliminary CPE allocations are sent to LSE by Energy Division based on initial load forecast load ratios and CPE procurement filings in late July
  - **Mid-September:** Final CPE allocations are sent to LSEs as part of the final Year ahead LSE allocations (based on revised load ratios provided by the August LSE load forecast revisions)
  - **End of October 2022**: LSEs and CPE make YA showings to the CPUC and CAISO including showings for self-shown resources provided to the CPE as part of the hybrid framework.

# Pacific Gas + Electric (PG&E) Proposals





## Overview of PG&E's Initial Phase 1 Proposals

- Proposal 1: PG&E requests clear guidance that CPE transactions for UOG and IOU-contracted resources should not have the underlying contract be reclassified to CAM from their authorized cost recovery mechanism (e.g., PCIA).
- Proposal 2: PG&E proposes that the CPE procurement costs should be forecasted and implemented in rates through the annual ERRA forecast proceeding.
- Proposal 3: PG&E proposes that the Commission direct the bundled procurement arm of the IOU to file a Tier 2 advice letter proposing its methodology for bidding UOG and IOU-contracted resources into the CPE process.
- Proposal 4: PG&E proposes to eliminate the requirement to execute an agreement for self-shown resources and adopt a binding notice of intent and CAM-based crediting approach.

## P1: Treat IOU Transactions as 3rd-Party Sales

- PG&E requests clear guidance that CPE transactions for IOU resources should not have the underlying contract be reclassified to CAM from their authorized cost recovery mechanism (e.g., PCIA).
- Only attributes identified within a CPE agreement as being sold to the CPE should be recorded as purchased volumes and costs within CAM (e.g., system, local and/or flexible RA).
- PG&E as the LSE transactions with the CPE should be presented as they otherwise would be if the CPE transactions were with another LSE.
  - For example, an RA sale from a PCIA-eligible resource to the CPE would be presented as an RA sale in the PCIA revenue requirement calculation.
- Positions for self-shown IOU resources with no associated compensatory transaction should not be recorded as an RA purchase by the CPE within CAM or sale from the underlying cost recovery mechanism (e.g., PCIA).

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## P2: CPE Costs Authorized in ERRA Forecast Proceeding

- PG&E proposes that the CPE procurement costs should be forecasted and implemented in rates through the annual ERRA forecast proceeding.
- Details concerning specific forecast CPE transactions that include compensation should be presented in a separate confidential chapter in ERRA forecast testimony.
  - The confidential contents of such chapter will only be viewable to PG&E's CPE personnel and support personnel (including certain staff such as contract management, law, and regulatory compliance)
  - Only CPE transactions that include compensation or the sale of system RA attributes bundled with local RA attributes should be required for inclusion in supporting workpapers or other testimony materials. Such transactions are impactful to how revenue requirements are calculated today.
  - Transactions such as self-shown resources with no compensation should not be required to be presented in the ERRA forecast. Such transactions are <u>not</u> impactful to how revenue requirements are calculated today.

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## Lessons Learned from 2021 CPE Process

- As other parties have stated, there was a lack of participation and lack of interest in contracting in the inaugural 2021 CPE process (procurement targets for the 2023-2024 compliance years).
  - PG&E as the CPE received insufficient offers (both self-shown and bidding) to meet its 2023 allocated local RA requirements.
- Potential drivers could include:
  I. LSEs that were eligible to self-show resources perceived that the benefit of self-showing resources to reduce the CPE's overall procurement costs was not worth the contractual risks associated with committing a resource to the CPE.
  II. Resource-specific procurement needed to meet the objectives of the D.20-06-002 is more restrictive than how the RA market transacts today.
     - For example, LSEs do not necessarily have access to resource-specific information needed by the CPE to evaluate the entire local portfolio.
  III. Market participants have alternate markets for their local capacity, especially with the current system RA market dynamics.
- PG&E as the CPE has another opportunity to procure capacity to meet its allocated local RA requirements.





## P3: Tier 2 Advice Letter for IOU Bidding

PG&E proposes that the Commission direct the bundled procurement arm of the IOU to file a Tier 2 advice letter proposing its methodology for bidding UOG and contracted resources into the CPE process.

**Levelized Fixed Cost Requirement**

- D.20-06-002 directed the bundled procurement arm of the IOU to bid its resources at their "levelized fixed costs," defined as the annual revenue requirement for UOG or contract price for PPAs.
- This could present a barrier to participating in the CPE solicitation process as there is no Commission-approved methodology to parse out the individual components of the contracted price for PPAs or UOG while also meeting the "levelized fixed cost" requirement.
  - For example, the contracted price of a resource may be all-inclusive and contain all product attributes (e.g., RA capacity, renewable energy, and its RECs, etc.).
  - Also, concerns arise because the CPE does not have clear authority to procure all product attributes and the current CAM mechanism does not allocate any non-RA attributes to benefitting customers.

## P4: Contractual Agreement for Self-Showing LSEs

D.20-12-006 requires the CPE to use a contractual agreement as the binding mechanism to ensure self-showing resources are performing (e.g., an LSE submits its self-procured local resource in the applicable submission to the CAISO or Commission).

1. The CPE holding the entire local RA obligation creates a situation in which the CPE must be assured of the performance of self-showing LSEs (e.g., self-showing resources are being made available to CAISO as expected).

2. The requirement for a contractual agreement is intended to ensure performance.
   - Without a contract, CPM costs due to non-performance of a single LSE (or multiple LSEs) would be socialized across all CPE benefitting customers – resulting in a cost shift.

3. PG&E as the CPE is concerned that contractual remedies are unlikely to result in quick or clear reimbursement to the CPE for non-performance – resulting in a cost shift.



## P4: Binding Mechanism w/ CPE-CAM Credits

**Process Overview of Proposed Mechanism**

1. Step 1: No later than May 31 of each calendar year, LSEs may choose to self-show to the CPE through submission of a binding notice of intent to the CPE.

2. Step 2: No later than September 15 of each calendar year, the CPE shall submit its RA plan to the CPUC. The submission to the Commission shall include all self-shown resources and all procured resources. LSEs shall be given a CPE-CAM credit to be used towards their applicable RA obligations.

3. Step 3: On October 31 of each calendar year, the CPE shall submit its RA plan to the CAISO. Self-showing LSEs and/or suppliers shall also submit the self-shown resources on their CAISO supply plans with the CPE as the benefitting entity.

## P4: Compliance and Performance Review

**Process Overview of Proposed Mechanism (Continued)**

4. Step 4: CPE informs the CPUC of any self-shown resources that did not perform to their commitment and the CPUC will decrease any CPE-CAM credits due to non-performance.
   - LSEs may need to take additional measures to meet their RA obligations due to revisions to the CPE-CAM credits.

5. Step 5: If a local CPM also occurs, the CPUC informs the CAISO which LSEs should receive the local CPM costs due to non-performance.

Key Takeaway: PG&E's CPE CAM proposal is intended to: (1) minimize cost-shift risk associated with the CPE, (2) provide that LSEs are not unduly disincentivized from self-showing, and (3) ensure that self-shown resources are appropriately credited towards the CPE's local RA obligation and performing via inclusion on the CPE's RA plan submittals to the Commission and the CAISO.



## P4: Summary of PG&E's CAM-Based Approach

| | Existing Structure | Proposal: CPE-CAM Credits |
|---|---|---|
| **Binding Mechanism** | • Contractual agreement with the CPE | • Binding notice of intent to the CPE (or filing to the CPE and CPUC) |
| **Compliance Filing** | • LSE submits its RA plan to the CPUC and CAISO – includes self-shown local RA resources – in September and October of each year<br>• CPE submits its RA plan to the CPUC – excludes self-shown local RA resources | • CPE submits its RA plan to the CPUC – includes self-shown local RA resources – in September of each year<br>• LSEs and/or suppliers submit their supply plan to the CAISO |
| **CPE-CAM Credits** | • Based on the capacity procured by the CPE only | • Based on the capacity procured by the CPE and self-shown to the CPE |
| **Performance Monitoring Entity** | • CPE | • CPUC w/ support from the CPE |
| **Consequences of Non-Performance** | • CPE relies on its contractual agreement to mitigate against LSE non-performance | • CPUC reduces LSE's CPE-CAM credits<br>• CPUC informs the CAISO how local CPM costs should be allocated, if applicable. |
| **CPM Cost Allocation Entity** | • CPE | • CAISO |

## Additional CPE-Related Discussion Topic

**Functional Use of Local Effectiveness Factors**

- PG&E is evaluating the functional use of the "Local effectiveness factors, as published in the California Independent System Operator's Local Capacity Requirement Technical Studies" criterion.
  - Local effectiveness factors ("LEF") are dynamic and based on a set of assumptions that may not necessarily apply year-over-year.
  - Some local resources do not have a published LEF, nor will new local resources have a published LEF.
  - Other selection criteria are more useful in evaluating the most effective and reliable local portfolio. These include operational characteristics of the resource, future needs in local and sub-local areas, energy-use limitations and other evaluation metrics that the CPE may include.





## Southern California Edison (SCE) Proposals

## SCE CPE Proposal on CPE Implementation Changes
*RA Workshop*

December 14, 2021

Energy for What's Ahead℠

SOUTHERN CALIFORNIA EDISON

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# Agenda

- Proposal on Self-Showing process
- Summary of Proposed Changes for Self Showing
- Proposal on Levelized Fixed Cost
- Other Priorities
  - Clarity on PCIA contracts and how cost are allocated through CAM and PABA
  - Procuring through broker markets and bilateral contracts
  - CPE can procure outside of annual CPE solicitation



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# Proposal on Update to Self-Showing Process

*Self-Showing will be completed ahead of the CPE solicitation process including all available local area resources already under contract with LSEs. Any CAISO backstop cost associated with non-performance due to outages of self-shown resources will be socialized among all LSEs*

- If an LSE elects not to bid in a local resource, it can self-show that resource to the CPE by submitting to the CPUC and CPE prior to the launch of the CPE's solicitation, an attestation listing the resources that they are self-showing to the CPE for the three-year local obligation
- If an LSE chooses not to self-show a local resource but shows it on its system year-ahead plan, the LSE will have to file a justification with the CPUC, along with their year-ahead plan
  - The justification statement is important so that the Commission can understand why local resources are not being bid into the CPE's solicitation or self-shown and potentially making further adjustments to the CPE process and structure if needed.
- There will be no contracts between CPE and LSEs for self-shown resources. These resources will be credited towards from CPE's procurement target
  - Commitment for year 1 resources are firm, but LSEs may replace shown resources with other local resources in the next year's showing
- LSEs (including IOU LSEs) can also let CPE know by August 1st if they have purchased any additional local resources which the LSE wishes to self-show



# Proposal on Update to Self-Showing Process *(cont.)*

- LSEs will still be required to file their showing with the CPUC on September 30th for resources it self-shows
- If there are any deficiencies in the month ahead process due to generator outages, and there are CAISO backstop cost associated with self-shown resources, the cost will be socialized among all LSE customers in the CPE's TAC area
  - LSEs will be required to provide CPE with a notice of any outages within 60 days of the showing month in which the outage will occur
- If, however, there are any deficiencies in the month ahead process due to non-performance, other than outages, and there are CAISO backstop cost associated with self-shown resources, the CPUC will direct CAISO to charge the CPM cost to the LSE (or its scheduling coordinator) to pay such costs
- Any LSE outside the CPE's TAC area who self-shows a local resource to the CPE is not subject to the requirements above, including being responsible for any costs in the event of a CAISO deficiency

# Summary of Proposed Changes for Self-Showing

*SCE believes this Self-Showing proposal will appropriately incentivize LSEs to self show their local resources by not penalizing generators for taking outages when required to maintain their facilities.*

| | Existing Structure | Proposed Structure |
|---|---|---|
| Committing Shown Resources | • Contract between LSE and CPE | • Attestation provided to CPE<br>• Additional resources can be added August 1st |
| RA Filing | • CPE and LSE self-showing file September 30th | • **No change to RA filing**<br>• LSEs who don't show to CPE but show on their year-ahead supply plans file Justification statement to CPUC with their year-ahead plan |
| Performance Monitoring | • CPE | • **No change** |
| CPM Cost Allocation | • LSE required to perform per terms of contract with CPE or pay CPM costs | • All CPM costs related to non-performance due to outages paid by all customers<br>• Self-Showing LSE responsible for CPM costs for non-performance, other than outages |





# Proposal on Update to Levelized Fixed Cost

*The requirement for IOUs to only bid in at their levelized fixed-cost adds cost to customers and does not allow LSEs to participate like other LSEs*

- Eliminate requirement for IOUs to bid at their levelized fixed cost
- IOUs currently must bid into the CPE solicitation at their levelized fixed cost
- This puts the IOUs at a disadvantage by not allowing them to bid into the solicitation at market prices like any other LSE.
  - D.20-06-002 states that "IOUs should be able to maximize ratepayer benefit for bundled customers, as other LSEs do, and thus should have the same show/sell bidding options"
- Allowing the distribution utilities to bid into their CPE solicitation similar to any other LSE will allow them to bid their local resources at market prices, resulting in lower costs for all customers, and also allow them to better monetize Power Charge Indifference Adjustment (PCIA) resources and reduce rates for bundled service customers and customers subject to the PCIA

## Proposal on Update to Levelized Fixed Cost *(cont.)*

- Any concerns of potential unfair competitive advantages to the IOU is already mitigated through the following:
  - IOUs must submit their bids ahead of all other market participants; thus, they cannot use other bids to inform their pricing
  - CPE has Competitive Neutrality Rules and a strict Code of Conduct that governs the conduct of all personnel with access to CPE confidential information and ensure separation of duties and restriction of sharing CPE confidential information received by the CPE
  - CPE has limited all system access to CPE confidential information to anyone on the utility bid team
  - The Independent Evaluator monitors all aspects of the solicitation process
- IOUs have several layers of protection to ensure CPE confidential information is not shared with restricted personnel, thus there should not be any concern with the IOU using this information for a competitive advantage



## Lower Priority Positions

*SCE focused the workshop on items of highest priority. SCE reserves its advocacy of the following positions for a later date through the RA OIR.*

1. Clarity on PCIA contracts and how CPE pays for it
2. Procuring through broker markets
3. CPE can procure outside of annual CPE solicitation for targeted areas using targeted resources for specific purposes outside meeting local RA obligation

# CalCCA Proposals



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CALCCA
ADVANCING LOCAL ENERGY CHOICE cal-cca.org

Central Procurement Entity Framework
R.21-10-002 CPUC Staff Workshop
December 14, 2021

CALIFORNIA COMMUNITY CHOICE ASSOCIATION cal-cca.org

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## Overview

- Publicly available information is insufficient to enable development of a problem statement for the failure of PG&E's CPE
- The roughly 50% shortfall in PG&E CPE procurement leaves other LSEs with a high level of uncertainty about CAM-allocated resources as they begin their 2023 system and flexible RA procurement
    - ➢ The CPE should expeditiously complete any additional procurement needed to meet its allocated local RA requirement
- Incentives are inadequate to drive self-showing
    - ➢ Compensation provides little if any incentive for self-showing
    - ➢ Self-showing adds financial risk
- Clarification is required regarding PCIA benchmarking of local RA retained for system use by bundled customers

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## Additional Information is Required to Make Informed Proposals

- PG&E and SCE advice letters fail to illuminate the potential causes of the local RA shortfalls
- PG&E, unlike SCE, did not provide detail on the resources actually procured through bid or self-showing
- Neither CPE provided information that could inform effectiveness of incentives and impact of disincentives on the CPE framework:
    - ➢ Capacity offered but rejected and the reason for rejecting the resource (both self-shown and offered for purchase)
    - ➢ Capacity offers withdrawn and the reason for withdrawal
    - ➢ Capacity within the local areas that was not offered to the CPE
    - ➢ Nature of the entity controlling any resource (e.g. LSE, generator, marketer) that was not offered

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# The PG&E CPE Failure Leaves LSEs' System and Flexible RA Positions Uncertain

- PG&E CPE shows a monthly shortfall of around 6,000 MW (50% of the requirement) for the last quarter of 2023
- The CPE's plans for additional procurement and the need for CAISO backstop are uncertain
- LSEs thus face uncertainty in the potential for additional system and flexible RA allocation through the CAM if the CPE procures additional resources for 2023
  - Since all local is system and some local is flex, any additional local RA purchased by the CPE will increase the system and flexible RA CAM allocations to LSEs
  - LSEs are presently planning for their own solicitations based on anticipated open positions and need to finalize quantities
- The CPE must either complete procurement and allocations by the beginning of June or declare its intent not to procure further quantities
- If CPE procurement is ***not*** complete by the final system and flex obligation decision in June and CAISO backstop intent is not clear, the Commission should consider allowing the waiver of system and flex penalties to the extent LSEs maintained open positions in anticipation for further CAM or CAISO allocations

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# CPE Framework Provides Inadequate Incentives and Potential Disincentives to Self-Show

**Inadequate Incentives**

- LCR RCM is low (no higher than $1.78)
- LCR RCM not available to thermal and pre-LCR RCM resources

**Disincentives**

- Bidding requires the LSE or generator to give up system and flexible RA in a constrained market
- CPE pro-forma agreements place self-showing LSEs at risk
  - PG&E does not allow substitution of a resource exposing the self-providing LSE to backstop costs
  - PG&E includes termination provisions that could be initiated if a resource fails to perform in even one month
  - SCE pro-forma allows for substitution but would still pass-through damages for failing to provide the resource in a month it is committed to the CPE

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## Clarification of PCIA Benchmarking for Local RA Resources

- If an IOU resource is bid and selected in the CPE solicitation, the costs normally recovered through PCIA are instead recovered through CAM:
  - ➢ The CAM recovery lasts for the term of the CPE procurement commitment to the resource
- **CalCCA seeks clarification of the Commission's conclusion for shown PCIA resources:**
  - ➢ If a PCIA resource is not selected through the solicitation but instead is shown for local RA purposes, D.20-06-002 states:

    *"[S]hown resources are still subject to the local PCIA benchmarks adopted in D.19-10-001, which provide an RA capacity offset to the PCIA charge."*
  - ➢ If bundled customers retain the resource for system RA use, the appropriate "price" for retention is the system RA benchmark, rather than the local RA benchmark

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## CPE Shortfalls Call the CPE Framework Into Question

- CPE was designed in an environment in which local RA was constrained and system RA was not significantly constrained and there was an assumed local premium
  - ➢ 3 local areas have a premium of $0
  - ➢ 3 local areas have a premium greater than $0 but less than $1
  - ➢ 3 local areas have a premium greater than $1 but less than $2
- CPE did not clearly perform better in local procurement for 2023 than individual LSEs did for 2021
  - ➢ In 2021, the CAISO did not backstop local RA through CPM, for example, the single RMR for Agnews was issued due to local reliability but not due to a deficiency in local RA showings
- It is challenging to fix incentives in the CPE framework to work under all conditions

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# Calpine Proposals

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# CPE Proposals

*Matt Barmack*

*Vice President, Market & Regulatory Policy*

December 14, 2021

California Public Utilities Commission

Calpine Corporation

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## Introduction

- PG&E's initial CPE solicitation failed to meet local capacity requirements by a large margin
- Limited information on what went wrong
- Calpine offers proposed solutions related to potential problems as well as additional suggested modifications to the CPE structure
- Longer-term, Calpine favors reconsideration of a residual structure



## CPE can reject offers above the CPM price

<u>Problem</u>

- CPE decision gives CPE discretion to reject offers above the CPM price
- Prevailing system RA prices are above the CPM price in at least some months
- Suppliers should not be expected to sell local capacity at prices below the prices at which they can sell system capacity

## CPE can reject offers above the CPM price

Proposal #1

- Allow CPE to determine the reasonableness of offers based on prevailing prices for system capacity
- Prevailing prices could be determined from:
  - Broker quotes, or
  - Price data from Energy Division or the CPE's bundled affiliate (with appropriate confidentiality protections)
- As described below, CPEs could also obtain information on system RA prices by soliciting swaps





## Limited incentives for LSEs to show

Problem

- LSEs are not properly incentivized to show
  - LCR RCM credits are too low
  - Gas generation not eligible
- No incentive for an LSE outside of PG&E TAC area to show PG&E local capacity — doesn't benefit from reduced PG&E CPE costs
- Showing process overly complicated
  - e.g., LSEs were required to provide detailed data on unit operating characteristics

## Limited incentives for LSEs to show

Proposal #2

- Implement a residual approach, in which resources do not need to be shown to count

Proposal #3

- Change the LCR RCM calculation
  - Current calculation reflects difference between MW-weighted average system price and local prices
  - The MW-weighted average system price over-weights the highest demand months and underestimates the local premium
  - The premium should be calculated month by month

| | System MW | System Price | Local MW | Local Price | Local Premium |
|---|---|---|---|---|---|
| **Month 1** | 100 | $2 | 50 | $3 | $1 |
| **Month 2** | 200 | $5 | 50 | $6 | $1 |
| | | | | | |
| **MW-weighted avg.** | | $4 | | $4.5 | $0.5 |

Actual premia

CPUC est. premium





## Limited incentives for LSEs to show

Proposal #4

- Expand eligibility for LCR RCM to natural gas resources

Proposal #5

- Enable CPE to facilitate local for system swaps
  - Swaps involve participants in a solicitation offering at a price at which they are willing to provide local capacity to the buyer in return for system capacity
    - Swaps were common in the pre-CPE regime
    - CPE could accept offers for swaps.
  - Because the CPE has no system capacity of its own to execute swaps, it also would have to solicit offers for system RA capacity, for example:
    - Supplier 1 has 100 MW of local capacity that it has not shown to the CPE. It offers to swap that capacity for system capacity from another resource for $1/kW-month
    - Supplier 2 offers 100 MW of system RA capacity at $5/kW-month
    - CPE takes both offers and pays $6/kW-month for 100 MW of local capacity ($5/kW-month for system capacity plus $1/kW-month to swap system for local)
    - Supplier 1 ends up with 100 MW of system capacity in lieu of the local capacity that it swapped

## Limited incentives for LSEs to show

Proposal #6

- Discourage CPEs from requiring detailed data on unit operating characteristics for shown capacity
  - Not clear that operating data is used/useful in bid evaluation
  - Not typically included in RA-only confirms, which forces LSEs to obtain data from suppliers
  - Suppliers are asked to contractually warrant unit operating characteristics in a manner that is inconsistent with the underlying RA-only transactions



## CPE discourages long-term contracting

Problem

- CPE discourages long-term contracting
  - No incentive for LSEs to contract with local gas units if they cannot realize a local premium
  - CPEs imposed restrictions on term beyond what the CPE decision required
  - Uncertainty about allocations of system capacity from the CPE discourages LSE long-term contracting for system capacity

## CPE discourages long-term contracting

Potentially addressed by proposals #2-4, i.e., LSEs will contract long-term if

- They can realize local value through enhanced crediting or a residual approach
- They have more certainty about CPE allocations through a residual approach

Proposal #7

- Discourage CPE from including restrictions on term that are not required by the CPE decision

Proposal #8

- Encourage CPEs to negotiate long-term contracts bilaterally and seek approval through the appropriate application or advice letter process



## Additional CPE issues

Problem

- CPE generally unwilling to buy bundled renewable product
  - For example, operating the Geysers geothermal facility, which accounts for most of the capacity in the North Coast/North Bay local area, entails significant going forward fixed costs
  - Geysers prefers to sell all of its products bundled to ensure cost recovery

Proposal #9

- Allow/encourage CPE to buy bundled renewable products
  - Renewable products could be allocated to all load, or the CPE could monetize

## Additional CPE issues

Problem

- PG&E CPE's energy settlement contract option is non-standard
  - Settlement is firm, not unit-contingent, and settled at unit-specific LMPs
  - Outages can have significant impacts on unit-specific LMPs
  - Exposes suppliers to significant additional risk in an outage relative to a unit-contingent toll (which does not involve energy settlement during outage) or a standard hedge that settles at an aggregated pricing point

Proposal #10

- If CPEs procure tolls/energy, they should use industry standard contracts:
  - Unit-contingent products, and/or
  - Products that settle at aggregated pricing points



## Proposals

1. Allow CPE to determine the reasonableness of offers based on prevailing prices for system capacity
2. Implement a residual approach, in which resources do not need to be shown to count
3. Change the LCR RCM calculation
4. Expand eligibility for LCR RCM to natural gas resources
5. Enable CPE to facilitate local for system swaps
6. Discourage CPEs from requiring detailed data on unit operating characteristics for shown capacity
7. Discourage CPE from including restrictions on term that are not required by the CPE decision
8. Encourage CPEs to negotiate long-term contracts bilaterally and seek approval through the appropriate application or advice letter process
9. Allow/encourage CPE to buy bundled renewable products
10. If CPEs procure tolls/energy, they should use industry standard contracts

# AReM Proposals

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# Final Q + A

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# Thank you

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