



California Independent
System Operator Corporation

April 8, 2022

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER22- ____-000**

**Tariff Amendment to Recognize Central Procurement Entities
in Resource Adequacy Processes and Adjust Methodology for
Distributing Excess Resource Adequacy Availability Incentive
Mechanism Charges**

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) submits this tariff amendment filing to recognize the new role central procurement entities (CPE) will play in California's resource adequacy (RA) program.¹ These amendments are necessary to: (1) accommodate the California Public Utilities Commission's (CPUC) designation of two CPEs to procure RA capacity starting with the 2023 RA year; and (2) provide other local regulatory authorities (LRA) in the CAISO's balancing authority area (BAA) the same opportunity to adopt a CPE construct. Related to this change, the CAISO proposes to adjust how the CAISO sets local capacity requirements in the monthly RA process for load-serving entities (LSEs) serving load in multiple transmission access charge (TAC) areas.

The tariff amendments regarding the CPE are discrete, severable, and not interdependent with the tariff amendments relating to setting monthly local capacity requirements in the monthly RA process for LSEs serving load in

¹ The CAISO submits this filing pursuant to Section 205 of the Federal Power Act (FPA), 16 U.S.C. §824d. Capitalized terms not otherwise defined herein have the meaning set forth in the CAISO tariff, and references to specific sections, articles, and appendices are references to sections, articles, and appendices in the current CAISO tariff and as revised or proposed in this filing, unless otherwise indicated.

multiple TAC areas. The CAISO thus requests the Commission evaluate the justness and reasonableness of the revisions separately.

The CAISO respectfully requests the Commission issue an order accepting both sets of proposed tariff revisions by July 1, 2022. The CAISO requests an August 15, 2022, effective date for the amendments. Although these amendments are meant to take effect for the 2023 RA year, significant capacity procurement activity and administration occurs in the year-ahead timeframe. A Commission order and tariff effective date on this schedule are important in helping facilitate these activities.

I. BACKGROUND

A. California's Resource Adequacy Program

California's RA program, which the CAISO administers in coordination with the CPUC and other LRAs in the CAISO BAA, seeks to secure sufficient capacity to support the safe and reliable operation of the CAISO grid. The Commission has recognized the RA program "is intended to ensure that there is sufficient capacity when and where needed to reliably operate the system."²

1. *Categories of RA Capacity*

Under the RA program, LSEs must demonstrate procurement of three types of RA capacity: system, local, and flexible. Each type of RA capacity creates different requirements and responsibilities for the resource providing that capacity. Resources providing *system RA capacity* generally must submit either an economic bid or a self-schedule 24 hours a day, seven days a week,³ although, some resource types have less than a 24x7 must-offer obligation for shown RA capacity.⁴ Resources providing *local RA capacity* have the same obligations as those providing system RA capacity, but they must be in the local transmission-constrained area whose local capacity requirements the resource meets. Resources providing *flexible RA capacity* must submit economic bids, and they may not self-schedule for designated hours and days because flexible RA capacity meets the CAISO's need for the resources' flexibility, *i.e.*, to ramp up and down as needed and start up and shut down potentially multiple times per day. The same resource can provide all three types of RA capacity if it separately meets the requirements for each category.

² *West-Wide Must-Offer Requirements*, 154 FERC ¶ 61,110, P 10 (2016).

³ LSEs must procure certain amounts of their generic capacity from resources in defined local capacity areas (*i.e.*, local capacity). The balance of their capacity can be procured from resources anywhere on the CAISO system or from imports (*i.e.*, system capacity).

⁴ See existing tariff section 40.6.4.1.

2. *Setting Load Serving Entity RA Obligations*

The quantity of RA capacity LSEs must procure is set in different ways depending on the type of RA capacity. System RA requirements are based on an LSE's forecast demand multiplied by a planning reserve margin determined by the LSE's LRA. Flexible RA requirements are based on an annual CAISO study that identifies the largest monthly forecasted three-hour net load ramps and determines each LRA's contribution to that ramping need. The CAISO then provides each LRA its share of flexible capacity needs and defers to each LRA to allocate that total need to each of its jurisdictional LSEs.

Most noteworthy for this filing is how local RA capacity requirements are determined. Local RA requirements start with the CAISO's annual local capacity technical study, the details of which are provided in CAISO tariff section 40.3.1.⁵ The study criteria require the CAISO to identify transmission-constrained local capacity areas, determine the minimum local capacity area resources in MW that must be available to the CAISO within each local capacity area to address contingencies, and identify the generating units within each identified local capacity area.⁶ The CAISO, per CAISO tariff section 40.3.2(a), then calculates how much each LSE contributes to local capacity needs. Under CAISO tariff section 40.3.2(b), the CAISO directly assigns that value as the local capacity obligation to LSEs not under the CPUC's jurisdiction. Per CAISO tariff section 40.3.2(c), the CAISO takes the total need in each TAC area that corresponds to all CPUC-jurisdictional LSEs and allows the CPUC to allocate that total requirement to its jurisdictional LSEs based on its own methodology. If the CPUC "does not adopt an allocation methodology," then individual LSE obligations default to the calculations made under section 40.3.2(a), which is the same methodology that applies to non-CPUC jurisdictional LSEs.⁷

3. *RA Showings Process*

Scheduling coordinators for LSEs demonstrate compliance with their RA requirements through year-ahead and month-ahead RA plans submitted to the CAISO.⁸ The RA plans list the resources the LSE has procured to meet its requirements. Scheduling coordinators for resources providing RA capacity submit corresponding supply plans on the same schedule. These plans confirm which resources will provide RA capacity. Once parties submit their plans, the

⁵ Existing tariff section 40.3.1.

⁶ Existing tariff sections 40.3.1 – 40.3.1.2.

⁷ If the CPUC's allocation methodology does not fully allocate the total quantity the CAISO has assigned to the CPUC to allocate to its jurisdictional LSEs, the CAISO, per tariff section 40.3.2(c), will allocate the difference to all scheduling coordinators for CPUC LSEs in accordance with their proportionate share calculated under tariff section 40.3.2(a).

⁸ LSEs typically also are required by their LRA to submit similar plans to the LRA.

CAISO cross-validates the plans to ensure resource operators and LSEs agree on how much capacity specific resources have committed to particular LSEs. The CAISO also reviews the plans to determine if LSEs have met their RA requirements. The CAISO's RA showings process includes a cure period during which deficient LSEs can provide additional RA capacity to cure the deficiency.

4. *Backstop Procurement for RA Deficiencies*

If deficiencies remain after the cure period, the CAISO can use its Capacity Procurement Mechanism (CPM) to procure "backstop" capacity to address RA showing] deficiencies or supplement RA procurement to maintain grid reliability. The CAISO recovers the cost of CPM designations issued to address individual LSE deficiencies from the deficient LSE(s) pro rata based on its portion of the overall deficiency.

B. CPUC Adoption of the Central Procurement Entity Framework

In June 2020, the CPUC ordered creation of a CPE to procure Local Resource Adequacy Resources for CPUC-jurisdictional LSEs in the Southern California Edison (SCE) TAC area and a second CPE for procurement in the Pacific Gas & Electric (PG&E) TAC area.⁹ The CPUC designated SCE and PG&E to serve as the CPE for their respective TAC areas. The CPUC's goal in creating this structure was to provide "cost efficiency, market certainty, reliability, administrative efficiency, and customer protection,"¹⁰ in meeting local RA capacity needs.

Per the CPUC's decision, starting for the 2023 RA year, LSEs within the "PG&E's and SCE's distribution service areas will no longer receive a local allocation beginning for the 2023 Resource Adequacy compliance year."¹¹ The CPUC instead would assign the local RA obligation to the CPE to procure local resources on behalf of all CPUC-jurisdictional LSEs within the CPE's respective TAC Area. In developing the CPE design, the CPUC had to address the system RA capacity and flexible RA capacity attributes of a CPE-procured resource. There is no way to unbundle the capacity attributes of a resource; a resource cannot sell local RA capacity to one entity and that same resource's flexible RA

⁹ California Public Utilities Commission, *Decision on Central Procurement of the Resource Adequacy Program*, D.20-06-002, at 91, Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years, R.17-09-020, June 11, 2020 (CPUC Initial CPE Order) ("Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) to serve as the central procurement entity for their respective distribution service areas for the multi-year local Resource Adequacy (RA) program beginning for the 2023 RA compliance year.").

¹⁰ *Id.* at 3.

¹¹ *Id.* at 91.

capacity to a different entity. In the context of the CPE design, this presented a problem because the CPE only would have a local capacity obligation and would have no way to show the system and flexible attributes in the RA process. The LSEs served by the CPE would pay the cost of procuring those attributes, but they would have no way to meet part of their system and flexible requirements with the CPE-procured resource capacity. To address this issue and prevent “stranding” system and flexible RA capacity, the CPUC ruled that the CPE would buy the bundled attributes of the resource and the CPUC would use its existing cost allocation mechanism process to allocate credits for the system and flexible attributes of CPE-procured resources to the LSEs on whose behalf the CPE procured the local capacity area resources.¹²

Regarding the procurement of local capacity resources, the CPUC adopted what it called a hybrid procurement model, in which LSEs voluntarily could show their own local resources to the CPE and keep the entire system and flexible RA attributes for themselves.¹³ Importantly, “self-showing” LSEs would not receive payment from the CPE for providing self-shown local RA capacity and the CPUC would not assign such self-showing LSEs a local capacity obligation. Under the CPUC’s framework, the fully allocated local capacity obligation would remain with the CPE, but the CPE would reduce the quantity of local capacity it shows to the CAISO in the RA showings process by the amount the self-showing LSE agreed to provide. For example, assume the CPE had a 100 MW local RA obligation for a TAC area and a LSE represented by that CPE agreed to self-show 10 MW of local RA capacity. The CPE’s RA plan submitted to the CAISO would show 90 MW of local RA capacity and the self-showing LSE would show 10 MW of local RA capacity in its RA plan. By design, the CPE would be deficient in its local RA showing, but the self-showing LSE voluntarily would show local capacity to cover the CPE’s deficiency. The net result would be that the CAISO has the needed 100 MW of local RA capacity for the TAC area.

The CPUC adopted this hybrid approach instead of two other approaches – full procurement and residual procurement. Under a full procurement approach, LSEs would have no involvement in procuring local capacity resources. Under a residual procurement approach, the LSEs would “bear the primary responsibility to procure local resources and continue to receive individual local requirements,” and the CPE would procure to fill any remaining gaps.¹⁴

¹² *Id.* at 46 & 47.

¹³ *Id.* at 91.

¹⁴ *Id.* at 22-23.

Following the CPUC's June 2020 decision, the CPUC considered additional elements of the CPE framework in an implementation phase of the CPE proceeding. The CPUC issued a final decision on that phase on March 18, 2022.¹⁵

C. CAISO Stakeholder Process

The CAISO stakeholder process leading to this filing began with posting a combined issue paper/straw proposal on November 15, 2021, with a stakeholder web conference following on November 22, 2021. The meeting included presentations from both CAISO and CPUC staff. The CAISO followed with publication of the draft final proposal and draft tariff language on December 22, 2021. On January 6 and January 13, the CAISO held stakeholder web conferences on the draft final proposal and draft tariff language, respectively. The CAISO held further stakeholder web conferences on the final proposal and revised draft tariff language on February 15 and February 24, respectively. The stakeholder process culminated with the CAISO Governing Board approving on March 17 the policy proposal underlying this filing.

The CAISO stakeholder process was complicated because it proceeded in parallel with the CPUC's implementation phase of the CPE proceeding. For this filing, the most significant set of issues addressed in this supplemental phase were details of how the hybrid procurement structure would work and what would happen if a "self-showing LSE" failed to show capacity to the CAISO that the CPE expected that the LSE would show to the CAISO. The CPUC's March 2022 decision provided beneficial clarity on these issues.

II. PROPOSED TARIFF REVISIONS

A. Accommodating Central Procurement Entities in the CAISO Tariff

1. Establishing CPEs as a Concept in the CAISO Tariff

a. CAISO Proposal

The CPE function is a new construct, and the CAISO tariff needs to account for this function in the context of the RA program rules. The CAISO followed the same approach it adopted for LSEs under the RA program. Under

¹⁵ California Public Utilities Commission, *Decision on Phase 1 of the Implementation Track: Modifications to the Central Procurement Entity Structure*, D.22-03-034, Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations, R.21-10-002, Mar. 17, 2022 (CPUC CPE Implementation Track Order).

that approach, Appendix A of the CAISO tariff defines LSEs, but tariff provisions applicable to LSEs place obligations on scheduling coordinators for LSEs, rather than on the LSEs directly. Because LSEs, as distinct from their scheduling coordinators, have no direct obligations to the CAISO, there is no *pro forma* LSE agreement with the CAISO in the same way there are *pro forma* agreements between the CAISO and, for example, CRR Holders or Convergence Bidding Entities.

Based on this approach, the CAISO proposes to define a CPE in the tariff. A CPE is an “entity that has been designated by a Local Regulatory Authority to: (a) procure Local Capacity Area Resources on behalf of at least one Load Serving Entity under that LRA’s jurisdiction; and (b) through its Scheduling Coordinator, demonstrate such procurement to the CAISO pursuant to the RA showings process in Section 40.2.” This definition limits CPEs to procuring only local RA capacity because a local capacity-only CPE is the only CPE LRAs have adopted to this point. There are seven permutations of capacity a CPE could procure – (1) system RA only; (2) local RA only; (3) flexible RA only; (4) system and local RA; (5) local and flexible RA; (6) system and flexible RA, and (7) system, local, and flexible RA. Although the CAISO is not in principle opposed to CPEs being responsible for procuring forms of capacity other than local, the system changes, policy development, and tariff drafting required for the CAISO to accommodate these permutations were too significant to undertake based on speculation regarding what LRAs may do. If a LRA wishes to pursue such an expanded CPE model, the CAISO and stakeholders would need to develop additional tariff amendments and other system changes through a new stakeholder process.

The CAISO also proposes two clarifying changes in section 4.5 of the tariff. This section and its subsections outline the roles and responsibilities scheduling coordinators hold towards the CAISO and vice versa. Section 4.5.1 generally describes the role of a scheduling coordinator in the CAISO markets, but this general description does not refer to RA processes. Specifically, this section does not mention that scheduling coordinators must submit RA plans and supply plans. The CAISO proposes to amend section 4.5.1 to refer to these activities already defined in tariff section 40. The CAISO also proposes to add a section 4.5.3.16 stating specifically that scheduling coordinators representing LSEs or CPEs must provide RA plans, and scheduling coordinators representing RA resources must provide RA supply plans. This new tariff language mirrors the existing obligations for LSEs described in tariff section 40 and extends that existing responsibility to scheduling coordinators for CPEs. The CAISO also proposes to add a sentence in section 4.5.3.16 stating: “If a CPE is also a Load Serving Entity and the CPE and Load Serving Entity are represented by the same Scheduling Coordinator, that Scheduling Coordinator must use distinct Scheduling Coordinator ID Codes for its activities related to the CPE and Load

Serving Entity functions.” This provision ensures the CAISO can distinguish which actions the scheduling coordinator is undertaking on behalf of a LSE as opposed to a CPE.

b. Stakeholder Feedback

The CAISO initially proposed creating a new tariff section 4.18 setting forth a CPE registration process. This process would have included an ongoing obligation for the CPE to notify the CAISO of changes in the portfolio of LSEs on whose behalf the CPE procures local RA capacity. The CAISO would have developed a *pro forma* CPE agreement in Appendix B of the tariff with the new tariff provisions in tariff section 4.18.

CPEs argued that because the CAISO already was in a contractual relationship with the CPEs in their other roles, creating new registration processes was unnecessary. The CPEs also argued that LSEs face no specific registration process with the CAISO because the CAISO relies on its contractual relationship with the scheduling coordinator that serves the LSE. Additionally, they raised concerns about how creating a new registration process would affect existing credit requirements.

The CAISO reconsidered its approach based on this feedback and concluded that it could treat CPEs in the same fashion as LSEs for registering and establishing contractual privity with the CAISO. The CAISO will interact with CPEs just like it interacts with LSEs, *i.e.*, through scheduling coordinators.

2. Allocating Local Obligation to CPE

a. CAISO Proposal

The CAISO also proposes tariff revisions in sections 40.3.2(b) and (c). Under CAISO tariff section 40.3.2(a), the CAISO calculates overall local capacity resource requirements. Under CAISO tariff section 40.3.2(b), the CAISO directly assigns local capacity obligation to LSEs not under the CPUC’s jurisdiction. Under CAISO tariff section 40.3.2(c), the CAISO recognizes the CPUC may allocate the total local requirements to its jurisdictional LSEs under the CPUC’s own methodology.

For LSEs not under the CPUC’s jurisdiction, the CAISO will assign local capacity obligations as a default. The CAISO proposes to amend tariff section 40.3.2(b) to allow LRAs for these LSEs to shift all or part of that local capacity assignment to a CPE, if the LRA notifies the CAISO by the deadline the CAISO will establish in its business practice manuals. This provision will permit multiple LRAs to reallocate their respective LSEs’ local capacity resource obligations to

the same CPE. This is important because many of the non-CPUC LRAs only have a single LSE under their jurisdiction and this authority would allow these LRAs to utilize the same CPE. Without this additional provision, a CPE would not be a meaningful option for those LRAs. It would merely shift an LSE's entire local capacity obligation to a single CPE. Such a one-to-one transfer would provide no efficiency gains through aggregated procurement, nor would it reduce the total administrative burdens of meeting local RA obligations.

For CPUC-jurisdictional entities, the CAISO proposes to amend tariff section 40.3.2(c) to permit the CPUC to allocate local capacity area resource obligations to either LSEs or CPEs. The CAISO also proposes a clarifying amendment to establish a deadline for the CPUC to inform the CAISO of its preferred local capacity allocations before the default rules apply. Currently there is no deadline for the CPUC to inform the CAISO of its allocation methodology and, thus, no clear point at which the CAISO would apply the default provisions to CPUC-jurisdictional LSEs.

Finally, the CAISO proposes to delete an existing statement in section 40.3.3 that "Scheduling Coordinators for Load Serving Entities may aggregate responsibilities for procurement of Local Capacity Area Resources." The CAISO concluded this statement could cause confusion and also was unnecessary. With the addition of the more formal CPE aggregation functions, the CAISO concluded that maintaining the existing tariff language in section 40.3.3 that described a more informal and unstructured aggregation opportunity could cause confusion. Specifically, this existing tariff provision only addresses how LSEs can contract for RA capacity. Under this existing provision, one LSE could contract with resources to procure local RA capacity on behalf of multiple LSEs. That is a function that a CPE will hold. Unlike a CPE, however, that LSE would not submit RA plans on behalf of those other LSEs, assume the local RA obligation for those other LSEs, or receive CPM cost allocations on behalf of those other LSEs. The CAISO was concerned that maintaining the existing statement in tariff section 40.3.3 could obscure these distinctions. The CAISO also concluded that the existing statement in tariff section 40.3.3 was unnecessary. The question of how LSEs contract bilaterally for RA capacity with resources is largely a matter under the LRAs' purview and is not addressed in detail in the CAISO tariff. Even with the proposed amendment in tariff section 40.3.3, a LRA still could permit one LSE to contract for local RA capacity on behalf of multiple LSEs. So long as each LSE submitted its own RA plan and the suppliers were clear about which MWs of capacity were being provided for which LSE, the aggregation would fit within other CAISO RA tariff provisions and existing RA processes.

b. Stakeholder Feedback

One stakeholder noted that eliminating the informal aggregation opportunity in section 40.3.3 was detrimental to CPUC-jurisdictional LSEs in the San Diego TAC area. The stakeholder noted the CPUC did not designate a CPE for this area, and was concerned the CAISO's proposed amendment would eliminate any aggregation opportunity for these LSEs. In response to these concerns, the CAISO explained that even without the existing statement in tariff section 40.3.3, those LSEs could aggregate procurement responsibility subject to LRA approval, but that maintaining the existing language could suggest that the CAISO tariff was creating a CPE where a LRA did not create one.

3. RA Showings from a CPE

a. CAISO Proposal

Currently, section 40 of the CAISO tariff reflects LSEs hold obligations to procure RA capacity and, as such, only assigns responsibilities in that regard to scheduling coordinators for LSEs. To implement a CPE framework, the CAISO proposes multiple conforming changes throughout section 40 to acknowledge that scheduling coordinators for both LSEs and CPEs will submit RA plans when they have an assigned RA obligation. Per revisions in tariff sections 40.2.1 and 40.2.2, a CPE's scheduling coordinator must submit RA plans to the CAISO in the year-ahead and month-ahead timeframes on the same terms as LSEs. Because this would be a tariff-defined information provision requirement, if a CPE's scheduling coordinator submits its RA plan after the deadline, it would face a \$500 per day sanction under section 37.6.1. This is the same penalty that scheduling coordinators for LSEs already face for late RA plan submissions.

The CPUC's CPE order calls for the CPE to make its year-ahead RA showing to the CPUC in late September, which is approximately a month before the year-ahead RA showing deadline that LSEs face.¹⁶ The CAISO considered imposing this same early year-ahead RA showing deadline on CPEs, but concluded it was unnecessary and could create complications by requiring the scheduling coordinators for the CPE-procured resources to comply with an early deadline for the submission for their RA Supply plans. Creating two separate year-ahead deadlines would create additional unnecessary complexity. In addition, other LRAs may adopt a CPE construct that includes a different deadline.

¹⁶ CPUC Initial CPE Order at 70.

b. Stakeholder Feedback

Stakeholders did not express any concerns to the CAISO regarding its proposed changes to the RA showings process.

4. Allocating System and Flexible Attributes of Resources Shown by a CPE

a. CAISO Proposal

To ensure the system and flexible attributes of a CPE-procured resource are allocated back to the LSEs that ultimately pay for those resources, the CAISO proposes a new tariff section 40.3.2(d).

Under this new proposed section, the CAISO will establish a deadline in the business practice manual by which a LRA with a CPE must inform the CAISO of how it wants the CAISO to allocate the system and flexible attributes of resources that the LRA expects the CPE will show through the CAISO's RA showings process. As discussed in section II.A.3, the CPUC's CPE order creates an early year-ahead showing deadline for the CPEs. The CAISO presumes that any other LRA adopting a CPE would create a similar requirement. These early showings would be the basis of the LRAs' expectations regarding the resources the CPE would show in the CAISO process.

Based on this LRA-provided information, the CAISO will provide LSEs with provisional RA credits towards their system and flexible RA obligations. These credits will reduce the system and flexible RA requirements each LSE will see in the CAISO systems. The CAISO proposes a deadline for LRAs to provide their credit allocation, and it intends to reflect those credits in its systems as soon as feasible after it receives them from the LRA.

When the CAISO first grants them, the system and flexible RA credits must be provisional because they are based on what the CPE is expected to show. Until the CPE submits its actual RA plan and the CAISO cross-validates against RA supply plans, the CAISO cannot be certain about what resources the CPE will provide in the RA showings process. At the same time, the LSEs served by the CPE need to know how much system and flexible RA capacity they need to show on their RA plans to avoid deficiencies. The CAISO's proposed approach of providing provisional credits balances these two competing factors.

If the CPE's RA showing provides either more or less system or flexible RA capacity than was assumed in assigning the provisional credits, then the CAISO will adjust the credits pro rata "based on each LSE's proportionate share

of the provisional allocation.” If the CAISO reduces the quantity of the provisional credits based on this provision, then LSEs may become deficient in RA even though they met their RA requirement as it existed in the CAISO’s system when they submitted their RA plan. LSEs can address such deficiencies during the RA cure periods.

b. Stakeholder Feedback

In connection with the CAISO’s proposed approach to crediting CPE-shown resources one stakeholder expressed concern that the CAISO would only credit the system and flexible attributes of CPE-shown resources based on a methodology from the LRA. This stakeholder was concerned the system and flexible attributes would be stranded if the LRA did not provide the CAISO with an allocation. This stakeholder requested the CAISO create a default methodology to apply if the LRA did not respond with its preferred allocation methodology.

The CAISO considered, but rejected, an approach that would allocate the system and flexible attributes *pro rata* by load served among the LSEs on whose behalf the CPE procures local capacity. In opposing the CAISO’s initially proposed changes to tariff section 4, the CPEs opposed a requirement they provide the CAISO a definitive list of the LSEs for which they procure local RA capacity. They pointed out there is churn in some of the LSEs and that the most up-to-date list should be provided from the CPUC and not from the CPEs. Relying on the CPUC or other LRAs for this list to invoke the default methodology is problematic. Relying on the LRA to provide information to implement the default methodology meant such an approach would rely on the same “point of failure” that would trigger using the default, *i.e.*, inaction by the LRA. Such a fallback approach that relies on the LRA to take action does not provide meaningful additional protection to avoid stranded capacity. The CAISO also has successful history of managing RA crediting processes involving capacity procured under the CPUC’s Cost Allocation Mechanism and reliability must-run contracts. For these reasons, the CAISO is not proposing a separate rule to address the risk of stranded CPE-procured capacity.

5. Capacity Procurement Mechanism Designations Needed to Address CPE Deficiencies

a. CAISO Proposal

The CAISO proposes three major conforming changes to tariff section 43A, which addresses the CAISO’s CPM authority – (1) a CPE’s uncured RA deficiency can trigger CPM designations; (2) the CAISO will allocate the costs of a CPM issued to cure a CPE deficiency to the deficient CPE; and (3) the CAISO will issue RA credits for year-ahead CPMs issued to address a CPE deficiency.

i. CPE Deficiencies Can Trigger CPM Designations

The CAISO proposes edits in tariff sections 43A.2.1.1 and 43A.2.1.2 to establish that a CPE's local RA showing deficiency on an annual or monthly RA plan, respectively, can trigger a CPM designation in the same way a LSE's deficiency already provides the CAISO authority to designate CPM capacity. This approach is appropriate because LRAs will assign local capacity obligations directly to CPEs, and their failure to meet those responsibilities will have the same impact on the CAISO's ability to maintain reliability in local capacity areas as would a LSE's similar deficiency.

ii. The CAISO Will Allocate CPM Costs to Deficient CPEs

The CAISO proposes edits in tariff sections 43A.8.1 and 43A.8.2 to note that the CAISO will allocate the costs of CPM designations made under sections 43A.2.1.1 and 43A.2.1.2, respectively, to the deficient entity whether it is a LSE or CPE. Again, this is a logical extension of the CAISO's existing CPM cost allocation provisions. If the CAISO needs to designate CPM capacity to address a CPE's failure to show sufficient local RA capacity to meet its allocated responsibility, it is reasonable for the CAISO to assign the costs directly to the entity responsible for showing that capacity to the CAISO, *i.e.*, the entity with the up-front RA obligation. It will then be up to the CPE to recover those CAISO-assigned costs from the LSEs it represents. Where a CPUC-jurisdictional LSE voluntarily elects to self-show local capacity but fails to provide that capacity to the CAISO, the CAISO still would allocate the costs of any resulting CPM to the CPE because the CPE is the sole entity with an upfront local RA obligation for a TAC area. This tracks the CPUC's adopted approach. In other parts of the CPM process, the CAISO does not change its cost allocation approach based on why the entity with the assigned upfront obligation is deficient. For example, a LSE deficient in meeting its RA obligation because a contracted resource is on a long-term outage or otherwise fails to list itself on a supply plan still will be allocated CPM costs. Allocating CPM costs based on the reasons for a LSE (or CPE) deficiency would put the CAISO in the position of potentially enforcing contracts between LSEs and suppliers of RA or, in the case of a self-showing LSE, commitments made between LSEs and CPEs in which the CAISO is not involved. It is therefore appropriate to allocate CPM costs to the CPE when it is deficient in local RA capacity, notwithstanding the reasons for that deficiency.

Notably, the CAISO does not propose to assign the costs of CPM designations made under tariff section 43A.2.2 to CPEs. This section provides the CAISO authority to designate CPM capacity to address a collective local

deficiency. A collective local deficiency occurs when all LSEs (and now CPEs) meet their individual local RA capacity requirements but the pool of local capacity area resources “fail[s] to ensure compliance in one or more Local Capacity Areas with the Local Capacity Technical Study criteria provided in Section 40.3.1.1.” Per section 43A.8.3, the costs of such designations are allocated to LSEs serving load in the TAC area that experienced the collective deficiency pro rata “based on the Scheduling Coordinators’ proportionate share of Gross Load in such TAC Area(s).” The CAISO proposes clarifying language to tariff section 43A.8.3 to note that the CAISO will “not allocate the costs of designations under Section 43A.2.2 to a Scheduling Coordinator for a CPE in its role serving as such Scheduling Coordinator.” Maintaining the current cost allocation methodology for collective local deficiencies is appropriate because such a CPM designation is not tied to any specific party’s failure to do what it was supposed to do, *i.e.*, meet its local capacity obligation. A collective deficiency can occur even if all LSEs meet their individual local capacity obligations because they may not have procured the needed resources in the right locations.¹⁷ The existing collective deficiency cost allocation scheme represents the CAISO’s need to maintain local reliability despite each party fulfilling its individual obligation. The benefits of such designations flow generally to load, not a CPE, so it is appropriate to maintain the current approach of allocating *pro rata* by load ratio share to LSEs in the TAC area.

iii. Allocating RA Credits from CPM Designations to Address CPE Deficiencies

The CAISO proposes amendments to tariff section 43A.9(a). This provision calls for LSEs whose local RA deficiency led to the CAISO issuing a year-ahead local CPM designation to receive credit against their system and local RA requirements based on the CPM capacity the CAISO required.¹⁸ This approach supports the principle that an entity whose deficiency the CAISO cures through exercise of the CPM authority and who pays for such capacity should be allowed to “use” it to offset its RA obligations for the time of the CPM designation. The CAISO offers credit against both local and system RA requirements because a local capacity resource also automatically counts for system RA.

¹⁷ See, e.g., *Cal. Indep. Sys. Operator Corp.*, Transmittal Letter, FERC Docket Nos. ER08-556-000 & ER06-615-020 (Feb. 8, 2008) (describing collective deficiency backstop procurement authority as necessary because “it is possible that even if all Scheduling Coordinators for LSEs in a particular local area meet their procurement obligation for Local Capacity Area Resources . . . the collective procurement of all such Scheduling Coordinators will still not permit the CAISO to meet Reliability Criteria.”)

¹⁸ Because of the timing of the RA processes, the tariff does not provide a similar credit for local CPM capacity designations issued in the month-ahead timeframe. Under current processes, the CAISO applies the credits to RA months for which the cure period has not yet elapsed.

The CAISO proposes to modify this crediting approach for CPM designations issued to address a CPE's individual local RA deficiency. The CAISO will provide a CPE's LRA the opportunity to determine how to apportion the system and local RA credits associated with such a CPM designation.¹⁹ Consistent with current processes, the CAISO will assign these credits prospectively to RA months for which the backstop capacity applies and the cure period has not yet elapsed. Providing this opportunity creates maximum flexibility in accommodating potential CPE design decisions at the LRA level. If the LRA seeks to allocate credits beyond those supported by the CPM designation or does not notify the CAISO of its preferred allocation by a deadline to be established in the business practice manual, then the CAISO would allocate the credits based on a tariff-defined default methodology.²⁰ Under this default, the CAISO will allocate the local attributes from the CPM to the CPE and the system attributes to LSEs based on the proportions the LRA provided initially to assign the system and flexible attributes of CPE-procured resources. The logic of this default allocation is that CPM capacity designated because of a CPE RA deficiency effectively is RA capacity the CAISO forces the CPE to procure. As in the case of LSE deficiencies, a CPE should be entitled to the CPM credits corresponding to the CPM for which it pays. Absent specific LRA direction, allocating the system attributes based on the proportions the LRA provided initially is reasonable because that is the next-best evidence the CAISO would have of the LRA's intentions.

A simple example illustrates the mechanics of these new provisions. Assume a LRA creates a CPE to procure local RA capacity for three LSEs in a TAC area (LSE₁, LSE₂, and LSE₃). Per the provisions in new tariff section 40.3.2(d), the LRA informs the CAISO that the system and flexible attributes of the CPE-procured resources should be allocated to the LSEs in these proportions – 60 percent to LSE₁, 30 percent to LSE₂, and 10 percent to LSE₃. Further, assume the CPE is deficient in meeting its assigned local RA obligation and the CAISO issues a 100 MW CPM designation to address that deficiency. The CAISO then must determine how to allocate the 100 MW of system RA credits and 100 MW of local RA credits corresponding to the CPM designation.²¹ Per the proposed amendments to tariff section 43A.9(a), the LRA first will have

¹⁹ The only restriction on the LRA allocation is that it cannot allocate more credits than are supported by the CPM designation. For example, if the CAISO designates 100 MW of CPM capacity, the LRA could not allocate 125 MW of system RA credits.

²⁰ The last version of the draft tariff language posted for stakeholder review proposed only the default option under which the CAISO automatically would assign the credits without first giving LRAs the opportunity to allocate the credits. This approach did not align with the CAISO's final proposal but the CAISO did not identify the discrepancy until shortly before filing.

²¹ There would not be any flexible RA credits to allocate because a resource receiving a CPM designation to cure a local RA deficiency would not take on a flexible RA obligation under the terms of the CPM designation.

an opportunity to instruct the CAISO how to allocate the credits. The CAISO will accept any allocation as long as the LRA does not seek to allocate more than 100 MW of system RA credits or 100 MW of local RA credits. If the CAISO does not receive a valid allocation by the deadline, then it will use its new default provisions. Under the default rules, the CAISO would assign 100 MW of local RA credit to the CPE, 60 MW of system RA credit to LSE₁, 30 MW of system RA credit to LSE₂, and 10 MW of system RA credit to LSE₃.

b. Stakeholder Feedback

During the stakeholder process one party expressed concern about the allocation of CPM costs where a self-showing LSE fails to show the promised capacity in the CAISO RA process. This party thought it was more appropriate for the CAISO to allocate the costs directly to that LSE in that scenario or to permit the LRA to direct the CAISO how to allocate the CPM costs after the fact. The CAISO found both suggestions inappropriate. The CAISO found it inappropriate to allocate CPM costs to the self-showing LSE because the CPE, not the self-showing LSE, has the predetermined and pre-assigned RA obligation. The CAISO currently allocates all CPM costs for individual RA deficiencies to the entity with the RA obligation based on a pre-established allocation methodology in the tariff. The CAISO is adhering to this established approach in allocating costs to a deficient CPE. It is reasonable to assign the costs to the CPE who bears the RA obligation and whose deficiency imposes CPM costs on the CAISO. Also, it is inappropriate to authorize the LRA to direct the CAISO how to allocate the CPM costs after the CAISO already has incurred them. This could raise potential cost causation, filed rate doctrine, lack of notice, and retroactive ratemaking issues. Granting this authority effectively would let the LRA re-shuffle the upfront RA obligations after a deficiency has occurred and the CAISO has procured backstop capacity to remedy the deficiency. The CPUC's recent decision on the implementation track approves clarifying changes to the CPE process consistent with the CAISO approach.²²

Aside from the concerns about allocating CPM costs to self-showing LSEs, several parties raised other CPM concerns.

Two parties expressed concerns about transparency as to why a CPE would be short in meeting its assigned local obligation and how parties could better understand what led to potential deficiencies. The CAISO agreed that transparency could be beneficial, but directed these parties to the CPUC process.

²² CPUC CPE Implementation Track Order, at 13-15.

One party observed that if the CPE has difficulty procuring needed local RA capacity, then the CAISO may face similar difficulty in using its CPM authority in addressing that capacity. The CAISO agrees this may be a concern, but this issue goes beyond implementing the CPE construct. The CAISO notes it intends to launch a new stakeholder initiative to consider enhancements to its CPM processes. Increasing incentives for resources to accept CPM designations likely will be an important element of that initiative.

Finally, one party questioned why the CAISO only included the CPE in one type of CPM designation and not the others. This party questioned the value of pursuing such a limited amendment. The CAISO does not view this comment as identifying a flaw in its proposal. The party raises a hypothetical concern. The CAISO's proposal merely reflects that at this time CPEs have been established only to procure local capacity, not system or flexible capacity, and the CAISO needed to implement tariff provisions to accommodate this framework promptly. If the CPUC or other LRAs consider expanding the CPE concept to system and flexible capacity, the CAISO can consider expansion of its CPE framework and address any unique issues raised by expanding the CPE framework to these types of capacity.

6. *RMR Credits*

a. *CAISO Proposal*

Aside from issuing CPM designations, the CAISO also has authority to procure capacity from resources by executing reliability must-run (RMR) agreements. The CAISO uses its RMR process to contract with generators that otherwise would retire or mothball their units but which are necessary to maintain grid reliability. Resources operating under a RMR contract hold performance obligations similar to resources providing RA capacity. In recognition of these performance obligations, CAISO tariff section 41.8 calls for the CAISO to provide RA credits to the LSEs in proportion to the costs they pay for each RMR agreement. The RA credits are for system RA requirements and, if the resource is in a local capacity area, local RA requirements. The CAISO informs the CPUC of these credits, and the CPUC then reallocates them among its jurisdictional LSEs.

The current approach of allocating RMR credits does not align with the CPE construct for two reasons. *First*, limiting the CPUC to reallocating the RA credits from RMR agreements solely among LSEs does not align with the new construct of assigning local RA obligations to the CPE, not LSEs. It would not provide an LSE any benefit to receive a local RA credit when it holds no local RA requirement. To address this discrepancy, the CAISO proposes to amend tariff section 41.8 to reflect that the CPUC could reallocate RMR credits to either LSEs

or CPEs. *Second*, the tariff does not provide the opportunity for LRAs other than the CPUC to reallocate RMR credits. If other LRAs adopt a CPE framework similar to what the CPUC already has approved, a similar issue could arise where a LSE is credited for local RA capacity from an RMR agreement even though the LSE has no local RA obligation. To address this issue, the CAISO proposes to amend section 41.8 to extend the reallocation opportunity to other LRAs that have adopted a CPE.

Notably, the CAISO does not propose to change its current rules on allocating the costs of RMR designations. Section 41.9 calls for the CAISO to “allocate Reliability Must-Run costs not recovered through market revenues to the Scheduling Coordinators for Load-Serving Entities that serve load in the TAC Area(s) in which the need for the RMR Contract arose.” Because a CPE will not serve load, it will not be exposed to cost allocation for RMR contracts.

b. Stakeholder Feedback

Stakeholders expressed no concerns to the CAISO regarding its proposed changes to the RMR process. As with the CPM issue, one party questioned why the CAISO elected not to assign RMR costs to CPEs. The CAISO designates RMR units based on reliability needs, not RA deficiencies. RMR contracts are not meant to be a backstop for the RA program.²³ As with several of the CPM types, a RMR contract benefits load on a general basis. Because the CPEs are RA procurement agents serving on behalf of LSEs, rather than committed to serve load, the CAISO is justified in maintaining the status quo on how it allocates the costs of RMR contracts.

7. Updating Tariff Provision Capping Local RA Requirements at the System RA Requirement in the Monthly Process

a. CAISO Proposal

In a 2017 filing with the Commission, the CAISO proposed to amend section 40.3.2(a) to state that a LSE is never “obligated to commit, on a monthly Resource Adequacy Plan, Local Capacity Area Resources in a particular TAC Area in excess of the quantity of capacity needed by that Load Serving Entity to meet its” system RA requirements.²⁴ This proposal to cap local requirements at the system RA requirement addressed a “a narrow circumstance . . . in which a

²³ *Cal. Indep. Sys. Operator Corp.*, 168 FERC ¶ 61,199, P 32 (2019) (“We also note that, pursuant to its tariff, CAISO cannot use RMR procurements to backstop resource adequacy capacity deficiencies.”).

²⁴ *Cal. Indep. Sys. Operator Corp.*, Tariff Amendment Transmittal Letter at 19 n.39, FERC Docket No. ER18-1-000 (Sept. 29, 2017).

load serving entity may be required to show more local capacity in its RA plans for a given month than its entire projected peak load for that month because of methodological differences in how system and local requirements are calculated.”²⁵ The CAISO explained it was submitting the proposed change in response to stakeholder concerns that the then-existing rules allowed “for the illogical situation where the whole (system capacity requirements) is less than the sum of its parts (local capacity requirements).”²⁶ The Commission approved this change.²⁷

The CAISO now proposes amendments to address two unforeseen gaps in how the CAISO formulated this capping rule. These changes are not tied directly to CPE implementation. They are separate, unrelated, and severable. The existing rule applies only to LSEs and the CAISO has not proposed a conforming change to add a reference to CPEs in the context of the capping rule. Therefore, this provision on its own terms does not impact CPEs. This capping provision, however, is an important element of setting individual entities’ local RA capacity requirements.²⁸

The *first gap* is that the CAISO drafted the current rule without considering that a LSE could serve load in multiple TAC areas. That LSE will receive separate local capacity obligations for each TAC area, but the capping rule would apply based on its overall system RA obligation derived from the total load it serves in both TAC areas. Applying the capping based on the LSE’s total system RA requirement still creates the situation where the local RA requirement exceeds the RA capacity needed for that LSE to serve its load fully in that TAC area. But applying the capping based on the system RA requirement corresponding to the LSE’s load served in the TAC area avoids this situation. An LSE’s obligations outside of a TAC area should not influence the local capacity requirement as to that specific TAC area in the monthly process. To address this first gap, the CAISO proposes that the capping rule applies to a LSE based on its system RA requirements “arising from its obligations in that TAC Area,” rather than its total system RA requirements.

The *second gap* is that the mechanics of the CPUC’s local procurement rules sometimes can result in an LSE having a local obligation for a TAC area in

²⁵ *Id.* at 2.

²⁶ *Id.* at 19.

²⁷ *Cal. Indep. Sys. Operator Corp.*, 162 FERC ¶ 61,042 (2018).

²⁸ The CAISO initially considered making changes to section 40.3.2(a) to clarify that the capping approach would not apply to CPEs. The CAISO concluded, however, that it would be inappropriate to apply this rule to a CPE because its system RA requirement would always be zero. Because this system requirement is zero, the capping rule would result in CPEs always having a zero MW local RA obligation in the monthly process. This result would undermine the CPE construct. The CAISO determined that no amendment was necessary because the existing rule is drafted to apply only to LSEs.

which it does not serve load. Specifically, to meet its system RA requirements, an LSE can procure a local resource outside of the TAC area in which it serves load. That local capacity area resource is then unavailable to be procured by LSEs (or CPEs) with a local RA obligation for that TAC area. However, that local resource will meet the local needs in that TAC area. To ensure the LSE with load outside of the TAC area actually shows that resource on its RA plan, the CPUC assigns the LSE a local capacity requirement in that TAC area to match the already procured capacity. If the CPUC did not do this, then the LSE with load outside the TAC could leave the already procured resource off its RA plan and meet its system RA obligations with other resources. In doing so, it would leave the TAC area short of local capacity area resources, potentially triggering a local CPM designation in the TAC. The rule creates an incentive for the LSE to show the out-of-TAC area local resource on its RA showings. Applying the capping rule to such LSEs would be inappropriate because it would result in such LSEs always having a zero MW local RA obligation in the monthly process and would undermine the goal of ensuring the local resource is actually shown as a local capacity area resource. To address this second gap, the CAISO proposes to clarify that the capping applies to LSEs only “with a Demand and Reserve Margin requirement for a particular TAC Area.” A LSE that does not serve load in a TAC area but with a local RA obligation for that TAC area would not have a “Demand and Reserve Margin requirement” for that “particular TAC area.” This new provision will ensure the capping rule does not apply to LSEs with a local obligation in a TAC area for which they serve no load.

b. Stakeholder Feedback

Stakeholders generally supported this proposal, but asked several clarifying questions to ensure they understood it. One party inquired whether the CAISO was proposing to extend the capping to the annual and monthly RA processes or to continue to limit it to the monthly process. The CAISO clarified that the existing tariff provision applies only to the monthly showing process, and it was not proposing to extend it to the annual process. The CAISO proposal initially did not account for the case where LSEs can be assigned local obligations outside of the TAC areas in which they serve load. One stakeholder raised this issue, and the CAISO altered its proposal to address the issue.

III. EFFECTIVE DATE OF TARIFF REVISIONS

The CAISO is seeking to give effect to both sets of amendments for the 2023 RA year, and the CAISO requests an August 15, 2022, effective date for the tariff amendments. The CAISO requests an order approving these amendments no later than July 1, 2022.

Activities to prepare for the 2023 RA year have started and those activities will continue in the balance of 2022. For example, CPEs and LSEs already have begun procuring RA capacity for the 2023 RA year and those activities will continue through 2022. Additionally, LSEs must determine if they will self-show local RA capacity to the CPE. The CPUC and any other LRAs electing a CPE structure also must determine how they will allocate local capacity obligations among the CPE and LSEs, and how the system and flexible attributes of CPE-procured resources will be allocated to LSEs. In short, many of the year-ahead RA processes already are unfolding in anticipation of the 2023 RA year. Having a Commission order and effective tariff provisions will support regulatory certainty for both procurement of capacity and completing administrative steps under the CPE construct.

Because the CAISO's requested effective date is more than 120 days after the filing date, the CAISO requests waiver of the Commission's 120-day notice requirement between the date a rate schedule is filed and the date it must take effect.²⁹ For the reasons described above, such waiver will provide parties with beneficial certainty regarding implementation of the requested tariff amendments and other related activities.

IV. COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to:

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²⁹ Specifically, to the extent necessary, the CAISO requests waiver of the 120-day notice requirement contained in section 35.3(a)(1) of the regulations, 18 C.F.R. § 35.3(a)(1), pursuant to section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11.

³⁰ 18 C.F.R. § 385.203(b)(3).

V. SERVICE

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with scheduling coordinator agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

VI. CONTENTS OF FILING

Besides this transmittal letter, this filing includes these attachments:

- | | |
|--------------|--|
| Attachment A | Clean tariff sheets incorporating the tariff clarifications described in this filing. |
| Attachment B | Tariff sheets showing in track change redline format the tariff clarifications described in this filing. |
| Attachment C | CPUC D.20-06-002 adopting the CPE construct. |
| Attachment D | CPUC D.22-03-034 modifying initial CPE structure |

VII. CONCLUSION

The CAISO respectfully requests that the Commission accept the proposed tariff revisions in this filing. These tariff revisions will support changes to procurement responsibility for local RA capacity under California's RA program.

Respectfully submitted,

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Attachment A – Clean Tariff

Central Procurement Entities

California Independent System Operator Corporation

April 8, 2022

Section 4

* * * * *

4.5 Responsibilities of a Scheduling Coordinator

4.5.1 Scheduling Coordinator Certification

Only Scheduling Coordinators that the CAISO has certified as having met the requirements of this Section 4.5.1 may participate in the CAISO's Energy and Ancillary Services markets and submit Supply Plans or RA Plans. Scheduling Coordinators offering Ancillary Services shall additionally meet the requirements of Section 8.

Each Scheduling Coordinator shall:

- (a) demonstrate to the CAISO's reasonable satisfaction that it is capable of performing the functions of a Scheduling Coordinator under this CAISO Tariff including (without limitation) the functions specified in Sections 4.5.3 and 4.5.4 as applicable;
- (b) identify each of the Eligible Customers (including itself if it trades for its own account) which it is authorized to represent as Scheduling Coordinator and confirm that the metering requirements under Section 10 are met in relation to each Eligible Customer that it represents under this CAISO Tariff;
- (c) identify each of the Convergence Bidding Entities that it is authorized to represent as Scheduling Coordinator;
- (d) confirm that each of the End-Use Customers it represents is eligible for service as a Direct Access End User;
- (e) confirm that none of the Wholesale Customers it represents is ineligible for wholesale transmission service pursuant to the provisions of FPA Section 212(h);
- (f) demonstrate to the CAISO's reasonable satisfaction that it meets the financial criteria set out in Section 12;
- (g) enter into a Scheduling Coordinator Agreement with the CAISO; and
- (h) **provide NERC tagging data, as applicable.* * * * ***

4.5.3 Responsibilities of a Scheduling Coordinator

Each Scheduling Coordinator shall be responsible for:

4.5.3.1 Obligation to Pay

Paying the CAISO's charges in accordance with this CAISO Tariff;

4.5.3.2 Submit Bids and Interchange Schedules

4.5.3.2.1 Submitting Bids, including Self-Schedules, for Energy in CAISO Markets that relate to the Market Participants for which it serves as Scheduling Coordinator;

4.5.3.2.2 Submitting Interchange Schedules prepared in accordance with all NERC, WECC and CAISO requirements, including providing E-Tags for all applicable transactions pursuant to WECC practices. The CAISO shall not accept E-Tags for ten-minute recallable reserve transactions (i.e., transactions with a WECC energy product code of "C-RE"). The CAISO is not, and shall not be listed as, the "Purchasing Selling Entity" for purposes of E-Tags. Title to Energy shall pass directly from the entity that holds title when the Energy enters the CAISO Controlled Grid to the entity that removes the Energy from the CAISO Controlled Grid, in each case in accordance with the terms of this CAISO Tariff.

4.5.3.3 Modifications in Demand Supply

Coordinating and allocating modifications in Demand and exports and Generation and imports at the direction of the CAISO in accordance with this CAISO Tariff;

4.5.3.4 Inter-SC Trades

Submitting any applicable Inter-SC Trades that the Market Participants intend to have settled through the CAISO Markets, pursuant to this CAISO Tariff;

4.5.3.5 Tracking and Settling Trades

Tracking and settling all intermediate trades, including bilateral transactions and Inter-SC Trades, among the entities for which it serves as Scheduling Coordinator;

4.5.3.6 Ancillary Services

Providing Ancillary Services in accordance with Section 8;

4.5.3.7 [Not Used]

4.5.3.8 Business Practice Manuals

Complying with all CAISO Business Practice Manuals and ensuring compliance by each of the Market Participants which it represents with all applicable provisions of the Business Practice Manuals;

4.5.3.9 Interruptible Imports

Identifying any Interruptible Imports included in its Bids or Inter-SC Trades;

4.5.3.10 Participating Intermittent Resources

Submitting Bids, including Self-Schedules, for Participating Intermittent Resources consistent with the CAISO Tariff;

4.5.3.11 Day-Ahead Market Published Schedules and Awards

Starting-up units and timely achieving specified operating levels in response to Dispatch Instructions, in accordance with CAISO published Schedules and awards;

4.5.3.12 Financial Responsibility

Assuming financial responsibility for all Schedules, AS Awards and Dispatch Instructions issued in the CAISO Markets, and all Virtual Awards in accordance with the provisions of this CAISO Tariff;

4.5.3.13 Compliance with Environmental Constraints, Operating Permits and Applicable Law

Submitting Bids so that any service provided in accordance with such Bids does not violate environmental constraints, operating permits or applicable law. All submitted Bids must reflect resource limitations and other constraints as such are required to be reported to the CAISO Control Center;

4.5.3.14 Tax Compliance

Providing, as described in the Business Practice Manuals, resale certificates or other proof acceptable to CAISO that its purchases of energy are exempt from any sales and use taxes that otherwise might apply; and

4.5.3.15 SQMD Plan

Complying with the SQMD Plan for eligible entities it serves pursuant to Section 10.3.7.

4.5.3.16 RA Plans and Supply Plans

Providing RA Plans for LSEs or CPEs for which it serves as Scheduling Coordinator and providing Supply Plans for Resource Adequacy Resources for which it serves as Scheduling Coordinator. If a CPE is also a Load Serving Entity and the CPE and Load Serving Entity are represented by the same Scheduling

Coordinator, that Scheduling Coordinator must use distinct Scheduling Coordinator ID Codes for its activities related to the CPE and Load Serving Entity functions.

* * * * *

Section 40

40. Resource Adequacy Demonstration for all SCs in the CAISO BAA

40.1 Applicability

A Load Serving Entity, and its Scheduling Coordinator, shall be exempt from this Section 40 during the next Resource Adequacy Compliance Year, if the metered peak Demand of the Load Serving Entity did not exceed one (1) MW during the twelve months preceding October 1 of the year preceding the Resource Adequacy Compliance Year in question. This Section 40 shall apply to all other Load Serving Entities, CPEs, and their respective Scheduling Coordinators. For purposes of Section 40, a Load Serving Entity shall not include any entity satisfying the terms of California Public Utilities Code Section 380(k)(3).

40.1.1 [Not Used]

40.2 Information Requirements for Resource Adequacy Programs

40.2.1 Requirements for CPUC Load Serving Entities and CPEs

- (a) The Scheduling Coordinator for a CPUC Load Serving Entity or CPE must provide the CAISO with all information or data to be provided to the CAISO as required by the CPUC and pursuant to the schedule adopted by the CPUC, except that the monthly Resource Adequacy Plans or the same information as required to be included in the monthly Resource Adequacy Plans, plus any other information the CAISO requires as identified in the Business Practice Manual, shall be submitted to the CAISO no less than 45 days in advance of the first day of the month covered by the plan, as provided in Section 40.2.1(e).
- (b) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include Reserve Margin(s), then the provisions of Section 40.2.2.1(b) shall apply.

- (c) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include criteria for determining qualifying resource types and their Qualifying Capacity, then the provisions of Section 40.8 shall apply.
- (d) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include annual and monthly Demand Forecast requirements, then the provisions of Section 40.2.2.3 shall apply.
- (e) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include annual and monthly Resource Adequacy Plan requirements that include, at a minimum, identifying Local Capacity Area Resources and Listed Local RA Capacity, or where there is a requirement to submit monthly Resource Adequacy Plans but the submission date is less than 45 days in advance of the first day of the month covered by the plan, then Section 40.2.2.4 shall apply.

40.2.2 Non-CPUC Load Serving Entities and CPEs

40.2.2.1 Reserve Margin

- (a) The Scheduling Coordinator for a Non-CPUC Load Serving Entity must provide the CAISO with the Reserve Margin(s) adopted by the appropriate Local Regulatory Authority or federal agency for use in the annual Resource Adequacy Plan and monthly Resource Adequacy Plans listed as a percentage of the Demand Forecasts developed in accordance with Section 40.2.2.3.
- (b) For the Scheduling Coordinator for a Non-CPUC Load Serving Entity for which the appropriate Local Regulatory Authority or federal agency has not established a Reserve Margin(s) or a CPUC Load Serving Entity subject to Section 40.2.1.1(b), the Reserve Margin for each month shall be no less than fifteen percent (15%) of the LSE's peak hourly Demand for the applicable month, as determined by the Demand Forecasts developed in accordance with Section 40.2.2.3.

40.2.2.2 Qualifying Capacity Criteria

The Scheduling Coordinator for a Non-CPUC Load Serving Entity must provide the CAISO with a description of the criteria adopted by the Local Regulatory Authority or federal agency for determining

qualifying resource types and the Qualifying Capacity from such resources and any modifications thereto as they are implemented from time to time. The LSE may elect to utilize the criteria set forth in Section 40.8.

40.2.2.3 Demand Forecasts

If the California Energy Commission does not produce a coincident peak Demand Forecast for a Load Serving Entity, the Scheduling Coordinator for that Load Serving Entity must provide the information requested by the CAISO on the schedule and in the reporting format(s) set forth in the Business Practice Manual.

40.2.2.4 Annual and Monthly Resource Adequacy Plans

The Scheduling Coordinator for a Non-CPUC Load Serving Entity or a CPUC Load Serving Entity subject to Section 40.2.1(b), or a CPE must provide annual and monthly Resource Adequacy Plans for such Load Serving Entity or CPE, as follows:

- (a) Each annual Resource Adequacy Plan must be submitted to the CAISO on a schedule and in the reporting format(s) set forth in the Business Practice Manual. The annual Resource Adequacy Plan must, at a minimum, set forth the Local Capacity Area Resources, if any, procured by the Load Serving Entity or CPE as described in Section 40.3, and may identify a Local Capacity Area Resource as Listed Local RA Capacity.
- (b) Each monthly Resource Adequacy Plan or the same information as required to be included in the monthly Resource Adequacy Plan, plus any other information the CAISO requires as identified in the Business Practice Manual, must be submitted to the CAISO at least 45 days in advance of the first day of the month covered by the plan, and in accordance with the schedule and in the reporting format(s) set forth in the Business Practice Manual. For Load Serving Entities, the monthly Resource Adequacy Plan must identify all resources, including Local Capacity Area Resources, the Load Serving Entity will rely upon to satisfy the applicable month's peak hour Demand of the Load Serving Entity as determined by the Demand Forecasts developed in accordance with Section 40.2.2.3 and applicable Reserve Margin. For CPEs, the monthly Resource Adequacy Plan must identify all Local Capacity Area Resources the CPE will rely upon to satisfy its

Local Capacity Area Resource obligation. For each Local Capacity Area Resource identified on a monthly Resource Adequacy Plan, the Load Serving Entity or CPE also may identify RA Capacity from such resource as Listed Local RA Capacity. Resource Adequacy Plans must utilize the Net Qualifying Capacity requirements of Section 40.4. A Load Serving Entity is not obligated to commit a type of RA capacity on a monthly Resource Adequacy Plan if it holds a monthly obligation of less than 1 MW for that type of RA capacity but is not exempt from committing any other type of RA capacity for that month for which it holds a monthly obligation of 1 MW or greater and is not exempt for any relevant cost allocation from a CPM designation made pursuant to Section 43A associated with a monthly RA capacity obligation of less than 1 MW.

- (c) The Scheduling Coordinator for a Load Serving Entity or CPE may submit at any time from 45 days through 30 days in advance of the relevant month, a revision to its monthly Resource Adequacy Plan to correct either: (i) a discrepancy between its monthly Resource Adequacy Plan and the monthly Supply Plan of a Resource Adequacy Resource providing that Load Serving Entity or CPE with Resource Adequacy Capacity, as provided in Section 40.7(b); or (ii) a deficiency in how much Resource Adequacy Capacity was provided on the monthly Resource Adequacy Plan. The CAISO will not accept any revisions to a monthly Resource Adequacy Plan from 30 days in advance of the relevant month through the end of the month, unless the Scheduling Coordinator for the Load Serving Entity or CPE demonstrates good cause for the change and explains why it was not possible to submit the change earlier.
- (d) The Scheduling Coordinator for the Load Serving Entity or CPE that submits a revision to its monthly Resource Adequacy Plan to correct a deficiency or discrepancy must include in the revision a MW amount of Resource Adequacy Capacity for each day of the month that is no less than the MW amount of Resource Adequacy Capacity included in its original plan for each day of the month.

40.2.3 [Not Used]

40.2.4 Load-Following MSS

- (1) Applicability.** Unless otherwise provided in Section 40, Scheduling Coordinators for Load-following MSSs are subject solely to Sections 40.2.4, 40.3, and with respect to their Local Capacity Area Resources identified in accordance with Section 40.2.4, Section 40.9, and with respect to Flexible Resource Adequacy Capacity, Section 40.10.
- (2) Annual RA Plan.** A Scheduling Coordinator for a Load-following MSS must provide an annual Resource Adequacy Plan that sets forth, at a minimum, the Local Capacity Area Resources, if any, procured by the Load-following MSS as described in Section 40.3. The annual Resource Adequacy Plan shall utilize the annual coincident peak Demand determination provided by the California Energy Commission for such Load-following MSS using Demand Forecast data submitted to the California Energy Commission by the Load-following MSS, or, if the California Energy Commission does not produce coincident peak Demand Forecasts for the Load-following MSS, the annual coincident peak Demand Forecast produced by the CAISO for such Load-following MSS in accordance with its Business Practice Manual using Demand Forecast data submitted to the CAISO by the Load-following MSS.
- (3) Monthly RA Plan and Supply Plan.** The Scheduling Coordinator for a Load-following MSS must submit a monthly Resource Adequacy Plan and Supply Plan on the schedule set forth in the Business Practice Manual.

40.3 Local Capacity Area Resource Requirements for SCs for LSEs

40.3.1 Local Capacity Technical Study

On an annual basis, pursuant to the schedule set forth in the Business Practice Manual, the CAISO will, perform, and publish on the CAISO Website the Local Capacity Technical Study. The Local Capacity Technical Study shall identify Local Capacity Areas, determine the minimum amount of Local Capacity Area Resources in MW that must be available to the CAISO within each identified Local Capacity Area, and identify the Generating Units within each identified Local Capacity Area. The CAISO shall collaborate with the CPUC, Local Regulatory Authorities within the CAISO Balancing Authority Area, federal agencies, and Market Participants to ensure that the Local Capacity Technical Study is performed in accordance with this Section 40.3 and to establish for inclusion in the Business Practice Manual other

parameters and assumptions applicable to the Local Capacity Technical Study and a schedule that provides for: (i) reasonable time for review of a draft Local Capacity Technical Study, (ii) reasonable time for Participating TOs to propose operating solutions, and (iii) release of the final Local Capacity Technical Study no later than 120 days prior to the date annual Resource Adequacy Plans must be submitted under this Section 40.

40.3.1.1 Local Capacity Technical Study Criteria

The Local Capacity Technical Study will determine the minimum amount of Local Capacity Area Resources needed to address the Contingencies identified in Section 40.3.1.2. The Local Capacity Technical Study also will consider hourly load shapes and system limits under emergency conditions to quantify minimum amounts of hourly capacity and energy, that Local Capacity Area Resources must be able to provide within each identified Local Capacity Area in order to resolve Contingencies identified in Section 40.3.1.2. In performing the Local Capacity Technical Study, the CAISO will apply those methods for resolving Contingencies considered appropriate for the performance level that corresponds to a particular studied Contingency, as provided in NERC Reliability Standards regarding Transmission System Planning Performance Requirements (TPL-001-4 or its successor), as augmented by CAISO Reliability Criteria in accordance with the Transmission Control Agreement and Section 24.3.1. The CAISO Reliability Criteria shall include:

- (1) Time Allowed for Manual Readjustment: This is the amount of time required for the Operator to take all actions necessary to prepare the system for the next Contingency. This time should not be more than thirty (30) minutes.
- (2) No voltage collapse or dynamic instability shall be allowed for a Contingency in Category Extreme Events [any P1 system readjusted (Common Structure) P7], as listed in TPL-001-4 in areas with load of 250 MW or more. For areas with less than 250 MW of load, mitigation will only be proposed if there is a risk of cascading beyond the area directly affected by the outage.

40.3.1.2 Local Capacity Technical Study Contingencies.

The Local Capacity Technical Study shall assess all the Contingencies and appropriate performance levels required by mandatory standards including, but not limited to, NERC, WECC and CAISO Planning

Standards.

40.3.2 Allocation of Local Capacity Area Resource Obligations

The CAISO will allocate Local Capacity Area Resource requirements to Scheduling Coordinators for Load Serving Entities in the following sequential manner:

- (a) The responsibility for the aggregate Local Capacity Area Resources required for all Local Capacity Areas within each TAC Area as determined by the Local Capacity Technical Study will be allocated to all Scheduling Coordinators for Load Serving Entities that serve Load in the TAC Area in accordance with the Load Serving Entity's proportionate share of the LSE's TAC Area Load at the time of the CAISO's annual coincident peak Demand set forth in the annual peak Demand Forecast for the next Resource Adequacy Compliance Year as determined by the California Energy Commission. Expressed as a formula, the allocation of Local Area Capacity Resource obligations will be as follows: $(\sum \text{Local Capacity Area MW in TAC Area from the Local Capacity Technical Study}) * (\text{LSE Demand in TAC Area at CAISO annual coincident peak Demand}) / (\text{Total TAC Area Demand at the time of CAISO annual coincident peak Demand})$. This will result in a MW responsibility for each Load Serving Entity for each TAC Area in which the LSE serves Load. In no instance, however, is a Load Serving Entity with a Demand and Reserve Margin requirement for a particular TAC Area obligated to commit, on a monthly Resource Adequacy Plan, Local Capacity Area Resources in that particular TAC Area in excess of the quantity of capacity needed by that Load Serving Entity to meet its applicable Demand and Reserve Margin requirements arising from its obligations in that TAC Area for the applicable compliance month. If the CAISO determines that a Load Serving Entity would have an obligation to show Local Capacity Area Resources of less than 1 MW in a particular TAC Area, then the Load Serving Entity will have an obligation of zero (0) MWs for that TAC Area in that year. A LSE or CPE may meet its MW responsibility, as assigned under this Section, by procuring Local Capacity Area Resources in any Local Capacity Area in the TAC Area.
- (b) For Scheduling Coordinators for Non-CPUC Load Serving Entities, the Local Capacity

Area Resource obligation will be allocated by default based on Section 40.3.2(a) above.

The CAISO will re-allocate all or part of the Local Capacity Area Resource obligation for a Non-CPUC Load Serving Entity to a CPE if the Local Regulatory Authority notifies the CAISO of such allocation decision by the deadlines established in the Business Practice Manual. The same CPE may be re-allocated Local Capacity Area Resource obligations from multiple Local Regulatory Authorities.

- (c) For Scheduling Coordinators for CPUC Load Serving Entities, the CAISO will calculate the individual and total Local Capacity Area Resource obligations attributable to the CPUC jurisdictional Load Serving Entities and will transmit them to the CPUC. The CPUC may then allocate the Local Capacity Area Resource obligation to its jurisdictional LSEs or CPEs based on a method adopted by the CPUC. However, if the allocation methodology adopted by the CPUC does not fully allocate the total sum of each CPUC Load Serving Entity's proportionate share calculated under Section 40.3.2(a), the CAISO will allocate the difference to all Scheduling Coordinators for CPUC Load Serving Entities in accordance with their proportionate share calculated under 40.3.2(a). If the CPUC does not adopt an allocation methodology or does not notify the CAISO of its allocation decision by the deadlines established in the Business Practice Manual, the CAISO will allocate Local Capacity Area Resources to Scheduling Coordinators for CPUC Load Serving Entities based on Section 40.3.2(a).
- (d) By the deadline established in the Business Practice Manual, a Local Regulatory Authority that has, per section 40.3.2(b) or 40.3.2(c), assigned a local obligation to a CPE must inform the CAISO how the Local Regulatory Authority wishes to assign the system and flexible attributes of the resources expected to be shown by the CPE to the LSEs represented by the CPE. The Local Regulatory Authority may decline to provide such assignment, in which case the system and flexible attributes of the resources will remain with the CPE. If the Local Regulatory Authority provides such LSE assignment by the deadline, the CAISO will provide provisional credits to those LSEs towards their RA requirements based on the assignments provided by the Local Regulatory Authority,

provided that the Local Regulatory Authority assigns total system and total flex credits equal to the MWs of system and flex RA capacity expected to be shown by the CPE. If the CPE's annual or monthly RA plans include Local Capacity Area Resources that provide more MW or fewer MWs of system or flex capacity than were assumed in assigning the provisional LSE RA credits, then the CAISO will increase or reduce, respectively, the LSE credits based on each LSE's proportionate share of the provisional allocation. Any LSE deficiencies created by reducing such provisional RA credits may be addressed in the cure periods established in Sections 40.7 and 40.10.5.4.

Once the CAISO has allocated the total responsibility for Local Capacity Area Resources, the CAISO will inform the CPUC and the Scheduling Coordinators for each non-CPUC jurisdictional LSE of the LSE's specific allocated responsibility for Local Capacity Area Resources in each TAC Area in which the LSE serves Load.

40.3.3 Procurement of Local Capacity Area Resources by LSEs and CPEs

Nothing in this Section 40 obligates any Scheduling Coordinator to demonstrate on behalf of a Load Serving Entity or CPE that the Load Serving Entity or CPE has procured Local Capacity Area Resources to satisfy capacity requirements for each Local Capacity Area identified in the technical study. If a Load Serving Entity or CPE has procured Local Capacity Area Resources that satisfy generation capacity requirements for Local Capacity Areas, the Scheduling Coordinator for such Load Serving Entity or CPE shall include this information in its annual and monthly Resource Adequacy Plan(s).

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40.4.3 General Qualifications for Supplying Net Qualifying Capacity

Resource Adequacy Resources included in a Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of either a Load Serving Entity serving Load in the CAISO Balancing Authority Area or a CPE must:

- (1) Be available for testing by the CAISO to validate Qualifying Capacity, which can be no less than a resource's PMin as registered in the Master File even if the resource's

- contractual Resource Adequacy Capacity is less than its PMin, and determine Net Qualifying Capacity for the next Resource Adequacy Compliance Year;
- (2) Provide any information requested by the CAISO to apply the performance criteria to be adopted by the CAISO pursuant to Section 40.4.5;
 - (3) Submit Bids into the CAISO Markets as required by this CAISO Tariff;
 - (4) Be in compliance, as of the date that the CAISO performs any testing or otherwise determines Net Qualifying Capacity for the next Resource Adequacy Compliance Year, with the criteria for Qualifying Capacity established by the CPUC, relevant Local Regulatory Authority, or federal agency and provided to the CAISO; and
 - (5) Be subject to Sanctions for non-performance as specified in the CAISO Tariff; and
 - (6) For a resource with contractual Resource Adequacy Capacity less than PMin as registered in the Master File, make the PMin available to the CAISO for commitment or dispatch at PMin, subject to Section 11.8 provisions for Bid Cost Recovery, so that the resource's Resource Adequacy Capacity can be utilized as required by this CAISO Tariff.

40.4.4 Reductions for Testing

In accordance with the procedures specified in the Business Practice Manual, the Generating Unit of a Participating Generator or other Generating Units, System Units or Loads of Participating Loads, Reliability Demand Response Resources, or Proxy Demand Resources included in a Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of a Load Serving Entity or CPE can have its Qualifying Capacity reduced, for purposes of the Net Qualifying Capacity annual report under Section 40.4.2 for the next Resource Adequacy Compliance Year, if a CAISO testing program determines that it is not capable of supplying the full Qualifying Capacity amount.

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40.4.7 Submission of Supply Plans

40.4.7.1 Schedule for Submission of Supply Plans

Scheduling Coordinators representing Resource Adequacy Resources supplying Resource Adequacy Capacity shall provide the CAISO with annual and monthly Supply Plans, as follows:

- (a) The annual Supply Plan shall be submitted to the CAISO on the schedule set forth in the Business Practice Manual and shall verify their agreement to provide Resource Adequacy Capacity during the next Resource Adequacy Compliance Year. The annual Supply Plan may identify a Local Capacity Area Resource as Listed Local RA Capacity.
- (b) The monthly Supply Plans or the same information as required to be included in the monthly Supply Plan, plus any other information the CAISO requires as identified in the Business Practice Manual, shall be submitted to the CAISO at least 45 days in advance of the first day of the month covered by the plan, and in accordance with the schedule and in the reporting format(s) set forth in the Business Practice Manual, and shall verify their agreement to provide Resource Adequacy Capacity during that resource adequacy month. The monthly Supply Plan may identify a Local Capacity Area Resource as Listed Local RA Capacity.
- (c) The Scheduling Coordinator for the Resource Adequacy Resource may submit, at any time from 45 days through 30 days in advance of the relevant month, a revision to its monthly Supply Plan to correct a discrepancy between its monthly Supply Plan and a Resource Adequacy Plan of a Load Serving Entity or CPE for which that Resource Adequacy Resource is providing Resource Adequacy Capacity, as provided in Section 40.7(b). The CAISO will not accept any revisions to a monthly Supply Plan from 30 days in advance of the relevant month through the end of the month, unless the Scheduling Coordinator for the Resource Adequacy Resource demonstrates good cause for the change and explains why it was not possible to submit the change earlier.

40.4.7.2 Form of Supply Plans

The Supply Plan must be in the form of the template provided on the CAISO Website, which shall include an affirmative representation by the Scheduling Coordinator submitting the Supply Plan that the CAISO is entitled to rely on the accuracy of the information provided in the Supply Plan to perform those functions set forth in this Section 40.

40.4.7.3 Validation of Supply Plans

The CAISO shall be entitled to take reasonable measures to validate the accuracy of the information

submitted in Supply Plans under this Section. Supply Plan validation measures may include the following:

- (a) The CAISO may compare a Resource Adequacy Resource's Resource Adequacy Capacity against the Resource Adequacy Resource's Net Qualifying Capacity, if applicable. To the extent the Resource Adequacy Capacity of a Resource Adequacy Resource included in a Supply Plan is greater than the Resource Adequacy Resource's Net Qualifying Capacity, the CAISO will notify the respective Scheduling Coordinators for the Resource Adequacy Resource and each Load Serving Entity or CPE that has included the Resource Adequacy Resource in its Resource Adequacy Plan that the Resource Adequacy Capacity from the Resource Adequacy Resource shall be reduced to the Resource Adequacy Resource's Net Qualifying Capacity and that it will be considered a mismatch under Section 40.7. If the CAISO is not advised as to how the reduction in Resource Adequacy Capacity to conform with the Resource Adequacy Resource's Net Qualifying Capacity shall be allocated among each Load Serving Entity and CPE that included the Resource Adequacy Resource on its Resource Adequacy Plan, the CAISO will apply a pro rata reduction based on the Supply Plan.
- (b) The CAISO may verify whether the Resource Adequacy Capacity listed in the monthly Supply Plan is scheduled to take an Approved Maintenance Outage during the month. To the extent the Resource Adequacy Capacity of a Resource Adequacy Resource included in a Supply Plan is greater than the Resource Adequacy Capacity designated for the resource in the Resource Adequacy Plan, or includes Resource Adequacy Capacity that is scheduled to take an Approved Maintenance Outage during the month, the CAISO will notify the Scheduling Coordinator for the Resource Adequacy Resource and the respective Scheduling Coordinators for each Load Serving Entity and CPE that has included the Resource Adequacy Resource in its Resource Adequacy Plan that there is a discrepancy, which will be treated as a mismatch under Section 40.7. To the extent the Resource Adequacy Capacity of a Resource Adequacy Resource included in a Supply Plan is less than the Resource Adequacy Capacity designated for the resource in

the Resource Adequacy Plan, or includes Resource Adequacy Capacity that is scheduled for an Approved Maintenance Outage during the month, the CAISO will notify the Local Regulatory Authority, the Scheduling Coordinator for the Resource Adequacy Resource, and the respective Scheduling Coordinators for each Load Serving Entity or CPE that has included the Resource Adequacy Resource in its Resource Adequacy Plan that there is a discrepancy, which will be treated as a mismatch under Section 40.7.

- (c) Other errors or inaccuracies identified by the CAISO in a Supply Plan shall be treated as a mismatch under Section 40.7.

Disputes regarding the CAISO's determination of Net Qualifying Capacity shall be subject to Section 40.5.2. The provisions of this Section shall not affect a Resource Adequacy Resource's Net Qualifying Capacity posted by the CAISO under Section 40.5.2.

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40.6.12 Participating Load, PDRs, and RDRRs

Participating Loads, Reliability Demand Response Resources, or Proxy Demand Resources that are included in a Resource Adequacy Plan and Supply Plan, if the Scheduling Coordinator for the Participating Loads, Reliability Demand Response Resources, or Proxy Demand Resources is not the same as that for the Load Serving Entity or CPE, will be administered by the CAISO in accordance with the terms and conditions established by the CPUC or the Local Regulatory Authority.

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40.7 Compliance

The CAISO will evaluate Resource Adequacy Plans and Supply Plans as follows:

- (a) The CAISO will evaluate whether each annual and monthly Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of a Load Serving Entity or CPE demonstrates Resource Adequacy Capacity sufficient to satisfy the Load Serving Entity's

or CPE's (i) allocated responsibility for Local Capacity Area Resources under Section 40.3.2 and (ii) applicable Demand and Reserve Margin requirements. The CAISO will evaluate compliance with the responsibility for demonstrating Local Capacity Area Resources in two phases. Phase 1 of the Local Capacity Area Resource sufficiency evaluation will be made without regard to capacity's identification as Listed Local RA Capacity. Phase 2 of the Local Capacity Area Resource sufficiency evaluation will consider capacity to be a Local Capacity Area Resource only if it is also Listed Local RA Capacity. If the CAISO determines through the Phase 1 analysis that a Resource Adequacy Plan does not demonstrate Local Capacity Area Resources sufficient to meet its allocated responsibility under Section 40.3.2, compliance with applicable Demand and Reserve Margin requirements, or compliance with any other resource adequacy requirement in this Section 40 or adopted by the CPUC, Local Regulatory Authority, or federal agency, as applicable, then the CAISO will notify the relevant Scheduling Coordinator, CPUC, Local Regulatory Authority, or federal agency with jurisdiction over the relevant Load Serving Entity or CPE. In the case of a discrepancy between Resource Adequacy Plan(s) and Supply Plan(s), the CAISO will notify the relevant Scheduling Coordinators in an attempt to resolve any deficiency in accordance with the procedures set forth in the Business Practice Manual. The notification will be made at least 40 days in advance of the first day of the month covered by the plan and will include the reasons the CAISO believes a deficiency exists. If the deficiency relates to the demonstration of Local Capacity Area Resources in a Load Serving Entity's or CPE's annual Resource Adequacy Plan, and the CAISO does not provide a written notice of resolution of the deficiency as set forth in the Business Practice Manual, the Scheduling Coordinator for the Load Serving Entity or CPE may demonstrate that the identified deficiency is cured by submitting a revised annual Resource Adequacy Plan within thirty (30) days of the beginning of the Resource Adequacy Compliance Year. For all other identified deficiencies, other than an insufficiency identified through Phase 2 of the Local Capacity Area Resource sufficiency evaluation, at least 30 days prior to the effective month of the

relevant Resource Adequacy Plan, the Scheduling Coordinator for the Load Serving Entity or CPE shall: (i) demonstrate that the identified deficiency is cured by submitting a revised Resource Adequacy Plan; or (ii) advise the CAISO that the CPUC, Local Regulatory Authority, or federal agency, as appropriate, has determined that no deficiency exists. If, after providing any needed opportunity to resolve identified discrepancies as required by Section 40.7(b), the CAISO identifies an insufficiency through Phase 2 of the Local Capacity Area Resource sufficiency evaluation, then the CAISO may notify the relevant Local Regulatory Authority of the insufficiency.

- (b) In the case of a discrepancy between Resource Adequacy Plan(s) and Supply Plan(s), if resolved, the relevant Scheduling Coordinator(s) must provide the CAISO with revised Resource Adequacy Plan(s) or Supply Plans, as applicable, at least 30 days prior to the effective month. If the CAISO is not advised that the deficiency or discrepancy is resolved at least 30 days prior to the effective month, the CAISO will use the information contained in the Supply Plan to set the obligations of Resource Adequacy Resources under this Section 40 and/or to assign any costs incurred under this Section 40 and Section 43A.

40.7.1 Other Compliance Issues

Scheduling Coordinators representing Generating Units, System Units or System Resources supplying Resource Adequacy Capacity that fail to provide the CAISO with an annual or monthly Supply Plan, as applicable, as set forth in Section 40.7, shall be subject to Section 37.6.1. Further, Scheduling Coordinators representing Generating Units, System Units or System Resources supplying Resource Adequacy Capacity that fail to provide the CAISO with information required for the CAISO to determine Net Qualifying Capacity shall not be eligible for inclusion in the Net Qualifying Capacity annual report under Section 40.4.2 for the next Resource Adequacy Compliance Year and shall be subject to any applicable Sanctions under Section 37.6.1.

40.7.2 Penalties for Non-Compliance

The failure of a Resource Adequacy Resource or Resource Adequacy Capacity to be available to the CAISO in accordance with the requirements of this Section 40 or Section 9.3.1.3, and the failure to

operate a Resource Adequacy Resource by placing it online or in a manner consistent with a submitted Bid or Generated Bid shall be subject to the applicable Sanctions set forth in Section 37.2.4. However, any failure of the Resource Adequacy Resource to satisfy any obligations prescribed under this Section 40 or Section 9.3.1.3 during a Resource Adequacy Compliance Year for which Resource Adequacy Capacity has been committed to a Load Serving Entity or CPE shall not limit in any way, except as otherwise established under Section 40.4.5 or requirements of the CPUC, Local Regulatory Authority, or federal agency, as applicable, the ability of the Load Serving Entity or CPE to whom the Resource Adequacy Capacity has been committed to use such Resource Adequacy Capacity for purposes of satisfying the resource adequacy requirements of the CPUC, Local Regulatory Authority, or federal agency, as applicable. In addition, an LSE or CPE shall not be subject to any sanctions, penalties, or other compensatory obligations under this Section 40 on account of a Resource Adequacy Resource's satisfaction or failure to satisfy its obligations under this Section 40 or Section 9.3.1.3.

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Section 41

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41.8 Allocating Resource Adequacy Credits for RMR Designations

The CAISO will provide Resource Adequacy credits to the Scheduling Coordinators of Load-Serving Entities that serve load in the applicable TAC Area(s) in which the need for the RMR Contract arose equal to the Load-Serving Entity's pro rata share of the eligible net qualifying capacity of the RMR Resource, which shall be based upon each Load-Serving Entity's proportionate share of the Load-Serving Entity's applicable TAC Area Load at the time of the CAISO's annual coincident Peak Demand set forth in the annual Peak Demand Forecast for the next Resource Adequacy Compliance Year. The credited amount will be broken down into monthly values. Each year, the CAISO will provide information to the CPUC regarding the allocation of Resource Adequacy credits to CPUC-jurisdictional Load Serving Entities to

allow the CPUC to determine whether the Load Serving Entity should receive the Resource Adequacy credits the CAISO has allocated. The CAISO will provide that same information to any Local Regulatory Authority that has designated a CPE to procure RA Capacity on behalf of a Load Serving Entity under that Local Regulatory Authority's jurisdiction. The CPUC and any other Local Regulatory Authority that is so notified by the CAISO may reallocate the credits among its jurisdictional Load Serving Entities and any CPEs procuring capacity on behalf of those jurisdictional Load Serving Entities. If a Local Regulatory Authority notifies the CAISO of any adjusted initial allocation or subsequent reallocation of RMR credits, the CAISO will reflect the revised allocation in its systems prospectively at the next practicable opportunity. A Local Regulatory Authority's subsequent reallocation of RMR credits among its jurisdictional Load Serving Entities or CPEs may not exceed the total of the initial RMR credit provided by the CAISO to the Scheduling Coordinators for the Load Serving Entities under the jurisdiction of the given Local Regulatory Authority.

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Section 43A

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43A.2.1 SC Failure to Show Sufficient Local Capacity Area Resources

43A.2.1.1 Annual Resource Adequacy Plan

Where a Scheduling Coordinator fails to demonstrate in an annual Resource Adequacy Plan, submitted separately for each represented LSE or CPE, procurement of each LSE's or CPE's share of Local Capacity Area Resources (irrespective of status as Listed Local RA Capacity), as determined in Section 40.3.2 for each month of the following Resource Adequacy Compliance Year, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.1 until after the Scheduling Coordinator has had the opportunity to cure the deficiency set forth in Section 40.7. The CAISO's authority to designate CPM Capacity under

this Section 43A.2.1.1 is to ensure that each Local Capacity Area in a TAC Area in which the LSE or CPE has a Local Capacity Area Resource obligation has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area.

43A.2.1.2 Monthly Resource Adequacy Plan

Where a Scheduling Coordinator fails to demonstrate in a monthly Resource Adequacy Plan, submitted separately for each represented LSE or CPE, procurement of each LSE's or CPE's share of Local Capacity Area Resources (irrespective of status as Listed Local RA Capacity), as determined in Section 40.3.2 for the reported month, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.2 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7. In no case is the CAISO authorized to designate CPM Capacity under this Section 43A.2.1.2 solely because a monthly Resource Adequacy Plan demonstrates procurement of a Local Capacity Area Resource that is on a Maintenance Outage at some point during the applicable month. The CAISO's authority to designate CPM Capacity under this Section 43A.2.1.2 is to ensure that each Local Capacity Area in a TAC Area in which the LSE or CPE has a Local Capacity Area Resource obligation has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of all Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted monthly Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7.

43A.2.2 Collective Deficiency in Local Capacity Area Resources

The CAISO shall have the authority to designate CPM Capacity where the Local Capacity Area Resources (irrespective of status as Listed Local RA Capacity) specified in the annual Resource

Adequacy Plans of all applicable Scheduling Coordinators, after the opportunity to cure under Section 43A.2.2.1 has been exhausted, fail to ensure compliance in one or more Local Capacity Areas with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the Local Capacity Technical Study, and after assessing during all hours the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area. The CAISO may, pursuant to this Section 43A.2.2, designate CPM Capacity in an amount and location sufficient to ensure compliance during all hours with the Reliability Criteria applied in the Local Capacity Technical Study.

43A.2.2.1 LSE and CPE Opportunity to Resolve Collective Deficiency in Local Capacity Area Resources

Where the CAISO determines that a need for CPM Capacity exists under Section 43A.2.2, but prior to any designation of CPM Capacity, the CAISO shall issue a Market Notice identifying the deficient Local Capacity Area and the quantity of capacity that would permit the deficient Local Capacity Area to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1 and, where only specific resources are effective to resolve the Reliability Criteria deficiency, the CAISO shall provide the identity of such resources. Any Scheduling Coordinator for a LSE or CPE may submit a revised annual Resource Adequacy Plan within thirty (30) days of the beginning of the Resource Adequacy Compliance Year demonstrating procurement of additional Local Capacity Area Resources consistent with the Market Notice issued under this Section.

Any Scheduling Coordinator that provides such additional Local Capacity Area Resources consistent with the Market Notice under this Section shall have its share of any otherwise applicable CPM procurement costs under Section 43A.8.3 reduced on a proportionate basis. If the full quantity of capacity is not reported to the CAISO under revised annual Resource Adequacy Plans in accordance with this Section, the CAISO may designate CPM Capacity sufficient to alleviate the deficiency.

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43A.8 Allocation of CPM Capacity Payment Costs

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43A.7 as follows:

43A.8.1 LSE or CPE Shortage of Local Capacity Area Resources in Annual Plan

If the CAISO makes CPM designations under Section 43A.2.1.1 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE or CPE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its annual Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE or CPE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area. The Local Capacity Area Resource Deficiency under this Section shall be computed on a monthly basis and the CPM Capacity Payments allocated based on deficiencies during the month(s) covered by the CPM designation(s).

43A.8.2 LSE or CPE Shortage of Local Capacity Area Resources in Month Plan

If the CAISO makes CPM designations under Section 43A.2.1.2 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE or CPE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its monthly Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE or CPE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area.

43A.8.3 Collective Deficiency in Local Capacity Area Resources

If the CAISO makes designations under Section 43A.2.2 the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs serving Load in the TAC Area(s) in which the deficient Local Capacity Area was located. The allocation will be based on the Scheduling Coordinators'

proportionate share of Gross Load in such TAC Area(s) as determined in accordance with Section 40.3.2, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43A.2.1.2 on a proportionate basis, to the extent of their additional procurement. The CAISO shall not allocate the costs of designations under Section 43A.2.2 to a Scheduling Coordinator for a CPE in its role serving as such Scheduling Coordinator; provided, however, if a Scheduling Coordinator represents both a LSE and CPE, then the CAISO shall allocate the costs of designations under Section 43A.2.2 to the Scheduling Coordinator based on the LSE's proportionate share of Gross Load in the relevant TAC Area, as described above in this Section 43A.8.3.

* * * * *

43A.9 Crediting of CPM Capacity

The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities and CPEs as follows:

- (a) To the extent the cost of CPM designation under Section 43A.2.1.1 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.1, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards (1) the LSE's Local Capacity Area Resource obligation under Section 40.3.2 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1 and (2) the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1.

To the extent the cost of CPM designation under Section 43A.2.1.1 is allocated to a Scheduling Coordinator on behalf of a CPE under Section 43A.8.1, the CAISO shall provide the Scheduling Coordinator on behalf of the CPE and the Scheduling Coordinators on behalf of the LSEs represented by the CPE, for the term of the designation, credit towards Local Capacity Area Resource obligations under Section 40.3.2 and Demand and Reserve Margin requirements determined under Section 40 based on allocations provided by the

CPE's LRA. The total credits allocated by the LRA towards Local Capacity Area Resource obligations cannot exceed the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1. The total credits allocated by the LRA towards Demand and Reserve Margin requirements cannot exceed the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1. If the total LRA-provided credits toward Local Capacity Area Resource obligations or toward Demand and Reserve Margin requirements exceed the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1, or if the LRA fails to notify the CAISO of its desired allocation of credits by the deadline established in the Business Practice Manual, then the CAISO will credit the Scheduling Coordinator on behalf of the CPE, for the term of the designation, credit towards the CPE's Local Capacity Area Resource obligation under Section 40.3.2 in an amount equal to the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1 and the CAISO will credit the Scheduling Coordinators on behalf of the LSEs represented by the CPE, for the term of the designation, the LSEs' Demand and Reserve Margin requirements determined under Section 40 based on the proportions provided by the relevant Local Regulatory Authority under Section 40.3.2(d). (b) To the extent the cost of CAISO designation under Section 43A.2.2 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.3, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.2.

- (c) To the extent the cost of CPM designation under Section 43A.2.3 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.4, and the designation is for greater than one month under Section 43A.3.4, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under

Section 43A.2.3.

- (d) The credit provided in this Section shall be used for determining the need for the additional designation of CPM Capacity under Section 43A.2 and for allocation of CPM costs under Section 43A.8.
- (e) For each Scheduling Coordinator that is provided credit pursuant to this Section, the CAISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE or CPE on whose behalf the credit was provided to determine whether the LSE or CPE should receive credit toward its resource adequacy requirements adopted by such agencies or authorities.
- (f) To the extent the cost of Flexible Capacity CPM designation under Section 43A.2.7 is allocated to a Scheduling Coordinator for an LSE under Section 43A.8.8, and the designation is for greater than one month under Section 43A.3.8, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Flexible Capacity requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the Flexible Capacity CPM designated under Section 43A.2.7.

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Appendix A

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- Central Procurement Entity (CPE)

An entity that has been designated by a Local Regulatory Authority to: (a) procure Local Capacity Area Resources on behalf of at least one Load Serving Entity under that LRA's jurisdiction; and (b) through its Scheduling Coordinator, demonstrate such procurement to the CAISO pursuant to the RA showings process in Section 40.2.

Attachment B – Marked Tariff

Central Procurement Entities

California Independent System Operator Corporation

April 8, 2022

Section 4

* * * * *

4.5 Responsibilities of a Scheduling Coordinator

4.5.1 Scheduling Coordinator Certification

Only Scheduling Coordinators that the CAISO has certified as having met the requirements of this Section 4.5.1 may participate in the CAISO's Energy and Ancillary Services markets and submit Supply Plans or RA Plans. Scheduling Coordinators offering Ancillary Services shall additionally meet the requirements of Section 8.

Each Scheduling Coordinator shall:

- (a) demonstrate to the CAISO's reasonable satisfaction that it is capable of performing the functions of a Scheduling Coordinator under this CAISO Tariff including (without limitation) the functions specified in Sections 4.5.3 and 4.5.4 as applicable;
- (b) identify each of the Eligible Customers (including itself if it trades for its own account) which it is authorized to represent as Scheduling Coordinator and confirm that the metering requirements under Section 10 are met in relation to each Eligible Customer that it represents under this CAISO Tariff;
- (c) identify each of the Convergence Bidding Entities that it is authorized to represent as Scheduling Coordinator;
- (d) confirm that each of the End-Use Customers it represents is eligible for service as a Direct Access End User;
- (e) confirm that none of the Wholesale Customers it represents is ineligible for wholesale transmission service pursuant to the provisions of FPA Section 212(h);
- (f) demonstrate to the CAISO's reasonable satisfaction that it meets the financial criteria set out in Section 12;
- (g) enter into a Scheduling Coordinator Agreement with the CAISO; and
- (h) provide NERC tagging data, as applicable.

* * * * *

4.5.3 Responsibilities of a Scheduling Coordinator

Each Scheduling Coordinator shall be responsible for:

4.5.3.1 Obligation to Pay

Paying the CAISO's charges in accordance with this CAISO Tariff;

4.5.3.2 Submit Bids and Interchange Schedules

4.5.3.2.1 Submitting Bids, including Self-Schedules, for Energy in CAISO Markets that relate to the Market Participants for which it serves as Scheduling Coordinator;

4.5.3.2.2 Submitting Interchange Schedules prepared in accordance with all NERC, WECC and CAISO requirements, including providing E-Tags for all applicable transactions pursuant to WECC practices. The CAISO shall not accept E-Tags for ten-minute recallable reserve transactions (i.e., transactions with a WECC energy product code of "C-RE"). The CAISO is not, and shall not be listed as, the "Purchasing Selling Entity" for purposes of E-Tags. Title to Energy shall pass directly from the entity that holds title when the Energy enters the CAISO Controlled Grid to the entity that removes the Energy from the CAISO Controlled Grid, in each case in accordance with the terms of this CAISO Tariff.

4.5.3.3 Modifications in Demand Supply

Coordinating and allocating modifications in Demand and exports and Generation and imports at the direction of the CAISO in accordance with this CAISO Tariff;

4.5.3.4 Inter-SC Trades

Submitting any applicable Inter-SC Trades that the Market Participants intend to have settled through the CAISO Markets, pursuant to this CAISO Tariff;

4.5.3.5 Tracking and Settling Trades

Tracking and settling all intermediate trades, including bilateral transactions and Inter-SC Trades, among the entities for which it serves as Scheduling Coordinator;

4.5.3.6 Ancillary Services

Providing Ancillary Services in accordance with Section 8;

4.5.3.7 [Not Used]

4.5.3.8 Business Practice Manuals

Complying with all CAISO Business Practice Manuals and ensuring compliance by each of the Market Participants which it represents with all applicable provisions of the Business Practice Manuals;

4.5.3.9 Interruptible Imports

Identifying any Interruptible Imports included in its Bids or Inter-SC Trades;

4.5.3.10 Participating Intermittent Resources

Submitting Bids, including Self-Schedules, for Participating Intermittent Resources consistent with the CAISO Tariff;

4.5.3.11 Day-Ahead Market Published Schedules and Awards

Starting-up units and timely achieving specified operating levels in response to Dispatch Instructions, in accordance with CAISO published Schedules and awards;

4.5.3.12 Financial Responsibility

Assuming financial responsibility for all Schedules, AS Awards and Dispatch Instructions issued in the CAISO Markets, and all Virtual Awards in accordance with the provisions of this CAISO Tariff;

4.5.3.13 Compliance with Environmental Constraints, Operating Permits and Applicable Law

Submitting Bids so that any service provided in accordance with such Bids does not violate environmental constraints, operating permits or applicable law. All submitted Bids must reflect resource limitations and other constraints as such are required to be reported to the CAISO Control Center;

4.5.3.14 Tax Compliance

Providing, as described in the Business Practice Manuals, resale certificates or other proof acceptable to CAISO that its purchases of energy are exempt from any sales and use taxes that otherwise might apply; and

4.5.3.15 SQMD Plan

Complying with the SQMD Plan for eligible entities it serves pursuant to Section 10.3.7.

4.5.3.16 RA Plans and Supply Plans

Providing RA Plans for LSEs or CPEs for which it serves as Scheduling Coordinator and providing Supply

Plans for Resource Adequacy Resources for which it serves as Scheduling Coordinator. -If a CPE is also a Load Serving Entity and the CPE and Load Serving Entity are represented by the same Scheduling Coordinator, that Scheduling Coordinator must use distinct Scheduling Coordinator ID Codes for its activities related to the CPE and Load Serving Entity functions.

* * * * *

Section 40

40. Resource Adequacy Demonstration for all SCs in the CAISO BAA

40.1 Applicability

A Load Serving Entity, and its Scheduling Coordinator, shall be exempt from this Section 40 during the next Resource Adequacy Compliance Year, if the metered peak Demand of the Load Serving Entity did not exceed one (1) MW during the twelve months preceding October 1 of the year preceding the Resource Adequacy Compliance Year in question. This Section 40 shall apply to all other Load Serving Entities, CPEs, and their respective Scheduling Coordinators. For purposes of Section 40, a Load Serving Entity shall not include any entity satisfying the terms of California Public Utilities Code Section 380(k)(3).

40.1.1 [Not Used]

40.2 Information Requirements for Resource Adequacy Programs

40.2.1 Requirements for CPUC Load Serving Entities and CPEs

- (a) The Scheduling Coordinator for a CPUC Load Serving Entity or CPE must provide the CAISO with all information or data to be provided to the CAISO as required by the CPUC and pursuant to the schedule adopted by the CPUC, except that the monthly Resource Adequacy Plans or the same information as required to be included in the monthly Resource Adequacy Plans, plus any other information the CAISO requires as identified in the Business Practice Manual, shall be submitted to the CAISO no less than 45 days in advance of the first day of the month covered by the plan, as provided in Section 40.2.1(e).

- (b) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include Reserve Margin(s), then the provisions of Section 40.2.2.1(b) shall apply.
- (c) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include criteria for determining qualifying resource types and their Qualifying Capacity, then the provisions of Section 40.8 shall apply.
- (d) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include annual and monthly Demand Forecast requirements, then the provisions of Section 40.2.2.3 shall apply.
- (e) Where the information or data provided to the CAISO under Section 40.2.1(a) does not include annual and monthly Resource Adequacy Plan requirements that include, at a minimum, identifying Local Capacity Area Resources and Listed Local RA Capacity, or where there is a requirement to submit monthly Resource Adequacy Plans but the submission date is less than 45 days in advance of the first day of the month covered by the plan, then Section 40.2.2.4 shall apply.

40.2.2 Non-CPUC Load Serving Entities and CPEs

40.2.2.1 Reserve Margin

- (a) The Scheduling Coordinator for a Non-CPUC Load Serving Entity must provide the CAISO with the Reserve Margin(s) adopted by the appropriate Local Regulatory Authority or federal agency for use in the annual Resource Adequacy Plan and monthly Resource Adequacy Plans listed as a percentage of the Demand Forecasts developed in accordance with Section 40.2.2.3.
- (b) For the Scheduling Coordinator for a Non-CPUC Load Serving Entity for which the appropriate Local Regulatory Authority or federal agency has not established a Reserve Margin(s) or a CPUC Load Serving Entity subject to Section 40.2.1.1(b), the Reserve Margin for each month shall be no less than fifteen percent (15%) of the LSE's peak hourly Demand for the applicable month, as determined by the Demand Forecasts developed in accordance with Section 40.2.2.3.

40.2.2.2 Qualifying Capacity Criteria

The Scheduling Coordinator for a Non-CPUC Load Serving Entity must provide the CAISO with a description of the criteria adopted by the Local Regulatory Authority or federal agency for determining qualifying resource types and the Qualifying Capacity from such resources and any modifications thereto as they are implemented from time to time. The LSE may elect to utilize the criteria set forth in Section 40.8.

40.2.2.3 Demand Forecasts

If the California Energy Commission does not produce a coincident peak Demand Forecast for a Load Serving Entity, the Scheduling Coordinator for that Load Serving Entity must provide the information requested by the CAISO on the schedule and in the reporting format(s) set forth in the Business Practice Manual.

40.2.2.4 Annual and Monthly Resource Adequacy Plans

The Scheduling Coordinator for a Non-CPUC Load Serving Entity or a CPUC Load Serving Entity subject to Section 40.2.1-4(b), or a CPE must provide annual and monthly Resource Adequacy Plans for such Load Serving Entity or CPE, as follows:

- (a) Each annual Resource Adequacy Plan must be submitted to the CAISO on a schedule and in the reporting format(s) set forth in the Business Practice Manual. The annual Resource Adequacy Plan must, at a minimum, set forth the Local Capacity Area Resources, if any, procured by the Load Serving Entity or CPE as described in Section 40.3, and may identify a Local Capacity Area Resource as Listed Local RA Capacity.
- (b) Each monthly Resource Adequacy Plan or the same information as required to be included in the monthly Resource Adequacy Plan, plus any other information the CAISO requires as identified in the Business Practice Manual, must be submitted to the CAISO at least 45 days in advance of the first day of the month covered by the plan, and in accordance with the schedule and in the reporting format(s) set forth in the Business Practice Manual. ~~The~~ For Load Serving Entities, the monthly Resource Adequacy Plan must identify all resources, including Local Capacity Area Resources, the Load Serving Entity will rely upon to satisfy the applicable month's peak hour Demand of the Load Serving Entity as determined by the Demand Forecasts developed in accordance with

Section 40.2.2.3 and applicable Reserve Margin. For CPEs, the monthly Resource Adequacy Plan must identify all Local Capacity Area Resources the CPE will rely upon to satisfy its Local Capacity Area Resource obligation. For each Local Capacity Area Resource identified on ~~the a~~ monthly Resource Adequacy Plan, the Load Serving Entity or CPE also may identify RA Capacity from such resource as Listed Local RA Capacity. Resource Adequacy Plans must utilize the Net Qualifying Capacity requirements of Section 40.4. A Load Serving Entity is not obligated to commit a type of RA capacity on a monthly Resource Adequacy Plan if it holds a monthly obligation of less than 1 MW for that type of RA capacity but is not exempt from committing any other type of RA capacity for that month for which it holds a monthly obligation of 1 MW or greater and is not exempt for any relevant cost allocation from a CPM designation made pursuant to Section 43A associated with a monthly RA capacity obligation of less than 1 MW.

- (c) The Scheduling Coordinator for ~~the a~~ Load Serving Entity or CPE may submit at any time from 45 days through 30 days in advance of the relevant month, a revision to its monthly Resource Adequacy Plan to correct either: (i) ~~(i)~~ a discrepancy between its monthly Resource Adequacy Plan and the monthly Supply Plan of a Resource Adequacy Resource providing that Load Serving Entity or CPE with Resource Adequacy Capacity, as provided in Section 40.7(b); or (ii) a deficiency in how much Resource Adequacy Capacity was provided on the monthly Resource Adequacy Plan. The CAISO will not accept any revisions to a monthly Resource Adequacy Plan from 30 days in advance of the relevant month through the end of the month, unless the Scheduling Coordinator for the Load Serving Entity or CPE demonstrates good cause for the change and explains why it was not possible to submit the change earlier.
- (d) The Scheduling Coordinator for the Load Serving Entity or CPE that submits a revision to its monthly Resource Adequacy Plan to correct a deficiency or discrepancy must include in the revision a MW amount of Resource Adequacy Capacity for each day of the month that is no less than the MW amount of Resource Adequacy Capacity included in its original plan for each day of the month.

40.2.3 [Not Used]

40.2.4 Load-Following MSS

- (1) Applicability.** Unless otherwise provided in Section 40, Scheduling Coordinators for Load-following MSSs are subject solely to Sections 40.2.4, 40.3, and with respect to their Local Capacity Area Resources identified in accordance with Section 40.2.4, Section 40.9, and with respect to Flexible Resource Adequacy Capacity, Section 40.10.
- (2) Annual RA Plan.** A Scheduling Coordinator for a Load-following MSS must provide an annual Resource Adequacy Plan that sets forth, at a minimum, the Local Capacity Area Resources, if any, procured by the Load-following MSS as described in Section 40.3. The annual Resource Adequacy Plan shall utilize the annual coincident peak Demand determination provided by the California Energy Commission for such Load-following MSS using Demand Forecast data submitted to the California Energy Commission by the Load-following MSS, or, if the California Energy Commission does not produce coincident peak Demand Forecasts for the Load-following MSS, the annual coincident peak Demand Forecast produced by the CAISO for such Load-following MSS in accordance with its Business Practice Manual using Demand Forecast data submitted to the CAISO by the Load-following MSS.
- (3) Monthly RA Plan and Supply Plan.** The Scheduling Coordinator for a Load-following MSS must submit a monthly Resource Adequacy Plan and Supply Plan on the schedule set forth in the Business Practice Manual.

40.3 Local Capacity Area Resource Requirements for SCs for LSEs

40.3.1 Local Capacity Technical Study

On an annual basis, pursuant to the schedule set forth in the Business Practice Manual, the CAISO will, perform, and publish on the CAISO Website the Local Capacity Technical Study. The Local Capacity Technical Study shall identify Local Capacity Areas, determine the minimum amount of Local Capacity Area Resources in MW that must be available to the CAISO within each identified Local Capacity Area, and identify the Generating Units within each identified Local Capacity Area. The CAISO shall collaborate with the CPUC, Local Regulatory Authorities within the CAISO Balancing Authority Area,

federal agencies, and Market Participants to ensure that the Local Capacity Technical Study is performed in accordance with this Section 40.3 and to establish for inclusion in the Business Practice Manual other parameters and assumptions applicable to the Local Capacity Technical Study and a schedule that provides for: (i) reasonable time for review of a draft Local Capacity Technical Study, (ii) reasonable time for Participating TOs to propose operating solutions, and (iii) release of the final Local Capacity Technical Study no later than 120 days prior to the date annual Resource Adequacy Plans must be submitted under this Section 40.

40.3.1.1 Local Capacity Technical Study Criteria

The Local Capacity Technical Study will determine the minimum amount of Local Capacity Area Resources needed to address the Contingencies identified in Section 40.3.1.2. The Local Capacity Technical Study also will consider hourly load shapes and system limits under emergency conditions to quantify minimum amounts of hourly capacity and energy, that Local Capacity Area Resources must be able to provide within each identified Local Capacity Area in order to resolve Contingencies identified in Section 40.3.1.2. In performing the Local Capacity Technical Study, the CAISO will apply those methods for resolving Contingencies considered appropriate for the performance level that corresponds to a particular studied Contingency, as provided in NERC Reliability Standards regarding Transmission System Planning Performance Requirements (TPL-001-4 or its successor), as augmented by CAISO Reliability Criteria in accordance with the Transmission Control Agreement and Section 24.3.1. The CAISO Reliability Criteria shall include:

- (1) Time Allowed for Manual Readjustment: This is the amount of time required for the Operator to take all actions necessary to prepare the system for the next Contingency. This time should not be more than thirty (30) minutes.
- (2) No voltage collapse or dynamic instability shall be allowed for a Contingency in Category Extreme Events [any P1 system readjusted (Common Structure) P7], as listed in TPL-001-4 in areas with load of 250 MW or more. For areas with less than 250 MW of load, mitigation will only be proposed if there is a risk of cascading beyond the area directly affected by the outage.

40.3.1.2 Local Capacity Technical Study Contingencies.

The Local Capacity Technical Study shall assess all the Contingencies and appropriate performance levels required by mandatory standards including, but not limited to, NERC, WECC and CAISO Planning Standards.

40.3.2 Allocation of Local Capacity Area Resource Obligations

The CAISO will allocate Local Capacity Area Resource requirements to Scheduling Coordinators for Load Serving Entities in the following sequential manner:

- (a) The responsibility for the aggregate Local Capacity Area Resources required for all Local Capacity Areas within each TAC Area as determined by the Local Capacity Technical Study will be allocated to all Scheduling Coordinators for Load Serving Entities that serve Load in the TAC Area in accordance with the Load Serving Entity's proportionate share of the LSE's TAC Area Load at the time of the CAISO's annual coincident peak Demand set forth in the annual peak Demand Forecast for the next Resource Adequacy Compliance Year as determined by the California Energy Commission. Expressed as a formula, the allocation of Local Area Capacity Resource obligations will be as follows: $(\sum \text{Local Capacity Area MW in TAC Area from the Local Capacity Technical Study}) * (\text{LSE Demand in TAC Area at CAISO annual coincident peak Demand}) / (\text{Total TAC Area Demand at the time of CAISO annual coincident peak Demand})$. This will result in a MW responsibility for each Load Serving Entity for each TAC Area in which the LSE serves Load. In no instance, however, is a Load Serving Entity with a Demand and Reserve Margin requirement for a particular TAC Area obligated to commit, on a monthly Resource Adequacy Plan, Local Capacity Area Resources in ~~that~~ particular TAC Area in excess of the quantity of capacity needed by that Load Serving Entity to meet its applicable Demand and Reserve Margin requirements arising from its obligations in that TAC Area for the applicable compliance month. If the CAISO determines that a Load Serving Entity would have an obligation to show Local Capacity Area Resources of less than 1 MW in a particular TAC Area, then the Load Serving Entity will have an obligation of zero (0) MWs for that TAC Area in that year. ~~The A LSE or CPE~~ may meet its MW responsibility, as assigned under this Section, ~~for each TAC Area in which the LSE~~

~~serves Load by procuring Local Capacity Area Resources procurement of that MW quantity~~ in any Local Capacity Area in the TAC Area.

- (b) For Scheduling Coordinators for Non-CPUC Load Serving Entities, the Local Capacity Area Resource obligation will be allocated by default based on Section 40.3.2(a) above. The CAISO will re-allocate all or part of the Local Capacity Area Resource obligation for a Non-CPUC Load Serving Entity to a CPE if the Local Regulatory Authority notifies the CAISO of such allocation decision by the deadlines established in the Business Practice Manual. The same CPE may be re-allocated Local Capacity Area Resource obligations from multiple Local Regulatory Authorities.
- (c) For Scheduling Coordinators for CPUC Load Serving Entities, the CAISO will calculate the individual and total Local Capacity Area Resource obligations attributable to the CPUC jurisdictional Load Serving Entities and will transmit them to the CPUC. The CPUC may then allocate the Local Capacity Area Resource obligation to its jurisdictional LSEs or CPEs based on a method adopted by the CPUC. However, if the allocation methodology adopted by the CPUC does not fully allocate the total sum of each CPUC Load Serving Entity's proportionate share calculated under Section 40.3.2(a), the CAISO will allocate the difference to all Scheduling Coordinators for CPUC Load Serving Entities in accordance with their proportionate share calculated under 40.3.2(a). If the CPUC does not adopt an allocation methodology or does not notify the CAISO of its allocation decision by the deadlines established in the Business Practice Manual, the CAISO will allocate Local Capacity Area Resources to Scheduling Coordinators for CPUC Load Serving Entities based on Section 40.3.2(a).
- (d) By the deadline established in the Business Practice Manual, a Local Regulatory Authority that has, per section 40.3.2(b) or 40.3.2(c), assigned a local obligation to a CPE must inform the CAISO how the Local Regulatory Authority wishes to assign the system and flexible attributes of the resources expected to be shown by the CPE to the LSEs represented by the CPE. The Local Regulatory Authority may decline to provide such assignment, in which case the system and flexible attributes of the resources will remain

with the CPE. If the Local Regulatory Authority provides such LSE assignment by the deadline, the CAISO will provide provisional credits to those LSEs towards their RA requirements based on the assignments provided by the Local Regulatory Authority, provided that the Local Regulatory Authority assigns total system and total flex credits equal to the MWs of system and flex RA capacity expected to be shown by the CPE. If the CPE's annual or monthly RA plans include Local Capacity Area Resources that provide more MW or fewer MWs of system or flex capacity than were assumed in assigning the provisional LSE RA credits, then the CAISO will increase or reduce, respectively, the LSE credits based on each LSE's proportionate share of the provisional allocation. Any LSE deficiencies created by reducing such provisional RA credits may be addressed in the cure periods established in Sections 40.7 and 40.10.5.4.

Once the CAISO has allocated the total responsibility for Local Capacity Area Resources, the CAISO will inform the CPUC and the Scheduling Coordinators for each non-CPUC jurisdictional LSE of the LSE's specific allocated responsibility for Local Capacity Area Resources in each TAC Area in which the LSE serves Load.

40.3.3 Procurement of Local Capacity Area Resources by LSEs and CPEs

Nothing in this Section 40 obligates any Scheduling Coordinator to demonstrate on behalf of a Load Serving Entity or CPE that the Load Serving Entity or CPE has procured Local Capacity Area Resources to satisfy capacity requirements for each Local Capacity Area identified in the technical study.

~~Scheduling Coordinators for Load Serving Entities may aggregate responsibilities for procurement of Local Capacity Area Resources.~~ If a Load Serving Entity or CPE has procured Local Capacity Area Resources that satisfy generation capacity requirements for Local Capacity Areas, the Scheduling Coordinator for such Load Serving Entity or CPE shall include this information in its annual and monthly Resource Adequacy Plan(s).

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40.4.3 General Qualifications for Supplying Net Qualifying Capacity

Resource Adequacy Resources included in a Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of either a Load Serving Entity serving Load in the CAISO Balancing Authority Area or a CPE must:

- (1) Be available for testing by the CAISO to validate Qualifying Capacity, which can be no less than a resource's PMin as registered in the Master File even if the resource's contractual Resource Adequacy Capacity is less than its PMin, and determine Net Qualifying Capacity for the next Resource Adequacy Compliance Year;
- (2) Provide any information requested by the CAISO to apply the performance criteria to be adopted by the CAISO pursuant to Section 40.4.5;
- (3) Submit Bids into the CAISO Markets as required by this CAISO Tariff;
- (4) Be in compliance, as of the date that the CAISO performs any testing or otherwise determines Net Qualifying Capacity for the next Resource Adequacy Compliance Year, with the criteria for Qualifying Capacity established by the CPUC, relevant Local Regulatory Authority, or federal agency and provided to the CAISO; and
- (5) Be subject to Sanctions for non-performance as specified in the CAISO Tariff; and
- (6) For a resource with contractual Resource Adequacy Capacity less than PMin as registered in the Master File, make the PMin available to the CAISO for commitment or dispatch at PMin, subject to Section 11.8 provisions for Bid Cost Recovery, so that the resource's Resource Adequacy Capacity can be utilized as required by this CAISO Tariff.

40.4.4 Reductions for Testing

In accordance with the procedures specified in the Business Practice Manual, the Generating Unit of a Participating Generator or other Generating Units, System Units or Loads of Participating Loads, Reliability Demand Response Resources, or Proxy Demand Resources included in a Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of a Load Serving Entity or CPE can have its Qualifying Capacity reduced, for purposes of the Net Qualifying Capacity annual report under Section 40.4.2 for the next Resource Adequacy Compliance Year, if a CAISO testing program determines that it is not capable of supplying the full Qualifying Capacity amount.

* * * * *

40.4.7 Submission of Supply Plans

40.4.7.1 Schedule for Submission of Supply Plans

Scheduling Coordinators representing Resource Adequacy Resources supplying Resource Adequacy Capacity shall provide the CAISO with annual and monthly Supply Plans, as follows:

- (a) The annual Supply Plan shall be submitted to the CAISO on the schedule set forth in the Business Practice Manual and shall verify their agreement to provide Resource Adequacy Capacity during the next Resource Adequacy Compliance Year. The annual Supply Plan may identify a Local Capacity Area Resource as Listed Local RA Capacity.
- (b) The monthly Supply Plans or the same information as required to be included in the monthly Supply Plan, plus any other information the CAISO requires as identified in the Business Practice Manual, shall be submitted to the CAISO at least 45 days in advance of the first day of the month covered by the plan, and in accordance with the schedule and in the reporting format(s) set forth in the Business Practice Manual, and shall verify their agreement to provide Resource Adequacy Capacity during that resource adequacy month. The monthly Supply Plan may identify a Local Capacity Area Resource as Listed Local RA Capacity.
- (c) The Scheduling Coordinator for the Resource Adequacy Resource may submit, at any time from 45 days through 30 days in advance of the relevant month, a revision to its monthly Supply Plan to correct a discrepancy between its monthly Supply Plan and a Resource Adequacy Plan of a Load Serving Entity or CPE for which that Resource Adequacy Resource is providing Resource Adequacy Capacity, as provided in Section 40.7(b). The CAISO will not accept any revisions to a monthly Supply Plan from 30 days in advance of the relevant month through the end of the month, unless the Scheduling Coordinator for the Resource Adequacy Resource demonstrates good cause for the change and explains why it was not possible to submit the change earlier.

40.4.7.2 Form of Supply Plans

The Supply Plan must be in the form of the template provided on the CAISO Website, which shall include

an affirmative representation by the Scheduling Coordinator submitting the Supply Plan that the CAISO is entitled to rely on the accuracy of the information provided in the Supply Plan to perform those functions set forth in this Section 40.

40.4.7.3 Validation of Supply Plans

The CAISO shall be entitled to take reasonable measures to validate the accuracy of the information submitted in Supply Plans under this Section. Supply Plan validation measures may include the following:

- (a) The CAISO may compare a Resource Adequacy Resource's Resource Adequacy Capacity against the Resource Adequacy Resource's Net Qualifying Capacity, if applicable. To the extent the Resource Adequacy Capacity of a Resource Adequacy Resource included in a Supply Plan is greater than the Resource Adequacy Resource's Net Qualifying Capacity, the CAISO will notify the respective Scheduling Coordinators for the Resource Adequacy Resource and each Load Serving Entity or CPE that has included the Resource Adequacy Resource in its Resource Adequacy Plan that the Resource Adequacy Capacity from the Resource Adequacy Resource shall be reduced to the Resource Adequacy Resource's Net Qualifying Capacity and that it will be considered a mismatch under Section 40.7. If the CAISO is not advised as to how the reduction in Resource Adequacy Capacity to conform with the Resource Adequacy Resource's Net Qualifying Capacity shall be allocated among each Load Serving Entity and CPE that included the Resource Adequacy Resource on its Resource Adequacy Plan, the CAISO will apply a pro rata reduction based on the Supply Plan.
- (b) The CAISO may verify whether the Resource Adequacy Capacity listed in the monthly Supply Plan is scheduled to take an Approved Maintenance Outage during the month. To the extent the Resource Adequacy Capacity of a Resource Adequacy Resource included in a Supply Plan is greater than the Resource Adequacy Capacity designated for the resource in the Resource Adequacy Plan, or includes Resource Adequacy Capacity that is scheduled to take an Approved Maintenance Outage during the month, the CAISO will notify the Scheduling Coordinator for the Resource Adequacy Resource

and the respective Scheduling Coordinators for each Load Serving Entity and CPE that has included the Resource Adequacy Resource in its Resource Adequacy Plan that there is a discrepancy, which will be treated as a mismatch under Section 40.7. To the extent the Resource Adequacy Capacity of a Resource Adequacy Resource included in a Supply Plan is less than the Resource Adequacy Capacity designated for the resource in the Resource Adequacy Plan, or includes Resource Adequacy Capacity that is scheduled for an Approved Maintenance Outage during the month, the CAISO will notify the Local Regulatory Authority, the Scheduling Coordinator for the Resource Adequacy Resource, and the respective Scheduling Coordinators for each Load Serving Entity or CPE that has included the Resource Adequacy Resource in its Resource Adequacy Plan that there is a discrepancy, which will be treated as a mismatch under Section 40.7.

- (c) Other errors or inaccuracies identified by the CAISO in a Supply Plan shall be treated as a mismatch under Section 40.7.

Disputes regarding the CAISO's determination of Net Qualifying Capacity shall be subject to Section 40.5.2. The provisions of this Section shall not affect a Resource Adequacy Resource's Net Qualifying Capacity posted by the CAISO under Section 40.5.2.

* * * * *

40.6.12 Participating Load, PDRs, and RDRRs

Participating Loads, Reliability Demand Response Resources, or Proxy Demand Resources that are included in a Resource Adequacy Plan and Supply Plan, if the Scheduling Coordinator for the Participating Loads, Reliability Demand Response Resources, or Proxy Demand Resources is not the same as that for the Load Serving Entity or CPE, will be administered by the CAISO in accordance with the terms and conditions established by the CPUC or the Local Regulatory Authority.

* * * * *

40.7 Compliance

The CAISO will evaluate Resource Adequacy Plans and Supply Plans as follows:

- (a) The CAISO will evaluate whether each annual and monthly Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of a Load Serving Entity or CPE demonstrates Resource Adequacy Capacity sufficient to satisfy the Load Serving Entity's or CPE's (i) allocated responsibility for Local Capacity Area Resources under Section 40.3.2 and (ii) applicable Demand and Reserve Margin requirements. The CAISO will evaluate compliance with the responsibility for demonstrating Local Capacity Area Resources in two phases. Phase 1 of the Local Capacity Area Resource sufficiency evaluation will be made without regard to capacity's identification as Listed Local RA Capacity. Phase 2 of the Local Capacity Area Resource sufficiency evaluation will consider capacity to be a Local Capacity Area Resource only if it is also Listed Local RA Capacity. If the CAISO determines through the Phase 1 analysis that a Resource Adequacy Plan does not demonstrate Local Capacity Area Resources sufficient to meet its allocated responsibility under Section 40.3.2, compliance with applicable Demand and Reserve Margin requirements, or compliance with any other resource adequacy requirement in this Section 40 or adopted by the CPUC, Local Regulatory Authority, or federal agency, as applicable, then the CAISO will notify the relevant Scheduling Coordinator, CPUC, Local Regulatory Authority, or federal agency with jurisdiction over the relevant Load Serving Entity or CPE. ~~or it~~ In the case of a discrepancy between Resource Adequacy Plan(s) and Supply Plan(s), the CAISO will notify the relevant Scheduling Coordinators, in an attempt to resolve any deficiency in accordance with the procedures set forth in the Business Practice Manual. The notification will be made at least 40 days in advance of the first day of the month covered by the plan and will include the reasons the CAISO believes a deficiency exists. If the deficiency relates to the demonstration of Local Capacity Area Resources in a Load Serving Entity's or CPE's annual Resource Adequacy Plan, and the CAISO does not provide a written notice of resolution of the deficiency as set forth in the Business Practice Manual, the Scheduling

Coordinator for the Load Serving Entity or CPE may demonstrate that the identified deficiency is cured by submitting a revised annual Resource Adequacy Plan within thirty (30) days of the beginning of the Resource Adequacy Compliance Year. For all other identified deficiencies, other than an insufficiency identified through Phase 2 of the Local Capacity Area Resource sufficiency evaluation, at least 30 days prior to the effective month of the relevant Resource Adequacy Plan, the Scheduling Coordinator for the Load Serving Entity or CPE shall: (i) demonstrate that the identified deficiency is cured by submitting a revised Resource Adequacy Plan; or (ii) advise the CAISO that the CPUC, Local Regulatory Authority, or federal agency, as appropriate, has determined that no deficiency exists. If, after providing any needed opportunity to resolve identified discrepancies as required by Section 40.7(b), the CAISO identifies an insufficiency through Phase 2 of the Local Capacity Area Resource sufficiency evaluation, then the CAISO may notify the relevant Local Regulatory Authority of the insufficiency.

- (b) In the case of a discrepancy between Resource Adequacy Plan(s) and Supply Plan(s), if resolved, the relevant Scheduling Coordinator(s) must provide the CAISO with revised Resource Adequacy Plan(s) or Supply Plans, as applicable, at least 30 days prior to the effective month. If the CAISO is not advised that the deficiency or discrepancy is resolved at least 30 days prior to the effective month, the CAISO will use the information contained in the Supply Plan to set the obligations of Resource Adequacy Resources under this Section 40 and/or to assign any costs incurred under this Section 40 and Section 43A.

40.7.1 Other Compliance Issues

Scheduling Coordinators representing Generating Units, System Units or System Resources supplying Resource Adequacy Capacity that fail to provide the CAISO with an annual or monthly Supply Plan, as applicable, as set forth in Section 40.7, shall be subject to Section 37.6.1. Further, Scheduling Coordinators representing Generating Units, System Units or System Resources supplying Resource Adequacy Capacity that fail to provide the CAISO with information required for the CAISO to determine Net Qualifying Capacity shall not be eligible for inclusion in the Net Qualifying Capacity annual report

under Section 40.4.2 for the next Resource Adequacy Compliance Year and shall be subject to any applicable Sanctions under Section 37.6.1.

40.7.2 Penalties for Non-Compliance

The failure of a Resource Adequacy Resource or Resource Adequacy Capacity to be available to the CAISO in accordance with the requirements of this Section 40 or Section 9.3.1.3, and the failure to operate a Resource Adequacy Resource by placing it online or in a manner consistent with a submitted Bid or Generated Bid shall be subject to the applicable Sanctions set forth in Section 37.2.4. However, any failure of the Resource Adequacy Resource to satisfy any obligations prescribed under this Section 40 or Section 9.3.1.3 during a Resource Adequacy Compliance Year for which Resource Adequacy Capacity has been committed to a Load Serving Entity or CPE shall not limit in any way, except as otherwise established under Section 40.4.5 or requirements of the CPUC, Local Regulatory Authority, or federal agency, as applicable, the ability of the Load Serving Entity or CPE to whom the Resource Adequacy Capacity has been committed to use such Resource Adequacy Capacity for purposes of satisfying the resource adequacy requirements of the CPUC, Local Regulatory Authority, or federal agency, as applicable. In addition, an LSE or CPE shall not be subject to any sanctions, penalties, or other compensatory obligations under this Section 40 on account of a Resource Adequacy Resource's satisfaction or failure to satisfy its obligations under this Section 40 or Section 9.3.1.3.

* * * * *

Section 41

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41.8 Allocating Resource Adequacy Credits for RMR Designations

The CAISO will provide Resource Adequacy credits to the Scheduling Coordinators of Load-Serving Entities that serve load in the applicable TAC Area(s) in which the need for the RMR Contract arose equal to the Load-Serving Entity's pro rata share of the eligible net qualifying capacity of the RMR Resource,

which shall be based upon each Load-Serving Entity's proportionate share of the Load-Serving Entity's applicable TAC Area Load at the time of the CAISO's annual coincident Peak Demand set forth in the annual Peak Demand Forecast for the next Resource Adequacy Compliance Year. The credited amount will be broken down into monthly values. Each year, the CAISO will provide information to the CPUC regarding the allocation of Resource Adequacy credits to CPUC-jurisdictional Load Serving Entities to allow the CPUC to determine whether the Load Serving Entity should receive the Resource Adequacy credits the CAISO has allocated. The CAISO will provide that same information to any Local Regulatory Authority that has designated a CPE to procure RA Capacity on behalf of a Load Serving Entity under that Local Regulatory Authority's jurisdiction. The CPUC and any other Local Regulatory Authority that is so notified by the CAISO may reallocate the credits among its jurisdictional Load Serving Entities and any CPEs procuring capacity on behalf of those jurisdictional Load Serving Entities. If the CPUC a Local Regulatory Authority notifies the CAISO of any adjusted initial allocation or subsequent reallocation of RMR credits among the CPUC-jurisdictional Load Serving Entities, the CAISO will reflect the revised allocation in its systems prospectively at the next practicable opportunity. The CPUC A Local Regulatory Authority's subsequent reallocation of RMR credits among CPUC-its jurisdictional Load Serving Entities or CPEs may not exceed the total of the initial RMR credit provided by the CAISO to the Scheduling Coordinators for all CPUC-jurisdictional the Load Serving Entities under the jurisdiction of the given Local Regulatory Authority.

* * * * *

Section 43A

* * * * *

43A.2.1 SC Failure to Show Sufficient Local Capacity Area Resources

43A.2.1.1 Annual Resource Adequacy Plan

Where a Scheduling Coordinator fails to demonstrate in an annual Resource Adequacy Plan, submitted

separately for each represented LSE or CPE, procurement of each LSE's or CPE's share of Local Capacity Area Resources (irrespective of status as Listed Local RA Capacity), as determined in Section 40.3.2 for each month of the following Resource Adequacy Compliance Year, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.1 until after the Scheduling Coordinator has had the opportunity to cure the deficiency set forth in Section 40.7. The CAISO's authority to designate CPM Capacity under this Section 43A.2.1.1 is to ensure that each Local Capacity Area in a TAC Area in which the LSE or CPE has a Local Capacity Area Resource obligation serves Lead has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area.

43A.2.1.2 Monthly Resource Adequacy Plan

Where a Scheduling Coordinator fails to demonstrate in a monthly Resource Adequacy Plan, submitted separately for each represented LSE or CPE, procurement of each LSE's or CPE's share of Local Capacity Area Resources (irrespective of status as Listed Local RA Capacity), as determined in Section 40.3.2 for the reported month, the CAISO shall have the authority to designate CPM Capacity; provided, however, that the CAISO shall not designate CPM Capacity under this Section 43A.2.1.2 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7. In no case is the CAISO authorized to designate CPM Capacity under this Section 43A.2.1.2 solely because a monthly Resource Adequacy Plan demonstrates procurement of a Local Capacity Area Resource that is on a Maintenance Outage at some point during the applicable month. The CAISO's authority to designate CPM Capacity under this Section 43A.2.1.2 is to ensure that each Local Capacity Area in a TAC Area in which the LSE or CPE has a Local Capacity Area Resource obligation serves Lead has Local Capacity Area Resources in the amounts and locations necessary to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, after assessing the effectiveness of all

Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted monthly Resource Adequacy Plans and any supplements thereto, as may be permitted by the CPUC, Local Regulatory Authority, or federal agency and provided to the CAISO in accordance with Section 40.7.

43A.2.2 Collective Deficiency in Local Capacity Area Resources

The CAISO shall have the authority to designate CPM Capacity where the Local Capacity Area Resources (irrespective of status as Listed Local RA Capacity) specified in the annual Resource Adequacy Plans of all applicable Scheduling Coordinators, after the opportunity to cure under Section 43A.2.2.1 has been exhausted, fail to ensure compliance in one or more Local Capacity Areas with the Local Capacity Technical Study criteria provided in Section 40.3.1.1, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the Local Capacity Technical Study, and after assessing during all hours the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area. The CAISO may, pursuant to this Section 43A.2.2, designate CPM Capacity in an amount and location sufficient to ensure compliance during all hours with the Reliability Criteria applied in the Local Capacity Technical Study.

43A.2.2.1 LSE and CPE Opportunity to Resolve Collective Deficiency in Local Capacity Area Resources

Where the CAISO determines that a need for CPM Capacity exists under Section 43A.2.2, but prior to any designation of CPM Capacity, the CAISO shall issue a Market Notice identifying the deficient Local Capacity Area and the quantity of capacity that would permit the deficient Local Capacity Area to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1 and, where only specific resources are effective to resolve the Reliability Criteria deficiency, the CAISO shall provide the identity of such resources. Any Scheduling Coordinator for a LSE or CPE may submit a revised annual Resource Adequacy Plan within thirty (30) days of the beginning of the Resource Adequacy Compliance Year demonstrating procurement of additional Local Capacity Area Resources consistent with the Market

Notice issued under this Section.

Any Scheduling Coordinator that provides such additional Local Capacity Area Resources consistent with the Market Notice under this Section shall have its share of any otherwise applicable CPM procurement costs under Section 43A.-8.3 reduced on a proportionate basis. If the full quantity of capacity is not reported to the CAISO under revised annual Resource Adequacy Plans in accordance with this Section, the CAISO may designate CPM Capacity sufficient to alleviate the deficiency.

* * * * *

43A.8 Allocation of CPM Capacity Payment Costs

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43A.7 as follows:

43A.8.1 LSE or CPE Shortage of Local Capacity Area Resources in Annual Plan

If the CAISO makes CPM designations under Section 43A.2.1.1 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE or CPE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its annual Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE or CPE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area. The Local Capacity Area Resource Deficiency under this Section shall be computed on a monthly basis and the CPM Capacity Payments allocated based on deficiencies during the month(s) covered by the CPM designation(s).

43A.8.2 LSE or CPE Shortage of Local Capacity Area Resources in Month Plan

If the CAISO makes CPM designations under Section 43A.2.1.2 to address a shortage resulting from the failure of a Scheduling Coordinator for an LSE or CPE to identify sufficient Local Capacity Area Resources to meet its applicable Local Capacity Area capacity requirements in its monthly Resource Adequacy Plan, then the CAISO shall allocate the total costs of the CPM Capacity Payments for such

CPM designations (for the full term of those CPM designations) pro rata to each Scheduling Coordinator for an LSE or CPE based on the ratio of its Local Capacity Area Resource Deficiency to the sum of the deficiency of Local Capacity Area Resources in the deficient Local Capacity Area(s) within a TAC Area.

43A.8.3 Collective Deficiency in Local Capacity Area Resources

If the CAISO makes designations under Section 43A.2.2 the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs serving Load in the TAC Area(s) in which the deficient Local Capacity Area was located. The allocation will be based on the Scheduling Coordinators' proportionate share of Gross Load in such TAC Area(s) as determined in accordance with Section 40.3.2, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43A.2.1.2 on a proportionate basis, to the extent of their additional procurement. The CAISO shall not allocate the costs of designations under Section 43A.2.2 to a Scheduling Coordinator for a CPE in its role serving as such Scheduling Coordinator; provided, however, if a Scheduling Coordinator represents both a LSE and CPE, then the CAISO shall allocate the costs of designations under Section 43A.2.2 to the Scheduling Coordinator based on the LSE's proportionate share of Gross Load in the relevant TAC Area, as described above in this Section 43A.8.3.

* * * * *

43A.9 Crediting of CPM Capacity

The CAISO shall credit CPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities and CPEs as follows:

- (a) To the extent the cost of CPM designation under Section 43A.2.1.1 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.1, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards (1) the LSE's Local Capacity Area Resource obligation under Section 40.3.2 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1 and (2) the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM

Capacity designated under Section 43A.2.1.1.

To the extent the cost of CPM designation under Section 43A.2.1.1 is allocated to a Scheduling Coordinator on behalf of a CPE under Section 43A.8.1, the CAISO shall provide the Scheduling Coordinator on behalf of the CPE and the Scheduling Coordinators on behalf of the LSEs represented by the CPE, for the term of the designation, credit towards Local Capacity Area Resource obligations under Section 40.3.2 and Demand and Reserve Margin requirements determined under Section 40 based on allocations provided by the CPE's LRA. The total credits allocated by the LRA towards Local Capacity Area Resource obligations cannot exceed the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1. The total credits allocated by the LRA towards Demand and Reserve Margin requirements cannot exceed the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1. If the total LRA-provided credits toward Local Capacity Area Resource obligations or toward Demand and Reserve Margin requirements exceed the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1, or if the LRA fails to notify the CAISO of its desired allocation of credits by the deadline established in the Business Practice Manual, then the CAISO will credit the Scheduling Coordinator on behalf of the CPE, for the term of the designation, credit towards the CPE's Local Capacity Area Resource obligation under Section 40.3.2 in an amount equal to the CPE's pro rata share of the CPM Capacity designated under Section 43A.2.1.1 and the CAISO will credit the Scheduling Coordinators on behalf of the LSEs represented by the CPE, for the term of the designation, the LSEs' Demand and Reserve Margin requirements determined under Section 40 based on the proportions provided by the relevant Local Regulatory Authority under Section 40.3.2(d).

- (b) To the extent the cost of CAISO designation under Section 43A.2.2 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.3, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under

Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.2.

- (c) To the extent the cost of CPM designation under Section 43A.2.3 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43A.8.4, and the designation is for greater than one month under Section 43A.3.4, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the CPM Capacity designated under Section 43A.2.3.
- (d) The credit provided in this Section shall be used for determining the need for the additional designation of CPM Capacity under Section 43A.2 and for allocation of CPM costs under Section 43A.8.
- (e) For each Scheduling Coordinator that is provided credit pursuant to this Section, the CAISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE or CPE on whose behalf the credit was provided to determine whether the LSE or CPE should receive credit toward its resource adequacy requirements adopted by such agencies or authorities.
- (f) To the extent the cost of Flexible Capacity CPM designation under Section 43A.2.7 is allocated to a Scheduling Coordinator for an LSE under Section 43A.8.8, and the designation is for greater than one month under Section 43A.3.8, the CAISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Flexible Capacity requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the Flexible Capacity CPM designated under Section 43A.2.7.

* * * * *

Appendix A

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- Central Procurement Entity (CPE)

An entity that has been designated by a Local Regulatory Authority to: (a) procure Local Capacity Area Resources on behalf of at least one Load Serving Entity under that LRA's jurisdiction; and (b) through its Scheduling Coordinator, demonstrate such procurement to the CAISO pursuant to the RA showings process in Section 40.2.

Attachment C – CPUC D.20-06-002 Adopting CPE Construct

Central Procurement Entities

California Independent System Operator Corporation

April 8, 2022

Decision 20-06-002 June 11, 2020

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee
the Resource Adequacy Program,
Consider Program Refinements, and
Establish Annual Local and Flexible
Procurement Obligations for the 2019
and 2020 Compliance Years.

Rulemaking 17-09-020

**DECISION ON CENTRAL PROCUREMENT OF THE
RESOURCE ADEQUACY PROGRAM**

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DECISION ON CENTRAL PROCUREMENT OF THE RESOURCE ADEQUACY PROGRAM

Summary

This decision adopts implementation details for the central procurement of multi-year local Resource Adequacy procurement to begin for the 2023 compliance year in the Pacific Gas and Electric Company (PG&E) and Southern California Edison (SCE) distribution service areas, including identifying PG&E and SCE as the central procurement entities for their respective distribution service areas and adopting a hybrid central procurement framework. The decision declines to adopt a central procurement framework for the San Diego Gas and Electric distribution service area at this time.

This proceeding remains open.

1. Background

In January 2018, a Scoping Memo and Ruling was issued in this proceeding that organized the issues for this rulemaking. Track 1 encompassed top priority modifications to the Resource Adequacy (RA) program and included:

RA program reforms necessary to maintain reliability while reducing potentially costly backstop procurement. These...may include central buyers, a multi-year procurement framework for Local RA (and associated cost allocation), as well as other proposals to address out-of-market procurement and increase transparency.¹

In June 2018, the Commission issued Decision (D.) 18-06-030 in Track 1 of this proceeding, in which the Commission discussed and analyzed whether

¹ Scoping Memo at 6.

central procurement or load serving entity (LSE)-based procurement was most appropriate for local RA procurement. The Commission concluded that:

[W]e believe that a central buyer system – for at least some portion of local RA – is the solution most likely to provide cost efficiency, market certainty, reliability, administrative efficiency, and customer protection.²

In D.18-06-030, the Commission directed parties to propose central buyer structures in Track 2 that include a single central buyer or a single central buyer per Transmission Access Charge (TAC) area, and to address the ability of the central buyer to procure all available resource attributes (*e.g.*, flexible RA), not just local RA requirements. We stated that all central buyer proposals must address balancing “economic procurement criteria with other essential state policies, such as greenhouse gas emissions reductions targets and consideration of impacts on disadvantaged communities.”³ We also noted that we “remain concerned that a centralized capacity market may not meet these objectives.”⁴

Track 2 opening testimony was served on July 10, 2018 by: the Alliance for Retail Energy Markets (AReM); California Community Choice Association (CalCCA); California Energy Storage Alliance (CESA); California Independent System Operator (CAISO); Calpine Corporation (Calpine); Center for Energy Efficiency and Renewable Technologies (CEERT); CPower, Enel X North America, Inc. (Enel X), and EnergyHub (collectively, the Joint DR Parties); Green Power Institute (GPI); Independent Energy Producers Association (IEP); Middle

² D.18-06-030 at 32.

³ *Id.* at 33.

⁴ *Id.*

River Power, LLC (MRP); NRG Energy, Inc. (NRG); OhmConnect, Inc. (OhmConnect); Pacific Gas and Electric Company (PG&E); San Diego Gas & Electric Company (SDG&E); Shell Energy North America (US), L.P. (Shell); Sierra Club, California Environmental Justice Alliance, and Union of Concerned Scientists (collectively, the Joint Environmental Parties); Southern California Edison Company (SCE); the Utility Reform Network (TURN); and Western Power Trading Forum (WPTF). The Supply Side Working Group (SSWG) submitted a proposal in the form of comments on July 10, 2018. All testimony was filed with and attached to parties' August 8, 2018 comments, as directed by the Administrative Law Judge (ALJ). The Commission's Energy Division (Energy Division) served its Track 2 proposal on July 12, 2018, which was filed by an ALJ ruling on November 16, 2018.

Comments to parties' opening testimony, in lieu of reply testimony, were served and filed on August 8, 2018. Comments were received from AREM; CalCCA; CEERT; CESA; CAISO; California Large Energy Consumers Association (CLECA); California Wind Energy Association (CalWEA); Calpine; Enel X; GPI; IEP; the Joint DR Parties; the Joint Environmental Parties; Large-scale Solar Association (LSA); LS Power Development, LLC (LS Power); MRP; NRG; Public Advocates Office (Cal Advocates);⁵ PG&E; SDG&E; Sentinel Energy Center, LLC (Sentinel) and Diamond Generating Corporation (Diamond) (Sentinel/Diamond); Shell; Sunrun Inc. (Sunrun); TURN; and WPTF. Reply

⁵ The Commission's Public Advocates Office (Cal Advocates) was formerly known as the Office of Ratepayer Advocates. Pleadings in this proceeding were filed under both names but the party is referred to as Cal Advocates in this decision.

comments were served and filed on September 14, 2018 by CAISO, CalCCA, Calpine, CEERT, the Joint Environmental Parties, PG&E, SCE, and SDG&E.

On October 5, 2018, the ALJ requested additional comments on SCE's central procurement proposal. Comments were submitted on October 16, 2018 by AReM, CalCCA, Cal Advocates, CLECA, Calpine, GPI, the Joint Environmental Parties, NRG, PG&E, SDG&E, Shell, TURN, and WPTF. On October 24, 2018, CalCCA, CLECA, Calpine, GPI, the Joint Environmental Parties, PG&E, and SCE submitted reply comments.

1.1. Track 2 Decision

In February 2019, the Commission issued D.19-02-022, the Track 2 decision, in which we evaluated proposals for a central procurement structure for local RA procurement, including potential central procurement entities (CPEs) and other implementation details. Considerations for potential CPEs included the distribution utilities, a special purpose entity, and the CAISO. We acknowledged a lack of consensus among parties as to the identity of a central buyer and concluded that:

The Commission does not find a viable central buyer at this time and thus delays the designation of a central buyer in this decision. The Commission continues to find that a central buyer structure, as outlined in the Track 1 decision, is the appropriate structure to implement multi-year local RA requirements.⁶

The Commission also considered an appropriate central procurement structure – either full procurement, residual procurement, or a hybrid approach.

⁶ D.19-02-022 at 14.

We stated again that due to “the lack of a consensus as to a central procurement mechanism that satisfies the objectives outlined in the Track 1 decision, the Commission elects to delay implementation of a central procurement structure to allow additional time for a series of workshops.”⁷

We directed parties to undertake a series of workshops to develop “workable implementation solutions for central procurement of multi-year local RA” as follows:

The implementation details shall include, but are not limited to, the identity of a viable central buyer, the scope of procurement (*e.g.*, full, residual), implementable cost allocation mechanism (*e.g.*, how costs will be tracked and recovered), oversight mechanisms, other procurement details (*e.g.*, resources to be included, selection criteria), market power mitigation tools, and necessary modifications to the RA timeline.

The Commission deems workable implementation solutions are those that specifically address the following known challenges to the local RA program: (1) costly out-of-market RA procurement due to local procurement deficiencies, (2) load migration and equitable allocation of costs to all customers, (3) cost effective and efficient coordinated procurement, (4) treatment of existing local RA contracts, (5) opportunity for and investment in procurement of local preferred resources, and (6) retention of California’s jurisdiction over procurement of preferred resources.⁸

⁷ *Id.* at 17.

⁸ *Id.*

After workshops, parties were directed to submit informal workshop reports “outlining the recommendations reached and how each recommendation addresses the challenges noted above, into the RA proceeding.”⁹

While deferring adoption of the central procurement framework, D.19-02-022 adopted multi-year local requirements to begin for the 2020 compliance year. The decision stated that “LSEs shall procure local resources based on individual local allocations, as is currently done in the RA program, for a three-year forward duration.”¹⁰

1.2. Post-Track 2 Developments

Parties undertook a series of workshops to discuss central procurement proposals, as directed by D.19-02-022. The first and second workshops were held on April 22 and 23, 2019 and were led by PG&E, SDG&E and SCE (collectively, the Joint Investor-Owned Utilities (IOUs)). The third and fourth workshops were held on May 15, 2019 and were led by CalCCA. The fifth and sixth workshops were held on May 22, 2019 and were led by Shell. Informal workshop reports were filed on July 19, 2019 by the Joint IOUs, CalCCA, and Shell.

Comments on informal workshop reports were submitted on August 2, 2019 by: Cal Advocates, CalCCA, CESA, CLECA, Calpine, GPI, MRP, SDG&E, TURN, PG&E, and SCE. Reply comments were filed on August 9, 2019 by CLECA, Calpine, Cal Advocates, NRG, PG&E, SDG&E, and SCE.

⁹ *Id.* at 19.

¹⁰ *Id.* at 28.

On August 9, 2019, a notice of settlement conference was filed by CalCCA, Calpine, IEP, MRP, NRG, SDG&E, Shell, Sunrun, and WTPF. The settlement conference was held on August 20, 2019. On August 30, 2019, a joint motion was filed by CalCCA, Calpine, IEP, MRP, NRG, SDG&E, Shell, and WTPF (collectively, the Settling Parties) for adoption of a settlement agreement for a residual central procurement entity structure for Resource Adequacy.

On September 30, 2019, comments on the proposed settlement were filed by American Wind Energy Association of California (AWEA-CA) and LSA (AWEA-CA/LSA), AReM, CEERT, CESA, Cal Advocates, CAISO, CLECA, Cogeneration Association of America (CAC), Department of Market Monitoring for CAISO (DMM), GPI, the Joint DR Parties, Sunrun, TURN, PG&E, Powerex Corp. (Powerex), SCE, and Vistra Energy Corp. (Vistra). Reply comments were filed on October 15, 2019 by CAISO, CAC, CLECA, Cal Advocates, the Settling Parties, and PG&E. On November 1, 2019, the Commission held a workshop in Sacramento to discuss the proposed settlement, as well as other CPE proposals.

All workshop reports, proposals, and comments have been considered, but given the large number of parties and filings, some proposals and issues may receive little or no discussion or analysis in this decision.

2. Proposed Settlement

2.1. Background

The Settling Parties put forth a proposed Settlement Agreement (Settlement) as to a residual central buyer structure, summarized as follows. The Settlement provides for a CPE that would assume a “default” role in undertaking collective RA procurement in lieu of LSEs’ individual procurement obligations.

The CPE would be responsible for ensuring procurement of the “Collective RA Requirement,” defined as all RA Capacity required for a delivery period to ensure that aggregated system, flexible and local RA requirements are met. The CPE would “accept all offers at or below the Soft Offer Cap” and “may procure RA Capacity at prices above the Soft Offer Cap when it deems reasonable and consistent with Commission-approved criteria...”¹¹ After CAISO identifies collective RA deficiencies for the upcoming year, the CPE would use “commercially reasonable efforts to procure additional RA capacity procurement” and “[a]ny deficiency not procured by the RA-CPE may be procured by the CAISO through its backstop procurement authority.”¹²

The Settlement does not identify a CPE but asserts that a CPE “will be a competitively neutral, independent, and credit-worthy entity.”¹³ The CPE will assume responsibility in 2021 for the 2022 RA year.

The Settlement provides that LSEs may voluntarily procure all or some of their share of the local, system, or flexible RA requirements based on the Collective RA Requirement. The Settlement otherwise eliminates individual LSE RA requirements for local, system, and flexible RA to individual LSEs and the need for monthly RA showings. An LSE may voluntarily show procured RA capacity to the CPE on an annual basis and “[a]n LSE’s Shown RA will be

¹¹ Settling Parties’ Settlement Agreement, filed August 30, 2019 (Settlement), Appendix A Term Sheet (Term Sheet) at 4.

¹² *Id.*

¹³ *Id.* at 2.

credited against its share of the Collective RA Requirement Target on a MW-for-MW basis, and for Local RA, by local area or subarea.”¹⁴

The CPE’s procured capacity costs “will be allocated to each LSE in proportion to the RA Capacity of that type procured on the LSE’s behalf. Costs will be allocated on an ex post basis based on the difference between the LSE’s actual load, scaled to the prior year’s forecast of the Collective RA Requirement, and the LSE’s Shown RA.”¹⁵ In the event of a default by an LSE, the CPE shall remain revenue neutral through “appropriate cost recovery from remaining LSEs in proportion of their share of the Collective RA Requirement” and “[c]ost recovery will reflect the LSE’s actual outstanding Cost Responsibility, net of collateral received.”¹⁶

The Settlement also expands the three-year forward local RA requirement to system and flexible RA and increases the current third year local RA requirement from 50 to 75 percent.

The Settling Parties “request that the Settlement Agreement be reviewed and adopted as a whole. Modification of any one part of the Settlement Agreement would harm the balance of interests and compromises achieved among the Settling Parties.”¹⁷

¹⁴ *Id.* at 6.

¹⁵ *Id.* at 8.

¹⁶ *Id.* at 9.

¹⁷ *Id.* at 8.

2.2. Responses to the Settlement

Several parties support the Settlement, including AWEA-CA/LSA, AReM, CAISO, Sunrun, and Vistra. Some parties do not explicitly support or contest the Settlement, such as Powerex and DMM, or oppose only parts of the Settlement, such as CESA.¹⁸ CAISO notes that if the Settlement is adopted, CAISO will need to open a stakeholder process to consider several tariff changes or changes to existing CAISO processes, such as updating the Maximum Import Capability calculation and the Net Qualifying Capacity (NQC) and Effective Flexible Capacity (EFC) list to provide new eligible resources, and CAISO cannot guarantee the timing of those processes.¹⁹

Multiple parties contest the Settlement, including CEERT, CLECA, CAC, Cal Advocates, GPI, Joint DR Parties, PG&E, SCE and TURN. We summarize some of their objections below.

2.2.1. Comments Regarding Process

Several parties assert that the Settlement is not reasonable in light of the record because it does not reflect a diverse group of interests. Parties note that the settling parties do not include a ratepayer representative, an environmental group, or the two largest IOUs in California.²⁰ CAC contends that the process to participate in the Settlement “was by invitation only and consciously exclusionary to several critically impacted parties...”²¹

¹⁸ CESA Comments on Settlement at 5.

¹⁹ CAISO Comments on Settlement at 3.

²⁰ *See, e.g.*, CLECA Comments on Settlement at 13, SCE Comments on Settlement at 13, GPI Comments on Settlement at 1, PG&E Comments on Settlement at 19.

²¹ CAC Comments on Settlement at 2.

Parties also claim that the Settlement does not represent a compromise on the fundamental issue of full versus residual central procurement. PG&E views the Settlement as a joint party proposal offered by “like-minded parties that all either expressed support for the residual central buyer structure during the Track 2 workshop process or did not take clear litigation positions opposing such a structure.”²² GPI agrees that the Settling Parties previously favored a residual central buyer structure and “are simply reiterating their positions in this proposed Settlement Agreement.”²³

Others argue that the Settlement is not reasonable because it is a new proposal that was not submitted into the record for consideration or presented at any of the central procurement workshops. SCE states that other proposals raised at the multiple workshops have a significant record of comments, unlike the Settlement.²⁴ PG&E states that the Settling Parties worked separately from the workshop process and the final workshops were cancelled because no party indicated it had new proposals to discuss. PG&E asserts that parties were given only 10 days to negotiate the Settlement, which “did not offer an opportunity for meaningful negotiations regarding the provisions affecting all parties’ interests.”²⁵ CAC states that it and other parties sought an extension of the

²² PG&E Comments on Settlement at 16.

²³ GPI Comments on Settlement at 1.

²⁴ SCE Comments on Settlement at 17-18.

²⁵ PG&E Comments on Settlement at 5-6.

Settlement filing date to continue discussion of the proposal but the request was denied.²⁶

TURN, SCE, and CLECA state that in not identifying a CPE, the Settlement fails to address a threshold issue and a key element of a workable implementable solution. CLECA argues that the Settlement is offered “with the expectation that, at some point, an entity will be created to fill it, and the entity will have the desired characteristics.”²⁷

Several parties assert that the Settlement seeks to adopt substantive issues that are outside the scope of the proceeding, including multi-year procurement of system and flexible RA, and modifications to the third year forward local requirement.²⁸ These parties argue that the Settlement raises factual and legal issues that were not properly litigated in the proceeding, or raised during the central procurement workshops. CLECA and CESA state that changing the percentages for local RA in Year 3 is contrary to a recent Commission decision.²⁹

2.2.2. Comments Regarding Substance

Parties also raise numerous objections to the substance of the Settlement. Many objections are similar to concerns that have been raised in opposition to

²⁶ CAC Comments on Settlement at 6.

²⁷ CLECA Comments on Settlement at 8-9.

²⁸ See, e.g., Cal Advocates Comments on Settlement at 9, CLECA Comments on Settlement at 4, SCE Comments on Settlement at 14, PG&E Comments on Settlement at 2, CESA Comments on Settlement at 5.

²⁹ CLECA Comments on Settlement at 2-3, CESA Comments on Settlement at 5.

any residual framework and we do not duplicate them here.³⁰ We summarize some of the major concerns raised specifically for this proposed Settlement.

PG&E, SCE, and CLECA assert that the Settlement will result in inefficient procurement because LSEs get MW-for-MW credit for any self-procured RA, regardless of the effectiveness of the resource.³¹ This may result in the Collective RA Requirement being met with low-effectiveness resources and the CPE having to procure additional resources beyond the self-procured RA to meet the collective requirement, which may lead to costly over-procurement.

Some state that the cost allocation mechanism presented in the Settlement is problematic, with SCE cautioning that new complexities result from “a combination of actions taken based upon ex ante determinations (*e.g.*, load forecasts for the entire local area and that of individual LSEs) and ex post determinations (*e.g.*, actual load served and actual procurement of local resources) in order to arrive at a cost allocation.”³² Some parties state the cost recovery may lead to inequitable cost allocation because it does not differentiate LSEs that procure resources with higher effectiveness factors and collective deficiencies are shared by all LSEs.³³ These parties are also concerned that in the event an LSE defaults, costs would be unfairly spread to all other LSEs.³⁴

³⁰ See *e.g.*, D.19-02-022 at 16-17.

³¹ PG&E Comments on Settlement at 9, SCE Comments on Settlement at 23, CLECA Comments on Settlement at 12.

³² SCE Comments on Settlement at 24. See also CLECA Comments on Settlement at 11.

³³ See CLECA Comments on Settlement at 12, SCE Comments on Settlement at 25, Cal Advocates Comments on Settlement at 11, PG&E Comments on Settlement at 9.

³⁴ *Id.*

SCE and Cal Advocates state that there is insufficient oversight over the CPE as it relates to contract costs, including whether costs above the Soft Offer Cap are reasonable, how administrative costs are approved, and how creditworthiness and collateral protocols are developed for LSEs.³⁵

The Joint DR Parties note that the Settlement makes no reference to the procurement of preferred resources, or reducing GHG emissions, failing to demonstrate that the CPE will provide an “opportunity for and investment in procurement of local preferred resources,” as directed by D.19-02-022.³⁶

2.3. Standard of Review

Under Rule 12.1(d) of the Commission’s Rules of Practice and Procedure, a settlement will not be approved unless it is reasonable in light of the whole record, consistent with the law, and in the public interest.³⁷ Proponents of a settlement agreement bear the burden of proof to demonstrate that the proposed settlement meets the requirements of Rule 12.1.³⁸

In this proceeding, the proposed Settlement is contested by multiple active parties. The Commission has held that a contested settlement is subject to stricter scrutiny than an all-party settlement. As explained in D.02-01-041:

In judging the reasonableness of a proposed settlement, we have sometimes inclined to find reasonable a settlement that has the unanimous support of all active parties in the proceeding. In contrast, a contested settlement is not entitled

³⁵ See Cal Advocates Comments on Settlement at 6, SCE Comments on Settlement at 30.

³⁶ Joint DR Parties Comments on Settlement at 8.

³⁷ Unless otherwise specified, all references to a rule are to the Commission’s Rules of Practice and Procedure.

³⁸ See D.18-12-021 at 12, D.92-12-019 at 6.

to any greater weight or deference merely by virtue of its label as a settlement; it is merely the joint position of the sponsoring parties, and its reasonableness must be thoroughly demonstrated by the record.³⁹

As to whether a settlement is consistent with the law, the Commission must be assured that no term of the settlement agreement contravenes statutory provisions or prior Commission decisions.⁴⁰ To determine whether a settlement agreement is in the public interest, the Commission may inquire into whether a settlement expeditiously resolves issues that otherwise would have been litigated.⁴¹

2.4. Discussion

We first consider whether the Settling Parties have complied with the requirements under Rule 12.1. Rule 12.1(b) provides that:

Prior to signing any settlement, the settling parties shall convene at least one conference with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding.

The Settling Parties noticed the settlement conference on August 9, 2019, which was at least seven days in advance of the August 20, 2019 conference, as required by Rule 12.1(b). After the settlement conference, the joint motion to adopt the Settlement was filed on August 30, 2019, 10 days following the conference. PG&E asserts that 10 days did not allow “an opportunity for meaningful negotiations regarding the provisions affecting all parties’ interests”

³⁹ D.02-01-041 at 13.

⁴⁰ See D.11-12-053 at 74, D.10-12-035 at 26.

⁴¹ *Id.*

and CAC states that requests for an extension of the settlement filing date to provide additional comments were denied.⁴²

There are over 60 parties in this proceeding, workshops and comments on central procurement proposals spanned several months, and the Settling Parties' joint motion and Settlement Agreement totaled 40 pages. The Settling Parties may have complied with the literal requirement of Rule 12.1(b) since there is no minimum number of days required to discuss the settlement. Given the complexity of the issues and the significant amount of time and effort parties have expended to collaboratively discuss these issues, however, we agree that 10 days to discuss a new settlement agreement is not a sufficient, meaningful opportunity to participate in the spirit of Rule 12.1(b). It is particularly concerning that some parties requested additional time for negotiations but were denied that opportunity.

Notwithstanding the above, we consider whether the Settling Parties have demonstrated that the Settlement is reasonable in light of the whole record. One significant factor in determining whether a contested settlement is reasonable is the extent to which the settlement is supported by parties representing the affected interests.⁴³ The Commission will also consider whether the settlement represents a fair compromise of the settling parties' positions and interests.⁴⁴

The Settling Parties assert that:

⁴² PG&E Comments on Settlement at 6, CAC Comments on Settlement at 6.

⁴³ D.18-12-021 at 13, D.07-03-044 at 259.

⁴⁴ *Id.*

The number of interested parties involved in these negotiations, and the diversity of representation among the parties participating in the discussions, helped to ensure that the interests of LSEs, ratepayers, generators and other stakeholders were fully represented.⁴⁵

The Commission is not persuaded that with over 60 parties in this proceeding, the eight parties represent the affected interests, particularly since the Settling Parties do not include a ratepayer or environmental representative, or the two largest IOUs that represent the majority of statewide retail customer load.

We also find that the Settlement does not represent a fair compromise of the Settling Parties' positions and interests. The Settling Parties were largely in favor of a residual framework throughout Track 2 and during the central procurement workshops. The debate over a full versus residual procurement structure was a fundamental issue in Track 2, one that led the Commission to defer adoption of a central procurement structure to allow time for workshops. While the Settling Parties may have compromised on other issues, the Settlement does not reflect a compromise among parties with different litigation positions with respect to a critical component of the central procurement framework.

The Settlement also fails to address a major implementation detail required by D.19-02-022 for any workable solution - the identity of a central buyer. In response to this, Settling Parties assert that they "have identified issues that will require either further collaboration among parties or a Commission decision,"

⁴⁵ Settling Parties' Joint Motion for Adoption of a Settlement Agreement for a "Residual" Central Procurement Entity Structure for Resource Adequacy (Joint Motion) at 6.

and that the Settlement “meets most of these requirements in greater detail than any other proposal brought to the Commission to date.”⁴⁶

The Commission articulated the need to designate a central buyer nearly two years ago in D.18-06-030. Since that decision, we have been unambiguous about the need to identify the appropriate central procurement entity and have set up workshop processes to facilitate reaching a consensus on this issue. We did not direct parties to submit proposals that met some, but not all, of the implementation requirements. Thus, the Settlement does not represent a workable central procurement plan, as directed by D.19-02-022. For the foregoing reasons, the Settling Parties have not satisfied their burden of demonstrating that the proposed Settlement is reasonable in light of the whole record. Accordingly, we reject the proposed Settlement.

Because the Settlement is not reasonable in light of the whole record, we need not reach a conclusion as to whether the Settlement is consistent with the law or whether it is in the public interest. Aspects of the Settlement appear contrary to existing state laws, however, such as potential overreliance on CAISO procurement and potential unreasonable and unjust cost shifting between customer classes and service territories. The Settlement’s removal of LSEs’ obligation to meet any RA requirements (system, flexible, or local), without a clear method of assuring energy procurement consistent with state policies, is also likely contrary to Public Utilities (Pub. Util.) Code § 380.

⁴⁶ Settling Parties’ Reply Comments to Settlement at 21.

The Settlement also seeks to adopt multi-year system and flexible RA requirements. In D.19-02-022, the Commission stated that the expansion of multi-year requirements to flexible and system RA “is premature and needs to be fully explored” and thus we declined to adopt such requirements.⁴⁷ Since the issuance of D.19-02-022, there has been no further record development on this issue and the Commission declines to consider it here.

Lastly, because the Settling Parties did not present their proposal at any of the central procurement workshops, or otherwise submit their proposal into this proceeding, parties have had a limited opportunity to discuss the proposal, other than in response to the joint motion to adopt the settlement and at the Commission’s November workshop. By contrast, other central procurement proposals raised during Track 2 or presented at the central procurement workshops have a developed record of comments. While we reject the proposed settlement, we conclude that there is insufficient record to consider it as a new joint party proposal in this decision.

3. Central Procurement Entity and Framework

The proposed decision, issued on November 21, 2018, prior to D.19-02-022, adopted a central procurement structure that: (1) identified the distribution utilities as the CPEs for their respective TAC areas, (2) adopted a full central procurement framework, and (3) set forth specific implementation guidelines for a central procurement structure. Based on comments to the November 21, 2018 proposed decision, the Commission elected to defer adoption of a central

⁴⁷ D.19-02-022 at 33-34.

procurement structure to allow additional time for workshops and discussion. In D.19-02-022, we stated that:

The Commission is open to considering new, viable implementation details that effectively address the known challenges identified in the local RA market, including costly out-of-market RA procurement, load migration and the equitable allocation of costs to all customers, cost effective and efficient coordinated procurement, treatment of existing local RA contracts, opportunity for and investment in procurement of local preferred resources, and retention of state jurisdiction over the procurement of preferred resources.

However, to date, we find that the central buyer structure outlined in the proposed decision is the most workable solution presented that addresses these obstacles.⁴⁸

As stated above, parties undertook a series of workshops to discuss central procurement proposals over the past year, submitted three informal workshops reports, and provided comments on the workshops. The Commission appreciates the significant effort and thoughtful discussion among parties, particularly the effort put forth by parties that led the workshops. Based on the workshop reports and comments, however, it is clear that parties were not able to reach consensus as to the appropriate CPE or a central procurement structure that addresses the known challenges identified in the local RA market.⁴⁹

The Commission thus revisits consideration of the appropriate central procurement structure and central procurement entity in light of the additional record to date.

⁴⁸ D.19-02-022 at 38.

⁴⁹ See, e.g., Informal Workshop Report of CalCCA at 1, Informal Workshop Report of Shell at 2.

3.1. Scope of Central Procurement

The Commission first considers the scope of local RA that should be centrally procured. In D.19-02-022, the Commission assessed three central procurement structures: full procurement, residual procurement, or a hybrid model. We briefly summarize the proposals below, with more detailed discussion of Track 2 proposals to be found in D.19-02-022.⁵⁰

Under full procurement, a CPE procures the entire amount of required local RA on behalf of all LSEs, and LSEs no longer receive individual local requirements. LSEs that have procured local resources may offer those resources to the CPE by bidding into the CPE's solicitation. If the resource is procured by the CPE, the capacity would count towards the overall local RA obligation. If an LSE-procured local resource is not selected by the CPE, the local resource would still be eligible to count towards the LSE's system or flexible RA obligations, if applicable.⁵¹ Costs would be allocated ex post by directly charging LSEs or customers based on load share, in order to prevent cost shifting between LSEs.⁵²

Under residual procurement, LSEs bear the primary responsibility to procure local resources and continue to receive individual local requirements. An LSE may voluntarily show their procured local capacity to the CPE. Based on the shown capacity, the CPE determines the residual amount of local RA that must be procured to avoid individual or collective deficiencies. The CPE would issue a local RA solicitation and select resources that best fit local reliability

⁵⁰ D.19-02-022 at 7-9.

⁵¹ Joint IOUs' Workshop Report at Appendix 1-13.

⁵² *Id.* at Appendix 1-14.

needs while using a least cost approach. The CPE would allocate procurement costs directly to LSEs based on each LSE's individual local RA deficiency, if any. Should the CPE be required to procure local RA capacity above the residual requirement, the costs would be allocated to all LSEs in the TAC area based on an LSE's load share ratio. The CPE's cost allocation would be trued-up to account for load migration, to prevent cost shifting between LSEs.⁵³

A hybrid procurement model is similar to full procurement while giving LSEs an additional opportunity to procure their own local resources. If an LSE procures its own local resource, it may (1) sell the capacity to the CPE, (2) utilize the resource for its own system and flexible RA needs, or (3) voluntarily show the resource to meet its own system and flexible RA needs, and reduce the amount of local RA the CPE will need to procure for the amount of time the LSE has agreed to show the resource.⁵⁴ Under the third option, by showing the resource to the CPE, the LSE does not receive one-for-one credit for shown local resources. Instead, the LSE's local procurement reduces the total CPE procurement costs that will be shared by all LSEs, while retaining the ability to use the shown local resource for its own system and flexible needs. Following the accounting of any LSE-procured resources, the CPE would determine what remains to be procured to avoid collective local deficiencies. Costs incurred by

⁵³ *Id.*

⁵⁴ *Id.* at Appendix 1-15.

the CPE would be allocated ex post based on load share, ensuring that all customers pay their share of local area costs.⁵⁵

3.1.1. Discussion

In D.19-02-022, the Commission observed that:

One advantage of full procurement is that the central buyer can procure more efficiently by selecting effective and preferred resources at the lowest cost. By contrast, under a residual approach where LSEs secure their own resources, a procured resource may not be the most effective, potentially leading to inefficient procurement and collective deficiencies that result in backstop procurement.

Another advantage of full procurement is the ease of administration as it eliminates the need to track LSE self-provided portfolios and fairly allocates local requirements and costs to individual LSEs. Full procurement can also effectively account for load migration addressing stranded cost concerns.

Under a residual framework, an LSE who experiences load migration may be potentially stranded with these resources and costs. The uncertainty around load migration discourages LSEs from procuring too far out given that they do not know if they will have a particular set of customers in the future.⁵⁶

Based on the record developed to date, the Commission stands by the observations made above in D.19-02-022 with respect to a full or residual procurement model. The Commission also acknowledges the benefits of a residual procurement model in that it “offers individual LSEs the flexibility and autonomy to procure local resources based on their (and their customers’)

⁵⁵ *Id.*

⁵⁶ D.19-02-022 at 16.

particular objectives or preferences. The residual model also gives LSEs certainty that a procured local resource will receive local RA credit rather than leaving that determination to a central buyer.”⁵⁷

The Commission is not persuaded that a residual procurement proposal can address all of the known challenges identified in D.19-02-022. A residual framework creates administrative complexities in that the CPE must track and account for individual LSE procurement and cost responsibility. The Commission believes that when LSEs procure on an individual basis, they are likely to procure the resource that best meets their individual objectives (*e.g.*, lower cost, or local benefits such as providing jobs) rather than the most effective resource for overall grid reliability, which can lead to collective deficiencies and inequitable cost allocation to other LSEs (and their customers).

On the other hand, a full or hybrid procurement framework allows the CPE to secure a portfolio of the most effective local resources, mitigating the need for costly backstop procurement in certain local areas. These approaches also allow the CPE to adapt to load uncertainty and migration by allocating local RA costs equitably to all benefiting end-use customers based on actual load. A full or hybrid model ensures that sufficient capacity is procured to meet local needs over a multi-year duration, reducing the likelihood that strategically located local resources will seek retirement. Lastly, under either model, local procurement can be coordinated by the CPE with the state’s environmental goals and preferred resource procurement mandates in mind.

⁵⁷ *Id.* at 17.

We, however, recognize strong concerns disfavoring full procurement, particularly LSEs' loss of autonomy to voluntarily procure and optimize local resources based on an LSE's unique portfolio criteria and loss of certainty for already-procured local resources that may not be selected by the CPE.

Considering the extensive record in this proceeding, the Commission finds that the hybrid procurement model strikes an appropriate, reasonable balance between the residual and full procurement models, and best addresses the known challenges identified in D.19-02-022. The hybrid approach allows a CPE to secure a portfolio of the most effective local resources, use its purchasing power in constrained local areas, mitigate the need for costly backstop procurement in certain local areas, and ensure a least cost solution for customers and equitable cost allocation. The hybrid approach also allows individual LSEs to voluntarily procure local resources to meet their system and flexible RA requirements and count them towards the collective local RA requirements, providing LSEs flexibility and autonomy to procure local resources. By allocating costs directly to end customers, inequitable cost allocation and load migration issues are addressed since all customers pay equitably for the cost of local reliability regardless of which LSE serves them.

Accordingly, the Commission adopts a hybrid central procurement framework beginning for the 2023 RA compliance year. For reasons discussed in Section 3.2, the central procurement framework is adopted only for SCE and PG&E's distribution service territories at this time. LSEs in these TAC areas will no longer receive a local requirement for the 2023 RA compliance year but will have the ability to procure resources to meet system and flexible RA needs. If an

LSE-procured resource also meets a local RA need, the LSE may choose to either (a) show the resource to reduce the CPE's overall local procurement obligation, (b) bid the resource into the CPE's solicitation, or (c) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.

Some parties contend that only a residual framework can incentivize development of local resources because this framework counts the local capacity shown by an LSE towards the LSE's local requirements.⁵⁸ The Commission does not believe that a hybrid procurement model reduces the incentive for LSEs to develop new local resources. If a CCA develops a new local resource, it can choose to either sell the resource to the CPE or retain it for itself and lower the overall local requirements. If the new local resource is a non-CAISO integrated demand-side resource, it flows into the California Energy Commission's (CEC's) load forecast and would in theory reduce overall local needs. While an LSE may not get the full local value of the resource for itself, the hybrid model ensures that all LSEs (and the customers they serve) pay equitably for the portfolio of local resources needed to run the grid reliably, eliminating the incentive to lean on the portfolio of other LSEs, which may also lead to costly backstop procurement.

It is also worth noting that in the last few years, there has been a lower than expected amount of local preferred procurement added to the grid by LSEs. As stated in Energy Division's September 3, 2019 and January 13, 2020 State of the Market Reports, 167.17 MW of August RA capacity were added between

⁵⁸ See *e.g.*, Joint IOU Workshop Report at Appendix 1-20.

January 2018 - July 2019 and only 5.4 MW were added between August 2019 and December 2019 (totaling 172.57 MW).⁵⁹ Of these new resources, 100 MW were under contract with IOUs and ~59 MW were under contract with CCAs. Given the declining Effective Load Carrying Capacity (ELCC) factors adopted beginning in 2020, these incremental preferred resources would only have August values of 124 MW.

The Commission is aware of the procurement direction made in the Integrated Resource Planning's (IRP's) near-term reliability decision, D.19-11-016, which authorized and allocated 3,300 MW of additional RA capacity to be procured by all Commission-jurisdictional LSEs. In that decision, the Commission chose an LSE-based approach, with the IOU acting in a backstop role if the LSE fails or chooses to opt out. The backstop procurement cost allocation mechanism is still under development in the IRP proceeding. As stated in D.19-11-016, "[t]his is also an appropriate place to test how well the obligated LSEs perform when given a procurement requirement for system reliability and renewable integration resources in the context of IRP."⁶⁰

In addition, the near-term reliability shortfalls identified in the IRP decision are systemwide and targeted at adding incremental procurement to the system. By contrast, the central procurement framework adopted in this decision is specific to local procurement (including sub-local areas) and is primarily

⁵⁹ See The State of the Resource Adequacy Market (September 2019) at 12; The State of the Resource Adequacy Market – Revised (January 13, 2020) at 31. The RA values reflect the 2019 ELCC technology factors for solar and wind resources.

⁶⁰ D.19-11-016 at 39.

focused on the contracting for existing local resources (although it does not preclude new generation procurement). The local challenges the Commission seeks to address through the adoption of a CPE framework are separate and distinct from the system issues presented in the near-term reliability track. That said, the Commission will consider whether to adopt multi-year system and flexible RA requirements in Track 3 of the successor RA proceeding, Rulemaking (R.)19-11-009.

3.2. Identity of a Central Procurement Entity

We next consider what entity or entities should serve as the central procurement entity. In D.19-02-022, the Commission considered the following central procurement entity proposals: the distribution utilities, a special purpose entity, CAISO, and a centralized capacity market. Parties largely appear to still support their Track 2 proposals.⁶¹ We briefly summarize the CPE proposals below, with a more detailed discussion of proposals to be found in D.19-02-022.⁶²

3.2.1. CPE Proposals

Some parties support the IOUs serving as the CPE for their respective distribution areas on an interim basis. Parties acknowledge that the IOUs are likely the only candidates that can take on the central procurement function in the near term.⁶³ TURN states that the IOUs are the “only feasible entities” to

⁶¹ Some parties may have modified their Track 2 positions; however, because the informal workshop reports included aggregated summaries of parties’ positions, the Commission instead relies on proposals and comments submitted into the record by parties.

⁶² See D.19-02-022 at 7-13.

⁶³ See, e.g., CLECA Track 2 Comments (August 8, 2018) at 7, NRG Track 2 Comments (August 8, 2018) at 8, Cal Advocates Track 2 Comments (August 8, 2018) at 14, TURN Track 2 Testimony (July 10, 2018) at 23, PG&E Track 2 Opening Testimony (July 10, 2018) at 1-25.

serve as CPEs in the near term as they “have the resources, the knowledge and experience to take on this task effectively.”⁶⁴ Those that oppose designating the IOUs argue that they cannot be neutral buyers, as they can potentially favor their own resources or select resources that expand their rate base, such as utility-owned storage.⁶⁵ Some parties are concerned with IOUs procuring on their behalf, noting the lack of transparency inherent in utility procurement. The IOUs themselves express concern with the financial costs and risks of a CPE role, including the financial commitment required of large-scale procurement that could raise debt equivalency issues.⁶⁶

A second proposal is for a special purpose entity (SPE) to serve as the CPE, which may be a state agency or private entity selected through a solicitation or legislation. An SPE is considered an ideal CPE by some parties because it could be financially stable, neutral, and subject to Commission oversight, while engaging in policy-based procurement without the complications of utility procurement.⁶⁷ The main drawback of a governmental SPE is the substantial time and expense involved in establishing a governmental entity, including required legislation.

Others support the CAISO serving as the CPE because it is governed by tariffs and is an independent organization with transparent procurement. Critics

⁶⁴ TURN Track 2 Testimony at 23.

⁶⁵ See e.g., AReM Track 2 Comments (August 8, 2018) at 5, CalCCA Track 2 Comments (August 8, 2018) at 19-20, Calpine Track 2 Testimony (July 10, 2018) at A-2.

⁶⁶ PG&E Track 2 Reply Testimony (August 8, 2018) at 1-25, SDG&E Track 2 Comments (August 8, 2018) at 6, SCE Track 2 Testimony (July 10, 2018) at 14.

⁶⁷ See, e.g., SDG&E Track 2 Comments at 7, PG&E Track 2 Opening Testimony at 2-20.

of this proposal cite CAISO's statements that it will not voluntarily serve this role, potential conflict with Federal Energy Regulatory Commission's (FERC) involvement in the state's capacity market and environmental goals, and the significant time required for stakeholder initiatives to design a new market structure and tariff amendments for approval by FERC.⁶⁸

Lastly, some recommend a centralized capacity market (CCM) as a variation of a CPE. A CCM generally refers to a market clearing mechanism where a resource is selected based on whether it bids at or below a single market price, with consideration for grid reliability constraints. Supporters of a CCM cite a few benefits, such as price transparency with a single market price and ease of transactions.⁶⁹ Opponents argue that CCMs procure solely based on system-wide grid reliability and cost considerations and are not set up for targeted procurement for local and sub-local areas or preferred resources. Some state that a CCM would likely be regulated by FERC, exposing California's procurement policies to federal jurisdiction.

3.2.2. Discussion

In D.19-02-022, the Commission stated that:

The Commission is not convinced that an SPE or the CAISO could readily take on the central procurement role in the near term, given the noted obstacles. Designating a special governmental entity would require administrative and legislative processes that would cause substantial delay.

⁶⁸ See e.g., SDG&E Track 2 Comments at 7, CLECA Track 2 Comments at 8, Joint Environmental Parties Track 2 Comments at 7-8, Cal Advocates Track 2 Comments at 16-17, TURN Track 2 Testimony at 25, CAISO Track 2 Comments at 5.

⁶⁹ See, e.g., AReM Track 2 Comments at 3, Shell Track 2 Testimony at 4.

Likewise, designating the CAISO involves its own administrative challenges, as well as potential federal jurisdictional conflicts.

A CCM, by design, procures only based on grid reliability and cost criteria and thus cannot engage in such targeted procurement. As discussed above, establishing a new centralized capacity market would be a complex undertaking with significant risks and unclear benefits for California's procurement goals and policies. As noted in the Track 1 decision [D.18-06-030], we reiterate that we are not convinced that a centralized capacity market is the appropriate central procurement structure, given the objectives outlined.⁷⁰

Based on the record developed since D.19-02-022, we have not identified additional information that compels us to change our conclusions with respect to a special purpose entity or CAISO serving as the CPE, or with respect to a centralized capacity market. Thus, the Commission stands by the above conclusions reached in D.19-02-022.

In D.19-02-022, we also stated that:

The Commission is persuaded by parties who acknowledge that the distribution utilities are the candidates with the 'resources, knowledge, and experience' to procure local reliability resources on behalf of all LSEs without excessive delay.

We find that designating the distribution utilities as the central buyers for their respective TAC areas is the most practical, feasible solution in the near term.⁷¹

⁷⁰ D.19-02-022 at 13.

⁷¹ *Id.* at 14.

Again, the Commission has not identified additional information that compels us to change the above conclusion. Rather, the Commission stands more firmly by the conclusion that designating the distribution utilities as the CPEs for their respective TAC areas is the most practical, feasible solution in the near term.

The Commission initially sought to adopt a central procurement structure that could be applied uniformly statewide because such a structure could benefit each TAC area in a similar manner. However, we recognize that the SDG&E TAC area is unique in that the local RA requirements typically meet or exceed the system requirements. In 2020, for example, local RA requirements in SDG&E's TAC area exceed system requirements for eight months of the year. Using the 2020 year ahead forecast, the aggregated system RA peak requirements for SDG&E's TAC area are 4,505 MW⁷² and the adopted 2020 local requirements for SDG&E's TAC area are 3,895 MW.⁷³ Since local MWs are bundled with system MWs (and sometimes flexible MWs), for each local MW procured by the CPE there would be one MW of system capacity that is also procured (and potentially one MW of flexible capacity that is also bundled).

This means that if a CPE procures all the needed local capacity in the San Diego local areas, there would be very little system (or flexible) capacity left to be procured for most months of the year. For 2020, 86 percent of the peak month (September) system requirement would be procured by the CPE, leaving

⁷² Total forecasted peak load (3,918 MW) plus a 15 percent planning reserve margin. Peak load occurs in September.

⁷³ SDG&E Local RA requirements include the San-Diego-IV area and nested subareas.

very little to procure by LSEs that serve load in the SDG&E TAC area.⁷⁴ In other words, LSEs in SDG&E's TAC area would have little procurement autonomy for system and flexible RA procurement, undercutting one of the primary rationales for adopting a hybrid procurement framework.

This is not the case for PG&E and SCE's TAC areas, however, where local requirements make up approximately 43 and 38 percent of total peak system requirements, respectively.⁷⁵ Even after the CPE procures all of the needed local capacity in these TAC areas, there would still be over 50 percent of system and flexible capacity that LSEs need to procure, providing LSEs with substantial procurement autonomy for these requirements. LSEs in these TAC areas continue to have incentives to procure resources in local areas if doing so provides their customers with system RA benefits (or other benefits, such as job creation, RPS, or GHG / criteria pollutant reductions).

On the other hand, SDG&E's TAC area is considered locally constrained in that nearly all resources located in this area are needed to meet the TAC area's local requirements.⁷⁶ The high concentration of local need relative to local supply suggests that there is considerable market power in SDG&E's TAC area. Therefore, the Commission believes there would be considerable benefits to

⁷⁴ For 2020, there would be only 4 months of the year where LSEs would have a system RA requirement. This requirement would be at most 14 percent of their system RAR (load + 15 percent planning reserve).

⁷⁵ For SCE's TAC area, 2020 aggregate local requirements for Commission-jurisdictional LSEs are ~8,847 MW and system RAR are ~23,015 MW. For PG&E's TAC area, 2020 aggregate local requirements for Commission-jurisdictional LSEs are ~8,957 MW and system RAR are ~20,681 MW.

⁷⁶ See D.18-06-030 at 30, 33; D.19-02-022 at 14, 17.

adopting central procurement of local resources in the SDG&E TAC area (as well as PG&E and SCE's service territories), including procurement efficiency, market power mitigation, and equitable cost allocation to all customers.

For the reasons cited in D.18-06-030 and D.19-02-022,⁷⁷ the Commission continues to believe that a central procurement structure is appropriate and necessary for procurement of multi-year local RA resources. Weighing the benefits of LSE procurement autonomy for system and flexible RA against the benefits of central procurement, however, the Commission declines to adopt a central procurement framework for the SDG&E TAC area at this time. LSEs in SDG&E's TAC area will continue to receive a local requirement and self-procure local resources as is currently done. The Commission will continue to monitor LSE-based procurement in this TAC area and may consider whether a central procurement structure is necessary in future years.

Accordingly, the Commission designates the distribution utilities (that is, SCE and PG&E) as the appropriate entities to serve as the CPEs for the SCE and PG&E TAC areas to begin for the 2023 RA compliance year.⁷⁸ The Commission will continue to evaluate and monitor the central procurement function in SCE and PG&E's TAC areas and remains open to designating a different CPE in future years. To that end, we authorize Energy Division to prepare a report assessing the effectiveness of the CPE structure by 2025. In addition, we note that Track 3 of R.19-11-009 has been scoped to examine the broader RA capacity structure and

⁷⁷ D.18-06-030 at 30-22; D.19-02-022 at 15-17.

⁷⁸ SCE and PG&E will undertake procurement of local resources for only Commission-jurisdictional LSEs in their respective distribution service areas.

potential RA program modifications and reforms in light of increasing penetration of use-limited resources, greater reliance on preferred resources, rolling off of a significant amount of long-term tolling contracts held by utilities, and material increases in energy and capacity prices experienced in California over the past years.⁷⁹

The Commission acknowledges concerns raised by the IOUs regarding financial costs and risks associated with the central procurement function. We encourage SCE and PG&E to offer supporting documentation in this proceeding should the central procurement function result in negative financial impact. In addition, we encourage each CPE to make a proposal to recover additional costs resulting from central procurement in the utilities' Cost of Capital proceeding, if needed, as this is the proceeding where the Commission can best evaluate the utility's balance sheet issues.

The Commission recognizes concerns regarding whether state law precludes directing distribution utilities to act as CPEs. Some parties assert that the utilities may not have authority to act as a CPE, citing Pub. Util. Code § 380(c) and (d), which provide that "[e]ach load-serving entity" shall maintain generation and demand response capacity that are adequate to meet their load requirements and that the capacity or demand response shall be deliverable "to locations and at times as may be necessary to maintain electric service system reliability and local area reliability." This excerpt, however, cannot be read in

⁷⁹ Assigned Commissioner's Scoping Memo and Ruling in R.19-11-009, issued January 22, 2020, at 7.

isolation without considering the context of § 380. Section 380(h) directs the Commission to “determine and authorize the most efficient and equitable means for achieving” a broad list of RA goals, including ensuring that economical generating capacity is retained, that generating capacity and demand response costs are equitably allocated, and that the broad objectives of § 380 are met. In order to meet these goals, § 380(i) provides that the Commission may “consider a centralized resource adequacy mechanism among other options.”

The State Legislature also modified § 380 to add another goal to the RA objectives, directing the Commission to “[minimize] the need for backstop procurement by the Independent System Operator.”⁸⁰ This additional objective, in light of the other RA objectives in § 380, underscores the Commission’s duty to ensure adequate resource availability for grid reliability regardless of which load serving entity offers service. Additionally, the Commission adopts a hybrid procurement model, which provides individual LSEs an opportunity to self-procure local resources if they so choose.

3.3. Procurement Mechanism

We next consider the appropriate procurement mechanism for the CPE’s procurement of local RA resources. Some parties recommend a competitive solicitation process, consisting of solicitation for bids through a request for offers (RFO) for RA products.⁸¹ The RFO is a pay-as-bid mechanism in which the CPE

⁸⁰ Pub. Util. Code § 380(h)(7).

⁸¹ See Energy Division Track 2 Proposal at 15, Cal Advocates Track 2 Comments at 14, PG&E Track 2 Opening Testimony at 2-6, SDG&E Track 2 Testimony at 4, SCE Track 2 Testimony at 17.

would award RA contracts based on pre-established criteria. Others support a market clearing mechanism where resources are selected based on whether they bid at or below a single market price.⁸²

The Commission finds that a RFO process gives the CPE the flexibility to select resources based on multiple targeted criteria, in addition to costs and local needs, including broader environmental goals, such as preferred resources. Accordingly, we adopt a competitive solicitation process as the appropriate central procurement mechanism. The CPE is permitted to conduct multiple solicitations per year, as needed.

Further, the Commission clarifies that if an LSE opts to show a local resource, it may either: (a) do so in advance of the CPE's solicitation if it does not intend to bid it into the solicitation, or (b) bid the resource into the CPE's solicitation but indicate in its bid that the resource will be available to meet local RA requirements even if it is not procured by the CPE, which may reduce the total procurement costs the CPE incurs on behalf of all LSEs. Under the latter approach, the CPE will need to structure its solicitation to accommodate the iterative process of including these resources as bids into the RFO but removing the associated MW from the total procurement requirement if they are not selected based on the selection criteria. The "iterative process" is described as follows:

- (1) The CPE recognizes all existing Cost Allocation Mechanism (CAM) resources and any self-shown resources that are not also bid into the CPE's solicitation.

⁸² See, e.g., Shell Testimony at 7.

- (2) The CPE determines remaining local area need.
- (3) The CPE evaluates all bids regardless of whether any bids have offered to self-show if their bid is not selected, which will result in a selection of the least cost, best fit portfolio to meet the needs.
- (4) The CPE determines if any bids not selected indicated that they will self-show if not selected. The CPE will include those, if any, as self-shown and reevaluate the remaining least cost, best fit portfolio to reduce procurement.
- (5) If this process results in a reduction of the least cost, best fit portfolio, the CPE will review the newly unselected bids to determine if they have indicated that they will self-show if not selected. This process will repeat until either no unselected bids indicate they will self-show or the total quantity necessary to satisfy the local area has self-shown.

If the LSE shows the resource to reduce the CPE's local RA procurement (either in advance of the solicitation or as an offer that is not selected by the CPE), the LSE may still use the resource to fulfill its system and flexible RA needs. An IOU shall have the same options as other LSEs in deciding whether to bid or show its resources to the CPE.

3.4. Compensation Mechanism

In comments to the proposed decision, several parties propose a one-for-one credit for all shown local RA resources,⁸³ or for shown preferred resources.⁸⁴ PG&E/SCE oppose a one-for-one credit, stating that it will turn the hybrid framework into a residual model and reintroduce the same problems that the

⁸³ See, e.g., CESA, Calpine, ENGIE, Joint Parties, NRG, OhmConnect, SDG&E, Shell, TURN, Vistra, WPTF.

⁸⁴ See, e.g., AWEA-CA, SEIA/LSA, Sunrun, Joint Environmental Parties.

decision seeks to address.⁸⁵ CalCCA recommends a direct financial credit mechanism that compensates LSEs a local RA premium value for existing preferred or energy storage local resources shown to the CPE. The local RA value would be calculated as the difference between the weighted average system price (developed for use in the PCIA) and the weighted average local price of the resources procured by the CPE in the relevant local area.⁸⁶ AReM comments that a crediting mechanism is complicated, raises many unanswered questions, and should be deferred to a working group for further evaluation.⁸⁷

We acknowledge that a hybrid framework may result in some uncoordinated development of preferred and energy storage resources between LSEs. However, we believe the IOU acting as the CPE allows for development of local preferred resources, even without a financial crediting mechanism. This is especially true for locally constrained areas that involve transmission solutions, such as recent successful centralized procurement by IOUs in the Moorpark/Santa Clara and Moss Landing/South Bay sub-local areas. We encourage the CPE to continue these efforts to develop new preferred resources in local areas to ensure reliability and meet the state's greenhouse gas goals, while working collaboratively with CCAs and ESPs.

As discussed above, a hybrid model does not disincentivize procurement of local resources because LSEs procure local resources for many reasons beyond

⁸⁵ SCE Reply Comments on Proposed Decision at 1, PG&E Reply Comments on Proposed Decision at 1-2.

⁸⁶ CalCCA Comments on Proposed Decision at 13.

⁸⁷ AReM Reply Comments on Proposed Decision at 3-4.

the local RA value. However, we recognize that a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred and energy storage local resources in constrained local areas. But we agree with PG&E and SCE that the addition of a one-for-one credit basically turns the hybrid model into a residual framework and reintroduces the same concerns identified in D.19-02-022. CalCCA's proposal contemplates a one-for-one MW reduction where the resource gets paid its full MW value without considering effectiveness in reducing the LCR need. This could be viewed as a must-take resource being guaranteed a one-for-one MW local premium value (if there is a local premium). CalCCA's proposal thus raises similar concerns (i.e., inefficient procurement and leaning) as identified with a residual model. As discussed, LSEs that procure on an individual basis are likely to procure resources that meet individual objectives rather than the most effective resource. We thus decline to consider a one-for-one-credit or CalCCA's proposal, neither of which accounts for a resource's effectiveness at reducing LCR needs.

For new conventional gas resources, we note that the Commission has prohibited investment in predominantly fossil fuel resources in the IRP proceeding⁸⁸ and thus, it is unnecessary to provide financial incentives to procure new local gas generation. For existing local contracts, including gas contracts, a working group process is established in Section 3.5 to consider treatment of these existing contracts.

⁸⁸ See D.20-03-028 at 103, D.19-11-016 at Ordering Paragraph 7.

3.4.1. Discussion

The Commission recognizes that a financial credit mechanism for preferred and energy storage resources that considers local effectiveness factors and use limitations to the shown MW value would more closely align the financial compensation with the actual LCR MW reduction the resource provided. For purposes of this discussion, we refer to this as an “LCR reduction compensation mechanism.” We consider how such a compensation mechanism could work.

Because resources procured in the CPE solicitation would impact local compensation values and the least cost best fit solution, local resources shown by LSEs seeking a local premium payment would need to be evaluated alongside bid resources to fully assess the cost effectiveness of the local portfolio being considered by the CPE in addressing LCR needs. However, rather than the ex post benchmark proposed by CalCCA, the CPE would need a pre-determined local premium for shown preferred resources to reflect the cost to ratepayers of selecting the shown resources over purchasing bid resources.

A key purpose in creating a CPE framework is to reduce costs to ratepayers by mitigating local market power. To the extent that market power inflates local area capacity prices, an ex post benchmark would exacerbate this problem by providing inflated prices to local resources shown by LSEs. In light of this concern, we observe that another benefit of a pre-determined local premium is that it may be cost-based to reflect the additional costs that LSEs incurred by locating preferred resources close to load, rather than based on market-power inflated price premiums.

An “LCR reduction compensation mechanism” departs from CalCCA’s must-take, local price based proposal; however, it would address the concern CalCCA’s proposal seeks to address – namely, that the CPE should not discourage LSEs from procuring local preferred and energy storage resources – and it could do so in a manner that ensures that ratepayers are: (1) only compensating resources to the extent they provide ratepayer value, and (2) only compensating LSEs for additional costs of procuring resources close to load rather than simply extending market power premiums to these LSEs.

The Commission will develop an LCR reduction compensation mechanism, if details can be assessed and developed. To that end, we direct a working group to develop this mechanism that properly compensates LSEs for shown local preferred resources. The working group will be co-led by CalCCA and either PG&E or SCE. A working group report on consensus and non-consensus items shall be filed in R.19-11-009 by September 1, 2020. Any proposal to be offered for consideration shall be presented through the working group report. The Commission is not open to considering a one-for-one credit, CalCCA’s proposed financial credit mechanism, or a credit mechanism for fossil fuel resources (other than potentially for existing grandfathered contracts).

The working group report should address the resource cost effectiveness concerns outlined above (including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources). The report should also address the following issues (to the fullest extent possible given the expedited timeframe):

- (1) How granular the premium should be (*e.g.*, should different premiums be developed for different types of preferred resources, for new versus existing resources, and/or for sub areas, individual local areas, or TAC-wide local areas);
 - The level of granularity that premiums can be developed may be limited by the availability of sufficient cost data to develop reasonable premium values by location and resource type.
- (2) How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;
- (3) Whether the compensation mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation (or require potential revisions to the iterative process), due to the complexity of overlaying both of these mechanisms into the bid evaluation process;
 - We recognize that the iterative process for shown resources replacing bid resources may not be compatible with or may unnecessarily complicate the compensation mechanism.
- (4) How to best adjust the local compensation from year to year to account for changes in the effectiveness of the resource reducing the local requirements.

Consistent with past Commission direction to IOUs regarding favoring preferred resources in the development of solicitation criteria and weighting of RFO bids, as discussed further below, as well as additional preference for CPE procurement of preferred resources articulated in this decision, the working group should also consider how the CPE will incorporate qualitative and/or quantitative criteria into the bid evaluation process to ensure that gas resource

bids are not selected over preferred resources in instances in which price differentials are relatively small.

The Commission will address a proposed LCR reduction compensation mechanism in a subsequent decision to be issued prior to the CPE's 2021 procurement (for the 2023 and 2024 compliance years).

3.5. Transition Period to the CPE Structure

In order to transition to the central procurement framework for the 2023 RA compliance year, we consider adjustments to the current three-year local requirements adopted in D.19-02-022. For 2020, we find that it is reasonable to eliminate the 50 percent local requirement for the 2023 compliance year. Thus, there will be no three-year local requirement in 2020 for LSEs in the PG&E and SCE TAC area. However, the 100 percent two-year requirement will remain such that LSEs will be responsible for 100 percent of their 2021 and 2022 local requirements in 2020, and 100 percent of their 2022 local requirements in 2021.

The adopted three-year local requirements and procurement percentages will apply to the CPE, as they currently do for LSEs. Therefore, the CPE will begin local procurement responsibilities in 2021 for 100 percent of the 2023 local requirements and 50 percent of the 2024 local requirements. In 2022, the CPE will be responsible for procuring the entire current 3-year local requirements for the 2023, 2024, and 2025 compliance years.

The Commission recognizes that some LSEs may have existing local contracts that have been procured in anticipation of multi-year local obligations for 2023 and beyond. Because the CPE will not undertake the central

procurement role until the 2023 compliance year (beginning with procurement in 2021), the Commission defers making a determination as to any existing local RA contracts in the PG&E and SCE TAC areas at this time. We direct parties to undertake this issue, in addition to the LCR reduction compensation mechanism, in a combined working group and submit a working group report into the successor RA proceeding R.19-11-009 by September 1, 2020. The working group should submit a proposal on the treatment of existing contracts, which may include consideration of whether any proposed LCR reduction compensation mechanism should be applied to existing contracts. At this time, we are not inclined to “grandfather” resources that are not currently online, absent compelling information provided in the working group report.

In order to ensure a smooth transition in implementing the hybrid framework, and to ensure backstop procurement is minimized, Energy Division shall coordinately closely with the CAISO.

3.6. Resources to Be Solicited

The Commission assesses what types of resources may bid into a solicitation administered by the CPE. Some parties recommend that only Cost Allocation Mechanism (CAM) resources⁸⁹ and those procured by the CPE should count towards reducing the collective local RA requirements.⁹⁰ Some favor keeping RA attributes bundled through the RFO process such that any local resource capable of providing other collateral RA products would be required to

⁸⁹ A CAM resource refers to resources procured for reliability purposes through the cost allocation mechanism adopted in D.06-07-029, and further expanded and refined in subsequent decisions.

⁹⁰ See, e.g., Energy Division Track 2 Proposal at 15-16, PG&E Track 2 Reply Testimony at 1-7.

sell the other RA products (*e.g.*, local RA with the associated flexible attribute).⁹¹ Energy Division proposes that LSEs receive credits for any system or flexible capacity procured during the local RA or backstop processes, based on coincident load shares.⁹²

The Commission previously adopted an open competitive solicitation process in D.04-12-048, which approved the IOUs' long-term procurement plans. In that decision, a requirement of the solicitation process was that "[a]ll-source open solicitations need to be transparent and competitive, and in addition, need to be open to all resources (conventional/renewable – turnkeys, buyouts and PPAs [power purchase agreements])."⁹³

The Commission finds it reasonable that the CPE use similar requirements for its solicitation process, as adopted in D.04-12-048. Accordingly, the CPE shall run an all-source solicitation that is transparent, competitive, and open to all resources. Any existing local resource that does not have a contract, any new local resource that can be brought online in time to meet solicitation requirements, or any LSE or third-party with an existing local RA contract may bid into the solicitation. We also find it reasonable that RA attributes should remain bundled and LSEs should receive credits for any system or flexible capacity procured during the local RA or backstop processes, based on coincident peak load shares, as is currently done with CAM resources.

⁹¹ See, *e.g.*, Energy Division Track 2 Proposal at 16, Joint Utilities' White Paper (August 8, 2018) at 18, PG&E Track 2 Opening Testimony at 2-6, SDG&E Track 2 Testimony at 7.

⁹² Energy Division Track 2 Proposal at 16.

⁹³ D.04-12-048, Ordering Paragraph 26.

The Commission agrees that CAM resources and IOU local demand response (DR) resources should reduce the local RA amount that the CPE must procure. For local procured DR resources (such as IOU DR programs, DRAM and LCR resources), it is reasonable to continue to treat DR resources as is currently done. The amount of local IOU DR (excluding DRAM) shall be based on the three-year period of the applicable load impact protocol studies (or any modified DR counting rules that are established in the RA proceeding) after any Energy Division adjustments, as is the current practice.

It is also reasonable for the IOU to bid its resources into the CPE's RFO, including utility-owned generation (UOG) or contractually committed resources that are not already allocated to all benefitting customers, at their levelized fixed costs, and we direct the utility to do so when it is acting as the CPE. Levelized fixed costs refer to the annual revenue requirement for utility-owned resources or the PPA price for contracted resources. The Commission directs the IOU to submit its procurement bids to the Procurement Review Group and Independent Evaluator, adopted in Section 3.9, in advance of the receipt of bids from any other entities. When the IOU is not acting in its capacity as the CPE, and acting as any other bidder would, it is not required to bid its resources into another CPE's RFO at its levelized fixed costs.

In addition, IOU resources procured by the CPE should be reclassified from their existing cost recovery mechanism designations to the CAM for the duration of the contract/multi-year obligation with the CPE. After that time, the IOU resources should be reclassified back to their existing cost recovery mechanism designation. Where Power Charge Indifference Adjustment (PCIA)-

eligible local resources procured by the CPE are reclassified as CAM, then reclassified back to their existing cost recovery mechanism designation, an exemption of the local resource from the annual PCIA rate cap is allowed.

Energy Division also recommends that the CPE procure dispatch rights along with the local RA products, if applicable, to “help ensure that the local resource fleet is subject to the [Commission’s] least cost dispatch rules (ensuring locational price stability).”⁹⁴ SCE states that if a contract conveys the dispatch rights, the Commission’s existing Least Cost Dispatch standard should be applicable to the dispatch of the resource procured.⁹⁵ Calpine expresses concern with requiring acquisition of dispatch rights to resources, given that an LSE that contracted for RA only cannot provide dispatch rights that it does not control.⁹⁶

The Commission finds insufficient record support to require the CPE to acquire dispatch rights alongside RA capacity. However, we do require the CPE to include dispatch rights, or other means that stipulate how local resources bid into the energy markets, in its solicitation, as an optional term that bidders are encouraged to include. We strongly encourage the CPE to procure dispatch rights along with the RA capacity, whenever doing so is in the financial interest of all ratepayers (*e.g.*, when the benefits of least cost dispatch requirements outweigh increased contract costs) because this will reduce the local RA costs paid for by all LSEs after the energy benefits are netted out of the total contract

⁹⁴ Energy Division Track 2 Proposal at 16.

⁹⁵ SCE Track 2 Testimony at 9.

⁹⁶ Calpine Track 2 Comments at 15.

price. If the CPE procures dispatch rights, administration of the contracts shall be submitted for review in the utility's annual Energy Resource Recovery Account (ERRA) compliance application for review of compliance with least cost dispatch requirements. If the CPE procures dispatch rights, allocation of any GHG emissions shall be allocated as they currently are for other CAM resources.

Lastly, in D.19-02-022, the Commission adopted a minimum three-year forward local RA requirement and minimum procurement percentages for multi-year procurement: 100 percent in Years 1 and 2, and 50 percent for Year 3.⁹⁷ The Commission clarifies that because these are minimum requirements, this does not preclude the CPE from entering into contracts exceeding three years or from procuring in excess of the adopted percentages, if it is in ratepayers' interest to do so. In the event that the CPE procures more than 100 percent of the local RA requirement for an area (such as in an instance where the LCR requirement decreases between years), the CPE is not required to sell the excess capacity. Because LCR requirements vary from year to year, sometimes unexpectedly, and capacity will have been allocated to LSEs, it is not reasonable for the CPE to make adjustments to accommodate such changes.

3.7. Solicitation Selection Criteria

Parties offered criteria to determine how local resources should be selected by the CPE. Some recommend that the CPE develop at least two portfolios: one based on least cost and one with consideration of preferred resources.⁹⁸ Energy

⁹⁷ D.19-02-022 at 22, 27.

⁹⁸ Joint IOUs Workshop Report at Appendix 1-14.

Division proposes a set of six selection criteria to guide procurement, including: (1) future needs in local and sub-local areas, (2) local effectiveness factors, as published in the CAISO's Local Capacity Requirements Technical Study (LCRTS), (3) costs, (4) operational characteristics of the resources (including efficiency, age, flexibility, facility type), (5) location of the facility (with consideration for disadvantaged communities), and (6) costs of potential alternatives.⁹⁹

In D.04-12-048, the Commission approved specific all-source solicitation selection criteria to be used in a utility's long-term procurement processes. In pertinent part, the criteria for all-source open solicitations included:

- (1) The first priority shall be "cost-effective energy efficiency and demand-side resources," with "renewable generation [] to be procured to the fullest extent possible..."
- (2) Investor-owned utilities will "employ the Least-Cost Best-Fit methodology when evaluating PPAs and utility-owned bids in an all-source open RFO, taking into account the qualitative and quantitative attributes associated with each bid."
- (3) "GHG adders are to be used for bids in all-source open RFOs."¹⁰⁰

D.04-12-048 adopts a "loading order" when soliciting resources, as follows: "energy efficiency and demand-side resources; renewable generation resources

⁹⁹ Energy Division Track 2 Proposal at 24-25.

¹⁰⁰ D.04-12-048, Ordering Paragraph 26.

(including renewable [distributed generation] [DG]); clean fossil DG; and efficient, clean fossil generation resources.”¹⁰¹

In D.07-12-052, the Commission directed IOUs to consider additional criteria for procurement. In particular, the Commission added considerations for determining “project viability” and giving greater weight to “disproportionate resource siting in low income and minority communities, and environmental impacts/benefits (including Greenfield vs. Brownfield development).”¹⁰²

The Commission finds the above criteria adopted for solicitations administered by the utilities to serve as a useful, reasonable guide for consideration in the selection of local resources by the CPE, including the loading order adopted in D.04-12-048. The Commission also finds that Energy Division’s selection criteria should guide the CPE’s all-source solicitations. To that end, the Commission adopts similar procurement rules to guide local procurement by the CPE, with modifications, as follows:

The CPE shall evaluate resources using the least cost best fit methodology adopted in D.04-07-029.¹⁰³ The least cost best fit methodology employed shall include the following selection criteria:

- (a) Future needs in local and sub-local areas;

¹⁰¹ *Id.* at 31.

¹⁰² D.07-12-052 at 157.

¹⁰³ “Least cost best fit” refers to the selection of resources that are least cost, including the direct costs of energy generation and any indirect costs due integration of the resource and needed transmission investment. In addition, utilities are required to consider resources that best fit their system needs.

- (b) Local effectiveness factors, as published in the CAISO's LCRTS;
- (c) Resource costs;
- (d) Operational characteristics of the resources (efficiency, age, flexibility, facility type);
- (e) Location of the facility (with consideration for environmental justice);¹⁰⁴
- (f) Costs of potential alternatives;
- (g) Greenhouse Gas adders;
- (h) Energy-use limitations; and
- (i) Procurement of preferred resources and energy storage (to be prioritized over fossil generation).

To assist the CPE in evaluating some of the above criteria, we direct the CPE to require bidders in its solicitation to include the following attributes for the resource: the CalEnviroScreen score of the resource location (or if unavailable, the pollution burden of the resource location), facility age, heat rate, start-up time, and ramp rate. The GHG planning price, adopted in D.18-02-016 of the IRP proceeding, shall guide development of the GHG adder used by the CPE.

The Commission believes the listed criteria are sufficient to guide the CPE through the initial local procurement beginning for the 2023 compliance year. We

¹⁰⁴ "Disadvantaged community" is defined as: any community statewide scoring in the top 25 percent statewide or in one of the 22 census tracts within the top five percent of communities with the highest pollution burden that do not have an overall score, using the most recent version of the California Environmental Protection Agency's CalEnviroScreen tool. Unless an updated version of the tool is adopted prior to the adoption of the 2019 Reference System Plan, LSEs should use version 3.0 of the tool. See D.18-02-018 at Ordering Paragraph 6.

recognize that further refinements to the criteria may be necessary through a working group or through future proposals made in the RA proceeding.

3.8. Cost Allocation

The Commission considers how costs associated with the central procurement function will be appropriately allocated and recovered. Some parties support the use of the CAM to facilitate an equitable allocation of costs for resources procured by the CPE.¹⁰⁵ PG&E proposes that the costs recovered by the CPE should include (but not be limited to): contract costs for purchases of local resources, costs for excess local capacity due to decreased load forecast or other changes, administrative costs related to purchase or sale of local capacity, and credit costs related to collateral requirements, credit risks and cashflow variability.¹⁰⁶

The Commission previously authorized the CAM to allocate costs for investor-owned utilities' procurement of generation required to meet system and local reliability needs on behalf of all LSEs.¹⁰⁷ In designating that the IOUs procure new generation through long-term PPAs, the procured capacity rights were allocated among all LSEs in the service territory and in exchange for those benefits, the LSEs' customers (termed "benefiting customers")¹⁰⁸ paid for the net

¹⁰⁵ See, e.g., Energy Division Track 2 Proposal at 18, PG&E Track 2 Opening Testimony at 2-10, SCE Track 2 Testimony at 10.

¹⁰⁶ PG&E Track 2 Opening Testimony at 2-9.

¹⁰⁷ See D.06-07-029, D.13-02-015.

¹⁰⁸ Benefiting customers have been defined as all bundled service, direct access, and community choice aggregator customers. Benefiting customers are also customers who are located within a utility's distribution territory who take service after the date the new generation goes into service. D.06-07-029, footnote 21.

cost of the capacity. Subsequent decisions and regulations have clarified and amended the CAM.¹⁰⁹ In D.18-06-030, the Commission authorized the use of CAM to allocate the costs of 2019 and 2020 procurement of Ormond Beach and Elwood in order to avoid the costs of a costly out-of-market procurement (future RMR designation). More recently, the Commission authorized the use of CAM to meet local reliability in the Moorpark/Santa Clara sub-areas.¹¹⁰

The Commission seeks a cost recovery mechanism that facilitates the CPE's efficient procurement of local resources, as well as provides necessary recovery of costs incurred by the CPE to ensure its financial stability. Considering past decisions authorizing CAM for procurement required to meet local reliability needs, we conclude the CAM recovery mechanism is appropriate for the central procurement process. Accordingly, we apply the CAM methodology as the cost recovery mechanism to cover the procurement costs incurred by the CPE. The CPE is directed to establish a Centralized Local Procurement Balancing Account as a sub-account of the New Generation Services Balancing Account (NGSBA) in order to facilitate the cost recovery process, within 60 days of the issuance of this decision through a Tier 2 Advice Letter.

Additionally, the administrative costs incurred by the CPE in serving the central procurement function shall be recoverable under the cost allocation mechanism. The CPE is directed to submit its administrative costs associated

¹⁰⁹ See D.07-09-044, D.08-09-012, D.11-05-005, D.13-02-015, and D.14-02-040. The CAM is codified in Pub. Util. Code § 365.1(c).

¹¹⁰ See D.19-12-055.

with central procurement for review in its annual ERRA forecast and compliance, where parties have an opportunity to participate. The CPE shall submit supplemental testimony with the forecasted administrative costs associated with central procurement for 2021 in its ERRA forecast proceeding within 75 days of the issuance of this decision.

3.9. Procurement Oversight

Parties urge the adoption of safeguards for the distribution utilities to act as CPEs in order to mitigate conflict of interest and anticompetitive concerns, and maximize transparency.¹¹¹ Energy Division recommends that the CPE should be subject to: (1) a stakeholder monitoring committee, similar to the CAM Procurement Review Group (PRG), (2) an Independent Evaluator (IE) to monitor all solicitations and transactions, and (3) a public report prepared by the IE following each solicitation that analyzes local procurement, market power, and aggregate pricing.¹¹² Energy Division also proposes that the distribution utility establish an independent procurement arm, which would be subject to competitive neutrality rules, as adopted in D.13-12-029.

The Commission's objective in adopting safeguards to oversee the CPE's procurement and solicitation process is to provide LSEs and other market participants with reasonable assurances as to the neutrality and transparency of the process, while also giving the CPE appropriate flexibility and discretion to

¹¹¹ See *e.g.*, CLECA Track 2 Comments at 7, Cal Advocates Track 2 Comments at 14, Enel X Track 2 Comments at 4, SunRun Track 2 Comments at 7.

¹¹² Energy Division Track 2 Proposal at 15.

efficiently procure local resources given the existing constraints in the RA timeline. We address potential safeguards and mitigation measures in turn.

3.9.1. Procurement Review Group

The Commission initially established Procurement Review Groups in D.02-08-071 as an advisory group to assess the IOUs' procurement strategies and processes, as well as specific proposed procurement contracts. The PRG included non-market participants, as well as Energy Division and Cal Advocates.¹¹³ In D.07-12-052, the Commission approved the establishment of a PRG for the CAM process and defined the membership requirements for the CAM PRG, as well as the obligations of participants.¹¹⁴ PRG recommendations are deemed advisory to the utility and non-binding.¹¹⁵

The purpose of the PRG, as provided in D.02-08-071, is to routinely consult with the IOU, and to review and assess the utility's overall procurement strategy and specific proposed contracts and processes.¹¹⁶ D.07-12-052 required the IOUs to hold a meeting with the IE, PRG, and Energy Division to outline plans and solicit feedback before drafting RFO bid documents to identify data gaps, confirm fairness of confidential components, and ensure compliance with Commission policies on procurement practices.¹¹⁷ Additionally, draft bid documents were to be developed under the oversight of an IE and PRG with

¹¹³ D.02-08-071 at 24-25.

¹¹⁴ See D.07-12-052, Appendix D.

¹¹⁵ *Id.* at 119.

¹¹⁶ D.02-08-071 at 25.

¹¹⁷ D.07-12-052, Ordering Paragraph 15.

differences to be resolved by Energy Division staff in advance of the issuance of bid documents.¹¹⁸

Considering our objectives in establishing procurement oversight mechanisms and past decisions involving utility procurement, we agree with Energy Division's proposal to use a PRG to advise in central procurement as an appropriate safeguard. Accordingly, we adopt the use of the CAM PRG, as described in D.07-12-052, to advise the CPE. The CPE is required to consult with the CAM PRG members (including Energy Division) and an independent evaluator as the CPE outlines procurement plans, drafts RFO solicitation bid documents, and collects feedback from market participants regarding the RFO process for potential refinements. The IE is also required to brief the CAM PRG on key solicitation elements, as described below.

Additionally, CAM PRG membership should be representative and include a non-market participant representing CCAs that signs the PRG non-disclosure agreements, as provided in D.07-12-052.¹¹⁹ We encourage Energy Division, the CPE, and CCA representatives to work collaboratively with the CCA community to ensure an appropriate non-market CCA representative is identified for the CAM PRGs.

3.9.2. Independent Evaluator

The Commission has historically authorized the use of independent evaluators to monitor solicitations by IOUs. For example, in D.04-12-048, we

¹¹⁸ *Id.*, Ordering Paragraph 16.

¹¹⁹ D.07-12-052 at 301.

authorized the retention of an IE to monitor bids involving affiliate transactions, utility-builds, or utility-turnkey bidders. That decision adopted parameters for IE retention, which, in pertinent part, included:

- (a) The IE “should come equipped with technical expertise germane to evaluating resource solicitation power products. ... IEs should have experience analyzing the relative merits of the various types of PPAs. IEs should be able to evaluate PPAs, turn-keys, and IOU-builds on a side-by-side basis. An IE should make periodic presentations regarding their findings to the IOU and to the PRG.”¹²⁰
- (b) The IOUs “may contract directly with IEs, in consultation with their respective PRGs. The IOUs shall allow periodic oversight by the Commission’s Energy Division. ... Independent evaluators shall coordinate to a reasonable degree with assigned Energy Division management and staff as a check on the process.”¹²¹

Similarly, in D.06-07-029, the Commission required an IE to oversee any competitive RFO administered by the IOUs that resulted in a contract subject to the CAM.¹²² In D.07-12-052, the Commission expanded the use of IEs to monitor certain competitive RFOs with additional requirements, including:

- (a) The utilities should develop a pool of at least three IEs to be used on a rotating basis for each RFO;
- (b) Energy Division should be involved during the selection process and have the right to final approval of the IE;

¹²⁰ D.04-12-048, Finding of Fact 95.

¹²¹ *Id.*, Ordering Paragraph 28.

¹²² D.06-07-29 at 28.

- (c) The IE report shall be filed with the Commission's Quarterly Compliance Report based on a template developed by the Energy Division; and
- (d) The utilities, in collaboration with the PRG and Energy Division, shall develop comprehensive conflict-of-interest disclosure requirements for the IE.¹²³

Given the Commission's history authorizing IEs to oversee solicitations for utility procurement, we agree with Energy Division's proposal to authorize an IE to monitor the CPE's solicitation process for local RA procurement, as well as the contract execution process.

Using the above decisions as guidance, we approve a similar IE process that should include, but not be limited to, the following: the CPE is directed to develop a pool of at least three IEs, with the appropriate level of technical expertise and experience, to serve on a rotating basis for solicitations. Energy Division will have final approval over the selection of the IEs.

The IE will prepare a report to be submitted on an annual basis to the Commission, which will assess the neutrality of the procurement process, any market power or aggregate pricing concerns, procurement of preferred resources (*e.g.*, on what basis preferred resources were not selected), consideration of disadvantaged communities (DACs) in the procurement process (*e.g.*, whether factors led to the selection of any conventional generation in DACs), and other relevant issues. In order to reduce potential long-term procurement of gas, the IE report shall include an explanation of the basis for any fossil fuel procurement for any contract that exceeds the minimum multi-year local requirements.

¹²³ D.07-12-052, Ordering Paragraphs 10, 12.

The IE will also brief the CAM PRG in its meetings on the procurement process and any concerns related to neutrality, market power, pricing, disadvantaged communities, or other concerns. The CPE shall permit periodic oversight of the IE process by Energy Division. The CPE shall follow the guidance for the IE process provided in D.04-12-048; however, such guidance shall represent a minimum standard for an effective IE process. In addition, Energy Division's 2025 report assessing the effectiveness of the CPE structure will include an assessment of the IE and CAM PRG function.

3.9.3. Portfolio Approval Process

In D.07-12-052, as part of the bundled procurement plan requirements, the Commission established a preapproval process for contracts with terms of less than five years. If a procurement action complied with the approved methodology, an executed contract of less than five years did not require preapproval and the action could not be subject to after-the-fact reasonableness review.¹²⁴ The Commission's objective for a preapproval mechanism was to give achievable standards and criteria for cost recovery, authorize procurement decisions that incorporate the Commission's policy direction, and eliminate the need for after-the-fact reasonableness review of procurement actions that meet certain conditions.¹²⁵

In establishing procurement oversight mechanisms, the Commission finds the objectives of D.07-12-052 to be relevant to the central procurement framework. Thus, we deem it appropriate to adopt a similar preapproval

¹²⁴ D.07-12-052, Ordering Paragraph 19.

¹²⁵ See *id.* at 171.

process for central procurement to enable the CPE to efficiently satisfy the local capacity requirements, while providing assurances for cost recovery and minimizing the need for ex post reasonableness review.

Accordingly, the Commission adopts a similar process whereby for an executed contract of five years or less, a procurement action is deemed reasonable and preapproved if the resource procured by the CPE: (1) meets the established local capacity requirements and underlying data supporting those requirements, which are based on the CAISO's LCRTS and adopted annually by Commission decision; (2) if the CAM PRG was properly consulted, as described above; and (3) if procurement was deemed by the IE to have followed all relevant Commission guidance, including least cost best fit methodology and other noted selection criteria. For any executed contract that exceeds a five-year term, the CPE shall submit a Tier 3 Advice Letter for approval.

Additionally, the CPE shall submit any contract management issues, such as contract disputes, amendments, or modifications, to the Commission through the utility's annual ERRRA compliance application. The Commission believes this preapproval process is sufficient to guide the CPE. Further refinements, however, may be necessary after the first procurement results and IE reports have been evaluated.

3.9.4. Compliance Reports

In D.02-10-062, which adopted a procurement and cost recovery framework for the IOUs, the Commission required the utilities to submit

quarterly filings for procurement transactions via advice letter.¹²⁶ The Commission currently requires each IOU to submit a Quarterly Compliance Report (QCR) via an Advice Letter within 30 days of the end of the quarter. The purpose of the QCR is to allow the Commission to review the procurement transactions for compliance with the approved bundled procurement plans and the upfront standards and criteria. The QCRs are reviewed by Energy Division and the Commission's Utility Audit, Finance, and Compliance Branch.

The Commission finds it reasonable to adopt a similar compliance report for the CPE. Accordingly, the CPE shall prepare a compliance report on an annual basis that includes all contract terms and the criteria and methodology used to select local RA resources. The CPE's annual compliance report shall be submitted through a Tier 2 Advice Letter within 30 days after the CPE makes its local RA showing to the Commission, in both confidential and public (redacted) form, subject to the confidential provisions in D.06-06-066 and related materials. The purpose of the annual report is to demonstrate that the CPE has complied with the requirements and objectives adopted in this decision, as well as the multi-year local RA requirements. The final IE report shall also be filed as part of this annual compliance report in both confidential and public (redacted) form.

3.9.5. Competitive Neutrality Rules

Within the central procurement process, potentially market-sensitive information relates to confidential, competitive information received from generators, LSEs, or third-party marketers in the process of enabling the

¹²⁶ D.02-10-062, Ordering Paragraph 8. This process was later modified in D.03-06-076, D.07-12-062, and D.12-01-062.

distribution utility to perform duties necessary to conduct solicitations and procure local resources as part of its central procurement role. The Commission recognizes that this competitive information should be appropriately protected in an effort to address anti-competitive concerns and facilitate confidence and certainty in the central procurement process. Energy Division proposes that the distribution utilities establish an independent procurement arm subject to competitive neutrality rules, as adopted in D.13-12-029. D.13-12-029 adopted competitive neutrality rules applicable to demand response providers' participation in the CAISO's wholesale markets. Of relevance here, that decision adopted the following:

Rule 24 shall include provisions to protect the confidential, competitive information received from a demand response provider (Provider) or from the [CAISO] about the Provider or its customers, to enable the utility to perform duties necessary to implement and administer the Provider's use of a bundled utility load for direct participation under this Rule in the CAISO market. Such confidential, competitive information received from the Provider or the CAISO may not be used to promote the utility's services to customers. The utility staff receiving such confidential, competitive information from the Provider or CAISO in the discharge of the utility's roles and responsibilities under the Rule shall not share such confidential, competitive information with other individuals in the utility who are also responsible for discharging the utility's roles and responsibilities, as a Demand Response Provider, under Rule 24.¹²⁷

¹²⁷ D.13-12-029, Ordering Paragraph 10.

While the competitive neutrality rules in D.13-02-029 may have originated under different circumstances, we find the rules to be relevant guidance and reasonable for use in mitigating anti-competitive and conflict of interest concerns related to the CPE's solicitation process and procurement of local resources. In order to ensure competitive neutrality and prohibit the sharing of confidential information obtained as part of the central procurement process, the Commission agrees with Energy Division's proposal to require the CPE to be subject to competitive neutrality rules and D.13-02-029 may be used as guidance.

Accordingly, the Commission directs the CPE to establish a rule or procedure that will govern how confidential, market-sensitive information received by the CPE from generators, LSEs, or third-party marketers as part of the central solicitation and procurement process will be protected, as well as what firewall safeguards will be implemented to prevent the sharing of information beyond those employees involved in the central solicitation and procurement process. The CPEs shall file and serve their proposed rule(s) into the successor RA proceeding, R.19-11-009, by September 1, 2020. Once the proposals are submitted, parties will have an opportunity to comment and the proposals will be addressed in R.19-11-009.

Additionally, in D.07-12-052, the IOU, along with the IE, PRG and Energy Division, were directed to establish a strict code of conduct to be signed by all IOU personnel involved in the RFO process to prevent sharing of sensitive

information between staff involved in developing utility bids and staff who created bid evaluation criteria and selected winning bids.¹²⁸

The Commission finds it reasonable to adopt a similar requirement that the CPE, in collaboration with the IE, PRG and Energy Division, shall create a strict code of conduct, as adopted in D.07-12-052, that prevents the sharing of market-sensitive information beyond employees involved in the central solicitation and procurement function. The CPE can use D.07-12-052 as guidance when developing its own rules of conduct. Any personnel employed by the CPE (including management and officers) who is involved in the solicitation and procurement process shall sign the code of conduct as a precondition to conducting the central solicitation and procurement process.

3.9.6. Market Power Mitigation

Energy Division states that even with distribution utilities as CPEs, there is a “potential for considerable market power, given that resource procurement will be for transmission-constrained local sub-areas, where competition largely does not exist.”¹²⁹ In order to mitigate this concern, Energy Division proposes that each CPE “exercise its judgment to decide when it would be better for the resource to be procured through the annual backstop mechanisms, which are limited to one year and capped at the soft offer price of \$6.31 kW-month...”¹³⁰

¹²⁸ D.07-12-052 at 206.

¹²⁹ Energy Division Track 2 Proposal at 18.

¹³⁰ *Id.*

SDG&E recommends a price cap (in \$/kW-year) be set and if an offer exceeds the price cap, the central entity is not obligated to procure that resource.¹³¹

PG&E proposes that if any local offers raise market power concerns, “the CPE should raise those concerns to the CPUC in its filing, and the CPE shall not procure resources that it reasonably believes is exercising market power. In the case that the resource is needed for local reliability purposes, CAISO may separately procure that resource under its existing tariff for a limited term.”¹³²

The Commission supports Energy Division’s proposal to give the CPE discretion to defer procurement of a local resource to the CAISO’s backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high. The Commission finds this to be a reasonable exercise of discretion particularly in light of the other oversight mechanisms adopted in this decision. In the event that the CPE defers to backstop procurement, the Commission requires the CPE to provide, through its annual compliance report, the reasons for the deferral to backstop procurement, the prices offered in the solicitation, which generators did not participate in the solicitation (if any), and other relevant information. The IE report shall also provide its perspective on the CPE’s deferral. We do not intend to allow the CPE to rely on CAISO backstop mechanisms to supplant the central procurement process; instead, we seek to minimize backstop procurement while also mitigating market power.

¹³¹ SDG&E Track 2 Testimony at 15.

¹³² PG&E Track 2 Reply Testimony at 2-7.

Relatedly, Energy Division proposes that the CPE should not be assessed penalties for failure to procure resources to meet the local requirements, so long as reasonable attempts are made.¹³³ If a resource is not procured in the solicitation, it could be procured in the following year's solicitation and if that fails to occur, backstop authority may be used to retain the resource. Energy Division recommends that the Independent Evaluator report on any market power issues that may have caused the failure to procure.

The Commission agrees that the CPE should not be assessed fines or penalties for failing to procure resources to meet the local RA requirements, as long as the CPE exercises reasonable efforts to secure capacity and the IE report contains the reasons for the failures to procure.

3.10. Modifications to RA Timeline

Energy Division favors keeping the RA timeline as is, except to add an additional filing in late-September for the CPE to file its local showing.¹³⁴ The CAISO proposes a significant change to the RA timeline that shifts the compliance year to begin on April 1 instead of January 1, in order to give resource owners additional time for retirement and maintenance decisions, as well as to allow backstop procurement to occur prior to the first monthly showing of the year.¹³⁵ SDG&E states that “[s]hifting the RA compliance timeline

¹³³ Energy Division Track 2 Proposal at 18.

¹³⁴ *Id.* at 16.

¹³⁵ CAISO Track 2 Testimony, Chapter 3 at 5.

would require significant modifications to the current RA construct, but would provide limited value.”¹³⁶

The Commission does not find sufficient record support to authorize a significant shift in the RA timeline. The current timeline contains multiple inter-dependent events and inputs that occur in parallel. Shifting the timeline by a few months is a major undertaking that should involve a prudent, thorough review and coordination among multiple agencies. Additionally, in light of the changes to the local RA program adopted for SCE and PG&E’s TAC areas, it is appropriate to keep the current RA timeline with the modifications proposed by Energy Division.

Accordingly, we adopt the following timeline with modifications to account for central procurement, beginning for the 2023 RA compliance year. A deadline (April – May) is added to allow LSEs to commit to provide local resources on their monthly showing. The CPE is permitted to launch solicitations prior to the final LCR requirements adopted to give the CPE additional time for bid preparation and evaluation. For clarity’s sake, the timeline includes dates for the SDG&E TAC area, although the dates do not change for this TAC area from the current RA timeline.

- **April-May 2021:**
 - The CAISO files draft and final LCR one- and five-year ahead studies. LCR studies will include any CAISO-approved transmission upgrades from the Transmission Planning Process (TPP) LCR study.

¹³⁶ SDG&E Comments on SCE Proposal at 7.

- LSEs in SCE and PG&E TAC areas commit to CPE to show self-procured local resources in RA filing for 2023 and 2024.
- Parties file comments on draft and final LCR studies.
- **June 2021:**
 - The Commission adopts multi-year local RA requirements for the 2022-2024 compliance years as part of its June decision.
 - CPE receives total jurisdictional share of multi-year local RA requirements for 2022-2024 compliance years.
- **July 2021:**
 - For the SCE and PG&E TAC areas, LSEs receive initial RA allocations, including CAM credits and system, flexible, and local requirements for 2022 (but are not allocated local requirements for 2023 and 2024).
 - For SDG&E TAC area, LSEs receive initial RA allocations (system, flexible, local requirements) and CAM credits.
- **Late September 2021:** 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.
- **End of October 2021:** LSEs in the SDG&E TAC make system, flexible, and 3-year local RA showing. CAISO determines necessary backstop procurement. LSEs in PG&E and SCE TACs make local showing only for 2022, as well as 2022 year ahead system and flexible showings.

The above timeline would apply for 2022 (and future years), except LSEs in PG&E and SCE TAC areas would no longer receive a local requirement in July and a local showing obligation in October. LSEs would commit self-procurement to the CPE in the April - May timeframe for the local procurement window covered by the RA year (*e.g.*, in 2022, LSEs would submit self-procured local resources for 2023-2025 to the CPE).

4. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on April 15, 2020 by: AWEA-CA; AReM; CAC; CalCCA; Calpine; Cal Advocates; CLECA; CEERT; CESA; CAISO; CPower, Enel X, Leapfrog Power, Inc., and the California Efficiency + Demand Management Council (CEDMC) (collectively, the Joint Parties); ENGIE North America, Inc. (ENGIE); GPI; IEP; the Joint Environmental Parties; LS Power; Monterey Bay Community Power Authority (MBCP); MRP; NRG; OhmConnect; SCE/PG&E (jointly); SDG&E; Solar Energy Industries Association (SEIA)/LSA (jointly); Shell; Sunrun; TURN; Vistra; and WPTF. Reply comments were filed on April 21, 2020 by AReM, CAISO, CESA, CEERT, CLECA, Cal Advocates, CalCCA, Calpine, Joint Parties, Joint Environmental Parties, IEP, MBCP, MRP, OhmConnect, PG&E, SCE, SDG&E, Shell, TURN, Wellhead Electric Company, Inc. (Wellhead), and WPTF.

All comments have been carefully considered. Significant aspects of the proposed decision that have been revised in light of comments are mentioned in

this section. However, additional changes have been made to the proposed decision in response to comments that may not be discussed here. We do not summarize every comment but focus on major arguments made in which the Commission did or did not make revisions in response to party input.

Several parties support the proposed decision with modifications, including Cal Advocates, CAISO, CLECA, GPI, the Joint Environmental Parties, PG&E and SCE. Other parties oppose the hybrid framework in favor of either a residual framework or the status quo, such as CalCCA, CEERT, Calpine, IEP, LS Power, MRP, NRG, SDG&E, Shell, Vistra, and WPTF. Some parties reiterate arguments made during the proceeding in favor of residual framework, arguing generally that the hybrid framework does not assure the CPE will buy an LSE's local resources, that it may disincentivize procurement of local resources or investment in preferred resources, and that it may result in inequitable cost-shifting and leaning. The Commission has evaluated and thoroughly considered these arguments over the past two years.

Numerous parties that oppose the decision propose a one-for-one credit for all shown local RA resources,¹³⁷ or for shown preferred resources.¹³⁸ As discussed, we do not believe that a hybrid model disincentivizes procurement of local resources. However, we recognize that a financial credit mechanism potentially provides LSEs with additional incentives for investments in preferred local resources in constrained local areas. The Commission is open to

¹³⁷ See, e.g., CESA, Calpine, ENGIE, Joint Parties, NRG, OhmConnect, SDG&E, Shell, TURN, Vistra, WPTF.

¹³⁸ See, e.g., AWEA-CA, SEIA/LSA, Sunrun, Joint Environmental Parties.

considering a compensation mechanism for preferred and energy storage resources that accounts for local effectiveness factors and use limitations to the shown MW value, if such a mechanism can be developed. The decision has been modified to describe the Commission's rationale in considering such a compensation mechanism and to direct a working group to assess and develop this compensation mechanism.

Some parties assert that problems identified in 2018 no longer exist and that a CPE is unnecessary.¹³⁹ We disagree and observe that the initial concerns from 2018 remain and continue to grow: the local RA market remains tight, market power concerns remain, and RMR designations are growing for 2020.¹⁴⁰ In addition, a tranche of long-term local gas contracts for a significant amount of MWs will be expiring over the next several years, including resources in LA Basin and Greater Bay Area. These resources will likely need to be re-contracted and may create opportunities for exertion of market power.

CalCCA, MRP, and Sunrun argue that the adopted framework violates Pub. Util. Code § 380(b)(5) and (h)(5). As discussed, § 380(h) directs the Commission to determine the "most efficient and equitable means" of achieving a broad list of RA goals, one of which is § 380(h)(5): to ensure "that [CCAs] can determine the generation resources used to serve their customers." We reiterate

¹³⁹ See generally, CEERT Comments on Proposed Decision, MRP Comments on Proposed Decision.

¹⁴⁰ See March 18, 2020 CAISO Memorandum, available at: <http://www.aiso.com/Pages/documentsbygroup.aspx?GroupID=95DD1499-4A5C-4F12-8AA4-E66E3564FC4C>.

that an excerpt of § 380(h) cannot be read in isolation without the context of § 380 and the Commission's related State Constitutional duties.

Some parties contend that the decision does not reduce backstop procurement because it allows the CPE to use the backstop mechanism if offers are unreasonably high.¹⁴¹ CAISO comments that the CPE should not rely on backstop mechanisms to front-run the adopted procurement process.¹⁴² We clarify that it is not our intent to allow the CPE to rely on backstop mechanisms to supplant the CPE process but rather, to minimize backstop procurement while mitigating market power. The CPE compliance report and IE report will indicate whether the CPE deferred to backstop procurement; if significant MW amounts are being deferred, we will reevaluate this aspect of the framework.

Some parties support the CPE working with CAISO to ensure procurement of the most effective resources, including PG&E/SCE. CAISO states that it and Energy Division should coordinate to ensure smooth implementation of the hybrid framework.¹⁴³ We agree that Energy Division should coordinate with CAISO on both ensuring a smooth implementation of the hybrid framework and sharing CPE procurement information to ensure backstop procurement is minimized.

¹⁴¹ See *e.g.*, CalCCA, Calpine, IEP, NRG, Shell, Sunrun.

¹⁴² CAISO Reply Comments on Proposed Decision at 1.

¹⁴³ CAISO Comments on Proposed Decision at 2.

SDG&E recommends that Energy Division prepare a report by 2025 that assesses the CPE framework's effectiveness.¹⁴⁴ We agree that such a report would be beneficial and authorize Energy Division to prepare this report.

While some parties request addressing "grandfathering" contracts in this decision, there is insufficient record to do so at this time. We modify the decision to direct a working group (combined with the compensation mechanism working group) to address the treatment of existing contracts.

Several parties recommend adding a preference for preferred resources in the RFO selection process.¹⁴⁵ IEP opposes a preference for certain resources, noting that the guidelines for all-source solicitations in D.04-12-048 already includes a priority that reflects the Commission's loading order.¹⁴⁶ The Joint Environmental Parties also request that the IE report include an assessment of preferred resources and DAC considerations made in the procurement process. We agree that D.04-12-048 outlines the Commission's loading order, which includes preferential treatment for preferred resources. We also agree that the IE report should include an assessment of preferred resources and DAC considerations. The decision has been modified as such.

The Joint Environmental Parties and TURN recommend that to assist the orderly retirement of gas generation, the CPE should be solely responsible for gas procurement so that one entity can evaluate which generators receive local

¹⁴⁴ SDG&E Comments on Proposed Decision at 7.

¹⁴⁵ See, e.g., CESA Comments on Proposed Decision at 9, Joint Parties Comments on Proposed Decision at 6, Joint Environmental Parties Comments on Proposed Decision at 3.

¹⁴⁶ IEP Reply Comments on Proposed Decision at 3.

capacity contracts.¹⁴⁷ We acknowledge that when the time comes, California's fleet of gas-fired plants should be retired in an orderly fashion. While we find merit in the proposed concept, there is insufficient record developed and numerous outstanding questions. We encourage parties to offer developed proposals on how the CPE could act as the sole procurer of gas generation for local reliability needs in Track 4 of R.19-11-009, which is scheduled for completion in June 2021. We also encourage proposals on how the Commission can encourage the orderly retirement of gas power plants, with or without the CPE acting as the sole procurer of gas generation.

Meanwhile, we believe the CPE framework should increase transparency into gas-fired procurement and ensure resources that are not needed are not procured. It would thus be beneficial for the IE report to include the basis for any fossil fuel procurement that exceeds the minimum multi-year requirements. The decision has been modified to reflect this.

Parties recommend limiting the length of the contract the CPE can execute, with some proposing a limit on the preapproval process for contracts up to three years,¹⁴⁸ or up to five years.¹⁴⁹ PG&E, SCE, and Cal Advocates state that contracts exceeding five years should be approved through a Tier 3 Advice Letter. The Joint Environmental Parties suggest that contracts beyond the

¹⁴⁷ Joint Environmental Parties Comments on Proposed Decision at 5, TURN Comments on Proposed Decision at 5.

¹⁴⁸ *See, e.g.*, AReM Comments on Proposed Decision at 8, CalCCA Comments on Proposed Decision at 9.

¹⁴⁹ *See, e.g.*, PG&E/SCE Comments on Proposed Decision at 10, Cal Advocates Comments on Proposed Decision at 4.

minimum term should be limited to preferred resources and energy storage.¹⁵⁰

We find it reasonable that the preapproval process should be limited to contracts up to a five-year term, similar to the preapproval process in D.07-12-052. For contracts exceeding five years, the CPE should seek approval via a Tier 3 Advice Letter. The decision has been modified as such.

Parties request clarification that the IOUs have the same show/sell bidding options as other LSEs.¹⁵¹ CalCCA opposes the IOUs having the same options as other LSEs stating that they are not like other LSEs. CalCCA adds that IOU resources were procured for the benefit of all customers who pay the PCIA and IOUs should not be able to withhold needed local RA for bundled customers' system and flexible needs and deny these resources to other LSEs.¹⁵² We disagree with CalCCA's assertions. Resources shown by the IOU will presumably reduce the local RA need and therefore, needed local RA will not be withheld. Further, shown 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. The 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. The decision has been modified clarify this.

¹⁵⁰ Joint Environmental Parties Comments on Proposed Decision at 7.

¹⁵¹ See PG&E/SCE Comments on Proposed Decision at 11, SDG&E Comments on Proposed Decision at 13, TURN Comments on Proposed Decision at 4, CLECA Comments on Proposed Decision at 5-6, Cal Advocates Comments on Proposed Decision at 2.

¹⁵² CalCCA Reply Comments on Proposed Decision at 3.

PG&E/SCE seek clarification on whether the levelized fixed cost bid applies to solicitations where the IOU is a bidder but not acting as the CPE.¹⁵³ SCE states that the IOU should be treated like any other bidder when it is not acting as the CPE because the levelized cost rule is intended to avoid self-dealing when the IOU is both seller and buyer. We agree with SCE and the decision has been modified.

TURN seeks clarification that levelized cost bids should not be interpreted as market prices, particularly for valuing the PCIA benchmark. While this may have merit, it is beyond the scope of this proceeding to determine what should or should not be included in PCIA market benchmarks.

CalCCA comments that LSEs should receive notice of CPE awards at least six months before the compliance deadline, and notice of system and flexible allocations by the CPE at least five months before the compliance deadline.¹⁵⁴ This schedule is not feasible given the current RA forecast timeline, which includes the annual LCR study, load forecast, NQC process, and allocation process, which are required to determine procurement obligations and allocations.

Some parties, including TURN, PG&E, SCE, request clarification on the “iterative process” to evaluate bids to account for resources that were not selected through the solicitation but shown if not selected. In comments,

¹⁵³ PG&E/SCE Comments on Proposed Decision at 12.

¹⁵⁴ CalCCA Comments on Proposed Decision at 10.

PG&E/SCE outlines their interpretation of the iterative process.¹⁵⁵ PG&E/SCE's interpretation is accurate as to what we intended, and the decision has been modified to reflect this.

Several parties oppose the option to procure dispatch rights, stating generally that many complexities and costs arise by mixing a capacity and energy product.¹⁵⁶ PG&E/SCE alternatively propose modifying the decision to include dispatch rights "or other means that stipulate how local resources bid into the energy markets," as an optional term bidders are encouraged to include. We agree with PG&E/SCE's modification and the decision has been amended to include this.

Cal Advocates states that the Commission should track and allocate to LSEs the responsibility for GHG emissions of resources procured by the CPE.¹⁵⁷ TURN, PG&E, and SCE support this. We agree with Cal Advocates and modify the decision to clarify that if the CPE procures dispatch rights, allocation of any GHG emissions shall be allocated as they are today for other CAM resources.

SCE/PG&E seek clarification about the classification of IOU resources for purposes of PCIA, Competitive Transmission Charge (CTC), and CAM treatment. The utilities request that resources procured by the CPE be reclassified from their existing cost recovery mechanism to the CAM for the duration of the contract with the CPE. After that time, the resources should be

¹⁵⁵ PG&E/SCE Comments on Proposed Decision at 12.

¹⁵⁶ See, e.g., AReM, CESA, IEP, LS Power, MRP, NRG, CESA, Wellhead.

¹⁵⁷ Cal Advocates Comments on Proposed Decision at 6.

reclassified back to their existing cost recovery designation. Where PCIA-eligible resources are reclassified as CAM, then reclassified back, the resource should be exempt from the annual PCIA rate cap.¹⁵⁸ TURN supports the IOUs' clarification.

AReM and CalCCA oppose, asserting that procured PCIA resources should remain in the PCIA cost recovery. We disagree with CalCCA and AReM, as this would break cost causation principles and impede implementation of the adopted CAM. CPE cost recovery through the PCIA would result in costs recovered from vintage portfolios of customers rather than all customers and would raise questions about what load ratios should be used to allocate system and flexible capacity benefits. To implement CAM as the CPE cost recovery mechanism, IOU resources awarded by the CPE must be treated as CAM resources for the duration of their contracts. We find SCE/PG&E's approach to be reasonable and modify the decision to reflect this.

Calpine states it is unclear how UOG and tolling contracts would be offered into the RFO without their dispatch rights. Calpine recommends that costs could be shifted from bundled load (with appropriate PCIA vintages) to all load.¹⁵⁹ IEP and MRP state that the decision does not address how existing tolling agreements will be addressed in an RFO.¹⁶⁰ The CPE solicitation will include dispatch rights (or other means that stipulate how resources will bid into

¹⁵⁸ PG&E/SCE Comments on Proposed Decision at 13.

¹⁵⁹ Calpine Comments on Proposed Decision at 8.

¹⁶⁰ IEP Comments on Proposed Decision at 8, MRP Comments on Proposed Decision at 8.

the energy markets) as an optional term, and IOUs will bid their resources into the solicitation at the resources' levelized fixed costs. If an IOU resource includes tolling or dispatch rights, the levelized fixed cost bids will be reflected in the bid price and will be evaluated alongside other bid resources in the CPE's selection process. If the IOU bid is selected, any revenue associated with the resource's dispatch will be allocated to all benefiting customers paying for the resource via the CAM, as is the standard practice today for CAM resources.

Some parties comment that the competitive neutrality measures require further development.¹⁶¹ We directed the CPE to submit a proposed rule into the proceeding and parties will have an opportunity to comment. We decline to modify this process, but a September 1 deadline is added for the CPE's submission.

Cal Advocates recommends a 60-day deadline for the CPEs to submit supplemental testimony in their respective ERRA forecast proceedings for 2021 with the forecasted administrative costs associated with central procurement.¹⁶² PG&E agrees with Cal Advocates but states that a 90-day deadline is more appropriate.¹⁶³ We find Cal Advocates' proposal to be reasonable, with a compromise 75-day submission deadline. The decision has been modified.

¹⁶¹ See, e.g., MRP Comments on Proposed Decision at 9, Joint Parties Comments on Proposed Decision at 12, IEP Comments on Proposed Decision at 10, CalCCA Comments on Proposed Decision at 11.

¹⁶² Cal Advocates Comments on Proposed Decision at 4.

¹⁶³ PG&E Reply Comments on Proposed Decision at 5.

CAISO and the Joint Parties comment that it is premature to use load impact protocols to set multi-year local procurement for DR and recommend deferring the issue until a decision on the issue in R.19-11-009.¹⁶⁴ We clarify that the DR value should be based on the most recently adopted DR valuation methodology for IOU DR resources.

CAISO requests clarification as to how MCC bucket requirements will align with CPE procurement and the impact of availability limitations in each local area.¹⁶⁵ We agree that the resource use-limitations should be used in the CPE selection process and should align with CAISO's LCRTS process. The MCC buckets, or its successor, should also be used in the CPE selection process to ensure that use-limited resources are not overly relied upon to meet local and sub-local needs. We find it reasonable to add "energy-use limitations" as a criterion in the selection process, and the decision has been modified.

Some parties state that the Commission should adopt multi-year forward requirements for system and flexible RA, including CAISO and LS Power. We agree this is an issue that should be considered and that Track 3 of R.19-11-009 is an appropriate place for consideration.

CalCCA comments that a CCA representative should be on the PRG and that the CCA community should select the representative. AReM recommends removing reference to expanding the CAM PRG membership to include CCA representatives since this was established in D.07-12-052. We agree that CCA

¹⁶⁴ CAISO Comments on Proposed Decision at 4, Joint Parties Comments on Proposed Decision at 7.

¹⁶⁵ CAISO Comments on Proposed Decision at 4.

membership in the CAM PRG was directed in D.07-12-052 and reiterate that a non-market CCA representative should be part of the CAM PRG.

AReM requests that the CPE be required to report to the Commission all concerns raised by CAM PRG members about the procurement process.¹⁶⁶ The CAM PRG process has historically been effective in ensuring proper procurement oversight. However, Energy Division's 2025 report evaluating the CPE framework should also evaluate effectiveness of the IE and PRG processes.

5. Assignment of Proceeding

Liane Randolph is the assigned Commissioner and Debbie Chiv is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On August 30, 2019, the Settling Parties filed a joint motion for adoption of a settlement agreement.
2. The proposed Settlement is not reasonable in light of the whole record.
3. The proposed Settlement fails to address a major implementation detail required by D.19-02-022 for any workable solution – the identity of the central procurement entity.
4. In D.19-02-022, the Commission elected to defer adoption of a central procurement structure, including designation of a central procurement entity, to allow additional time for workshops and discussion.

¹⁶⁶ AReM Comments on Proposed Decision at 10.

5. The Commission continues to seek to designate a central procurement entity and framework that allows for targeted procurement necessary to address local and sub-local reliability needs.

6. In D.19-02-022, the Commission stated that it considered a workable central procurement solution as one that addresses the known challenges in the local RA market: (1) costly out-of-market RA procurement due to local procurement deficiencies, (2) load migration and equitable allocation of costs to all customers, (3) cost effective and efficient coordinated procurement, (4) treatment of existing local RA contracts, (5) opportunity for and investment in procurement of local preferred resources, and (6) retention of California's jurisdiction over the procurement of preferred resources.

7. As directed in D.19-02-022, parties undertook a series of workshops on central procurement proposals, submitted informal workshop reports, and provided comments on workshops. Parties were unable to reach consensus as to a central procurement entity or framework that addresses the known challenges identified in the local RA market.

8. A hybrid central procurement framework strikes a reasonable balance between the residual and full procurement models and best addresses the known challenges identified in the local RA market.

9. The distribution utilities are the central procurement entity candidates with the resources, knowledge and experience to procure local reliability resources on behalf of all LSEs in the near term.

10. SDG&E's TAC area is unique in that the local RA requirements typically meet or exceed the system requirements, such that LSEs would have little

procurement autonomy for system and flexible RA under a hybrid central procurement framework.

11. Weighing the benefits of LSE procurement autonomy for system and flexible RA against the benefits of central procurement, it is appropriate to decline to adopt a central procurement framework for the SDG&E TAC area at this time.

12. It is reasonable to consider an LCR reduction compensation mechanism for shown preferred and energy storage resources, if such a mechanism can be developed.

13. It is appropriate for the CPE to use a solicitation process for local RA procurement because it gives the CPE flexibility to select resources based on targeted criteria, in addition to costs and local needs.

14. The requirements pertaining to an all-source solicitation process adopted in past Commission decisions are reasonable guidance for procurement by a CPE.

15. It is reasonable that a distribution utility acting as the CPE has the same options as other LSEs in deciding whether to bid or show its resources into the CPE's solicitation process.

16. It is reasonable and consistent with the current RA program that RA attributes should remain bundled and LSEs should receive credit for procured system or flexible capacity, based on coincident peak load shares.

17. It is reasonable and consistent with the current RA program that CAM and IOU local DR resources should reduce the local RA amount procured by the central procurement entity.

18. It is reasonable to require a distribution utility that is acting as the CPE to bid its own resources into the solicitation at their levelized fixed costs.

19. It is reasonable that the central procurement solicitation includes quantitative and qualitative criteria that the CPE can employ in selecting local resources.

20. The least cost best fit methodology and other selection criteria adopted in past Commission decisions serve as useful guidance for the selection of local RA resources by the central procurement entity.

21. The cost recovery mechanism for the central procurement framework should facilitate the CPE's efficient procurement of local resources and provide necessary recovery of costs incurred by the CPE.

22. The CAM methodology is a cost recovery mechanism that allows the CPE to efficiently procure local resources and recover costs incurred.

23. The Commission seeks an oversight mechanism that provides market participants with reasonable assurances as to the neutrality and transparency of the central procurement process, while giving the CPE necessary flexibility and discretion to efficiently procure local resources.

24. It is reasonable to use the CAM PRG to advise the CPE through the solicitation process.

25. It is appropriate to retain an independent evaluator to monitor the CPE's solicitation and contract execution process.

26. The Commission seeks a portfolio approval process that gives the CPE achievable standards for cost recovery, authorizes procurement decisions that

incorporate the Commission's policy direction, and eliminates the need for after-the-fact reasonableness review of procurement actions.

27. A portfolio approval process for contracts up to a five-year term, similar to that adopted in D.07-12-052, satisfies the Commission's objectives for a preapproval process.

28. It is reasonable to require the CPE to demonstrate compliance on an annual basis with the requirements adopted in this decision, as well as the adopted local RA requirements.

29. To mitigate anti-competitive concerns, it is reasonable to require that confidential, market-sensitive information received by the distribution utilities through the solicitation and procurement process is adequately protected.

30. It is reasonable to give the CPE discretion to defer procurement of a local resource to the CAISO's backstop mechanisms if bid costs are deemed unreasonably high.

31. It is unnecessary to assess penalties or fines on the CPE for failing to procure resources to meet local RA requirements, so long as the CPE exercised reasonable efforts to secure capacity.

32. It is reasonable to maintain the current RA timeline with adjustments for hybrid central procurement.

Conclusions of Law

1. Pursuant to Rule 12.1(d), the Commission will only approve settlements that are reasonable in light of the whole record, consistent with the law, and in the public interest.

2. Proponents of a settlement agreement have the burden of proof of demonstrating that the proposed settlement meets the requirements of Rule 12.1. Consistent with Commission precedent, contested settlements are subject to more scrutiny than an all-party settlement.

3. The Settling Parties' settlement agreement fails to meet the requirements of Rule 12.1, and therefore, should be rejected.

4. A hybrid central procurement framework should be adopted for the central procurement of local resources beginning for the 2023 RA compliance year.

5. PG&E and SCE should be designated as the central procurement entities for their respective distribution service areas.

6. A central procurement framework should not be adopted for the SDG&E distribution service area at this time.

7. For 2020, the 50 percent local procurement requirement for 2023 for LSEs in PG&E and SCE's TAC areas should be eliminated, and the 100 percent requirement for 2021 and 2022 should remain.

8. A working group should assess and develop an LCR reduction compensation mechanism for shown preferred and energy storage resources to be submitted to the Commission for consideration.

9. A competitive, all-source, transparent solicitation process should be used by the CPE for local RA procurement.

10. RA attributes should remain bundled throughout the solicitation process and LSEs should receive credits for system or flexible capacity procured during the local RA or backstop processes.

11. CAM resources and IOU local DR resources should reduce the local RA amount that the CPE must procure.

12. IOU local DR resources should be counted based on the three-year period of the applicable load impact protocol studies (or any modified DR counting rules) after any Energy Division adjustments.

13. The CPE should include dispatch rights, or other means that stipulate how local resources bid into the energy markets, in its solicitation as an optional term that bidders are encouraged to include.

14. A distribution utility acting as the CPE should bid its own resources into the solicitation process at their levelized fixed costs. A distribution utility that is not acting as the CPE should not be required to bid its resources into another CPE's solicitation at their levelized fixed costs.

15. To guide the selection of local resources, the CPE should evaluate resources using the least cost best fit methodology and including the following criteria: (1) future needs in local and sub-local areas, (2) local effectiveness factors, (3) resource costs, (4) operational characteristics of the resources, (5) location of the facility, (6) costs of potential alternatives, (7) greenhouse gas adders, (8) energy-use limitations, and (9) procurement of preferred resources and energy storage (to be prioritized over fossil generation).

16. The CAM methodology should be adopted as the cost recovery mechanism to cover procurement costs associated with serving the central procurement function.

17. The administrative costs incurred by the CPE in serving the central procurement function should be recoverable under the cost allocation mechanism.

18. The CAM Procurement Review Group should be adopted to advise the CPE, in consultation with Energy Division and an independent evaluator, through the procurement process.

19. An independent evaluator should be retained to monitor the CPE's solicitation process and contract execution process.

20. A portfolio approval process should govern when a procurement action by the CPE is deemed reasonable and preapproved.

21. The CPE should submit an annual compliance report 30 days after it makes its local RA showing to the Commission that includes all contract terms, as well as the criteria and methodology used to select local RA resources.

22. The CPE should establish a rule that will govern how confidential, market-sensitive information will be protected to prevent the sharing of information outside of personnel involved in the central solicitation and procurement function.

23. The CPE should establish a strict code of conduct that governs the sharing of sensitive information beyond personnel involved in the central solicitation and procurement function (including management and officers).

24. The CPE should have discretion to defer procurement of a local resource to CAISO's backstop mechanisms if bid costs are deemed unreasonably high.

25. The CPE should not be assessed fines or penalties for failing to procure resources, so long as the CPE made reasonable efforts to secure capacity.

26. Energy Division's proposed timeline with adjustments to accommodate the hybrid procurement model should be adopted.

O R D E R

IT IS ORDERED that:

1. The Settling Parties' Joint Motion for Adoption of a Settlement Agreement for a Residual Central Procurement Entity Structure is denied.
2. Pacific Gas and Electric Company and Southern California Edison Company shall serve as the central procurement entities for their respective distribution service areas for the multi-year local Resource Adequacy (RA) program beginning for the 2023 RA compliance year.
3. The hybrid central procurement framework for local resources is adopted for Pacific Gas and Electric Company (PG&E) and Southern California Edison's (SCE) distribution service areas. Load serving entities in PG&E's and SCE's distribution service areas will no longer receive a local allocation beginning for the 2023 Resource Adequacy compliance year.
4. The hybrid central procurement structure is adopted as follows:
 - a. If a load serving entity's (LSE) procured resource also meets a local Resource Adequacy (RA) need, the LSE may choose to: (1) show the resource to reduce the central procurement entity's (CPE) overall local procurement obligation and retain the resource to meet its own system and flexible RA needs, (2) bid the resource into the CPE's solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.
 - b. If an LSE elects to show a local resource, it may either:
 - (1) do so in advance of the CPE's solicitation, if it does not

intend to bid it into the solicitation, or (2) bid the resource into the CPE's solicitation but indicate in its bid that the resource will be available to meet local RA requirements even if it is not procured by the CPE, which may reduce the total procurement costs the CPE incurs on behalf of all LSEs.

5. A working group is authorized to assess and develop a Local Capacity Requirement (LCR) reduction compensation mechanism that properly compensates load-serving entities for shown local preferred and energy storage resources. A working group report on consensus and non-consensus items shall be filed in Rulemaking 19-11-009 by September 1, 2020. The working group report shall address resource cost effectiveness concerns, including local effectiveness and use limitations of a shown resource to be evaluated alongside bid resources. The working group report shall also address the following issues, to the fullest extent possible:

- a. How granular the premium should be (*e.g.*, should different premiums be developed for different types of preferred resources, for new versus existing resources, and/or for sub areas, individual local areas, or TAC-wide local areas);
- b. How to make the premium as transparent as possible given the market sensitive nature of this information and its potential impacts on bid resource prices;
- c. Whether the compensation mechanism would preclude the option for an LSE to both bid and show a resource in the solicitation (or require potential revisions to the iterative process), due to the complexity of overlaying both of these mechanisms into the bid evaluation process; and

- d. How to best adjust the local compensation from year to year to account for changes in the effectiveness of the resource reducing the local requirements.

6. The working group directed in Ordering Paragraph 5 shall also consider and submit a proposal on the treatment of existing contracts, which may include consideration of whether any proposed Local Capacity Requirement reduction compensation mechanism should be applied to existing contracts. A working group report on consensus and non-consensus items shall be filed in Rulemaking 19-11-009 by September 1, 2020.

7. To transition to the central procurement framework in Pacific Gas and Electric Company and Southern California Edison's distribution service areas, the following adjustments to the three-year local requirements are adopted:

- a. For 2020, the 50 percent requirement for the 2023 compliance year is eliminated. The 100 percent two-year requirement remains.
- b. Therefore, in 2020, load serving entities (LSEs) shall be responsible for 100 percent of their 2021 and 2022 local requirements. In 2021, LSEs are responsible for 100 percent of their 2022 local requirements.

8. The central procurement entity (CPE) shall conduct a competitive, all-source solicitation for local Resource Adequacy (RA) procurement with the following requirements:

- a. Any existing local resource that does not have a contract, any new local resource that can be brought online in time to meet solicitation requirements, or any load serving entity (LSE) or third-party with an existing local RA contract may bid into the solicitation.

- b. If an LSE-procured local resource is not selected by the CPE, the local resource may still count towards the LSE's system or flexible RA obligations, if applicable.
- c. RA attributes shall remain bundled and LSEs shall receive credits for any system or flexible capacity procured during the local RA or backstop processes, based on coincident peak load shares, as is currently done with Cost Allocation Mechanism (CAM) resources.
- d. CAM resources and investor-owned utility local Demand Response resources shall reduce the local RA amount that the CPE must procure.
- e. The CPE shall include dispatch rights, or other means that stipulate how local resources bid into the energy markets, in its solicitation as an optional term that bidders are encouraged to include.

9. A distribution utility shall have the same options as other load-serving entities in deciding whether to bid or show its resources into the central procurement entity's solicitation process.

10. Investor-Owned Utility local Demand Response (DR) resources shall be counted based on the three-year period of the applicable load impact protocol studies (or any modified DR counting rules that are established in the Resource Adequacy proceeding) after any Energy Division adjustments, as is the current practice.

11. A distribution utility that is acting in its capacity as a central procurement entity (CPE) shall bid its own resources, that are not already allocated to all benefiting customers, into the solicitation process at their levelized fixed costs. A distribution utility that is not acting in its capacity as the CPE is not required to bid its resources into another CPE's solicitation at their levelized fixed costs.

12. Investor-owned utility (IOU) resources procured by the central procurement entity shall be reclassified from their existing cost recovery mechanism designations to the Cost Allocation Mechanism (CAM) for the duration of the contract with the central procurement entity. After that time, IOU resources shall be reclassified back to their existing cost recovery mechanism designation.

13. All Investor-Owned Utility bids, including utility-owned generation, shall be submitted to the Cost Allocation Mechanism Procurement Review Group and independent evaluator, in advance of the receipt of bids from any other entities.

14. To guide the selection of local resources procured by the central procurement entity (CPE), the CPE shall use the all-source selection criteria, including the loading order, and least cost best fit methodology adopted in Decision (D.) 04-07-029. The least cost best fit methodology employed shall also include the following selection criteria:

- a. Future needs in local and sub-local areas;
- b. Local effectiveness factors, as published in the California Independent System Operator's Local Capacity Requirement Technical Studies;
- c. Resource costs;
- d. Operational characteristics of the resources (efficiency, age, flexibility, facility type);
- e. Location of the facility (with consideration for environmental justice);
- f. Costs of potential alternatives;
- g. Greenhouse Gas (GHG) adders;

- h. Energy-use limitations; and
- i. Procurement of preferred resources and energy storage (to be prioritized over fossil generation).

The GHG planning price, adopted in D.18-02-016, shall guide development of the GHG adder used by the central procurement entity.

15. In its solicitation, the central procurement entity shall direct bidders to include the following attributes for a resource: the CalEnviroScreen score of the resource location (or if unavailable, the pollution burden of the resource location), facility age, heat rate, start-up time, and ramp rate.

16. The Cost Allocation Mechanism methodology is adopted as the cost recovery mechanism to cover procurement costs incurred in serving the central procurement function. The administrative costs incurred in serving the central procurement function shall be recoverable under the Cost Allocation Mechanism.

17. The central procurement entity (CPE) shall establish a Centralized Local Procurement Balancing Account as a sub-account of the New Generation Services Balancing Account within 60 days of the issuance of this decision to facilitate the cost recovery process. The CPE shall submit its administrative costs associated with central procurement for review in its annual Energy Resource Recovery Account forecast and compliance process.

18. The central procurement entity shall submit supplemental testimony with the forecasted administrative costs associated with central procurement for 2021 in its Energy Resource Recovery Account forecast proceeding within 75 days of the issuance of this decision.

19. If the central procurement entity (CPE) procures dispatch rights, administration of the contracts shall be submitted for review in the distribution utility's annual Energy Resource Recovery Account compliance application for review of compliance with least cost dispatch requirements. If the CPE procures dispatch rights, allocation of any greenhouse gas emissions shall be allocated as they currently are for other Cost Allocation Mechanism resources.

20. The Cost Allocation Mechanism (CAM) Procurement Review Group (PRG), as adopted in Decision 07-12-052, is authorized to advise the central procurement entity (CPE). The CPE shall consult with CAM PRG members (including Energy Division and an independent evaluator) to outline procurement plans, draft solicitation bid documents, and collect feedback regarding the solicitation process.

21. An independent evaluator (IE) shall be retained to monitor the central procurement entity's (CPE) solicitation process and contract execution process, as follows:

- a. The CPE shall develop a pool of at least three IEs, with the appropriate level of technical expertise and experience, to serve on a rotating basis for solicitations. Energy Division will have final approval over the selection of the IEs.
- b. The IE shall prepare a report to be submitted on an annual basis to the Commission, assessing the neutrality of the procurement process, market power or aggregate pricing concerns, procurement of preferred resources, consideration of disadvantaged communities made in the procurement process, and other relevant issues.

- c. The IE report shall include an explanation of the basis for any fossil fuel procurement for any contract that exceeds the minimum multi-year local procurement requirement.
- d. The IE shall brief the Cost Allocation Mechanism Procurement Review Group (PRG) in meetings on the procurement process and concerns related to neutrality, market power, pricing, disadvantaged communities, or other relevant concerns.
- e. The CPE shall permit periodic oversight of the IE process by Energy Division.
- f. The IE shall brief the PRG on key solicitation elements.
- g. The CPE shall rely on the requirements for the IE process adopted in Decision 04-12-048 as guidance; however, such guidance shall represent a minimum standard for the IE process.

22. A portfolio approval process is adopted whereby a procurement action for an executed contract with a five-year term or less shall be deemed reasonable and preapproved if the following conditions are met:

- a. The procured resource meets the established local capacity requirements and underlying data supporting those requirements, which are based on the California Independent System Operator's Local Capacity Requirements Technical Study;
- b. If the Cost Allocation Mechanism Procurement Review Group was properly consulted, as described in Ordering Paragraph 13; and
- c. If procurement was deemed by the independent evaluator to have followed all relevant Commission guidance, including the least cost best fit methodology and other noted selection criteria.

For any executed contract that exceeds a five-year term, the central procurement entity shall submit a Tier 3 Advice Letter for approval.

23. The central procurement entity (CPE) shall submit an annual compliance report that includes all contract terms, as well as the criteria and methodology used to select local Resource Adequacy (RA) resources, 30 days after the CPE makes it local RA showing to the Commission. The annual compliance report shall be submitted through a Tier 2 Advice Letter in both confidential and public (redacted) form, subject to the confidentiality provisions in Decision 06-06-066 and related materials. The final independent evaluator report shall be filed with the annual compliance report in both confidential and public (redacted) form.

24. The central procurement entity (CPE) shall establish a rule or procedure that will govern how confidential, market-sensitive information received from third-party market participants during the solicitation process will be protected and what firewall safeguards will be implemented to prevent the sharing of information beyond those employees involved in the solicitation and procurement process. As guidance to develop the rule or procedure, the CPE may use the competitive-neutrality rules adopted in Decision 13-02-029. The CPE shall file and serve the proposed rule into the successor Resource Adequacy proceeding, Rulemaking 19-11-009, by September 1, 2020.

25. The central procurement entity (CPE), in collaboration with the independent evaluator, Cost Allocation Mechanism Procurement Review Group, and Energy Division, shall create a strict code of conduct, similar to that adopted in Decision 07-12-052, that prevents the sharing of confidential, market-sensitive information beyond those employees involved in the solicitation and

procurement process. Personnel employed by the CPE and involved in the solicitation and procurement process (including management and officers) shall sign the code of conduct as a precondition to engaging in the central solicitation and procurement process.

26. The central procurement entity (CPE) shall have discretion to defer procurement of a local resource to the California Independent System Operator's backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high. If the CPE defers to backstop procurement, the CPE shall provide, through the independent evaluator report and annual compliance report, the reason for the deferral to backstop procurement, prices offered in the solicitation, which generators did not participate in the solicitation (if any), and other relevant information.

27. The central procurement entity (CPE) shall not be assessed fines or penalties for failing to procure resources to meet the local Resource Adequacy requirements and deferring local procurement to the California Independent System Operator backstop mechanism, as long as the CPE exercises reasonable efforts to secure capacity and the independent evaluator report contains the reasons for the failure to procure.

28. The Resource Adequacy timeline outlined in Section 3.10 is adopted in anticipation of the 2023 compliance year and future years.

29. Energy Division is authorized to prepare a report assessing the effectiveness of the central procurement entity framework, including the independent evaluator and the Cost Allocation Mechanism Procurement Review Group function, by 2025.

30. Rulemaking 17-09-020 remains open.

This order is effective today.

Dated June 11, 2020, at San Francisco, California.

MARYBEL BATJER

President

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

Commissioners

Attachment D – CPUC D.22-03-034 Modifying Initial CPE Structure

Central Procurement Entities

California Independent System Operator Corporation

April 8, 2022

Decision 22-03-034 March 17, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to
Oversee the Resource Adequacy
Program, Consider Program Reforms
and Refinements, and Establish
Forward Resource Adequacy
Procurement Obligations.

Rulemaking 21-10-002

**DECISION ON PHASE 1 OF THE IMPLEMENTATION TRACK:
MODIFICATIONS TO THE CENTRAL PROCUREMENT ENTITY STRUCTURE**

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**Appendix A - Confidential Treatment Of Central Procurement Entity
Information**

DECISION ON PHASE 1 OF THE IMPLEMENTATION TRACK: MODIFICATIONS TO THE CENTRAL PROCUREMENT ENTITY STRUCTURE

Summary

This decision adopts modifications to the central procurement entity (CPE) structure adopted in Decision (D.) 20-06-002 and D.20-12-006, including revisions to the requirements for self-shown local resources, revisions to the CPE's solicitation selection criteria, and revisions to the CPE procurement timeline.

This proceeding remains open.

1. Background

1.1. Procedural Background

On October 7, 2021, the Commission issued the Order Instituting Rulemaking (OIR) to oversee the Resource Adequacy (RA) program, consider program reforms and refinements, and establish forward RA procurement obligations applicable to Commission-jurisdictional load-serving entities (LSEs). This proceeding is the successor to Rulemaking (R.) 19-11-009, which addressed these topics over the preceding two years. Additional information on the procedural history of this proceeding is provided in the OIR.

A Scoping Memo and Ruling (Scoping Memo) for this proceeding was issued on December 2, 2021. The Scoping Memo identified the issues to be addressed in this proceeding, and set forth a schedule and process for addressing those issues. In addition, the Scoping Memo established two tracks for this proceeding: the Implementation Track and the Reform Track. Under the Implementation Track, the Scoping Memo divided the track into Phases 1, 2, and 3. Phase 1 of the Implementation Track was scoped to consider critical modifications to the central procurement entity (CPE) structure and outlined a series of issues that may be addressed in Phase 1.

Initial Phase 1 proposals were submitted on December 13, 2021 by: Alliance for Retail Energy Markets (AReM), California Community Choice Association (CalCCA), Calpine Corporation (Calpine), Pacific Gas and Electric Company (PG&E), and Southern California Edison Company (SCE). Energy Division's Phase 1 proposal was filed and served by an Administrative Law Judge (ALJ) ruling on December 13, 2021.

A workshop on Phase 1 proposals was held on December 14, 2021. New or revised Phase 1 proposals were submitted on December 23, 2021 by: California Independent System Operator (CAISO), Middle River Power (MRP), PG&E, and Western Power Trading Forum (WPTF).

Comments on proposals and the workshop were filed on January 4, 2022 by: AReM, CAISO, CalCCA, Calpine, California Environmental Justice Alliance (CEJA) and Union of Concerned Scientists (UCS), jointly, MRP, PG&E, Public Advocates Office (Cal Advocates), SCE, and Shell Energy North America (US), L.P. (Shell). PG&E filed a Motion for Leave to File Confidential Materials in Opening Comments Under Seal. The motion was granted on January 6, 2022.

Reply comments were filed on January 13, 2022 by: AReM, CAISO, CalCCA, Cal Advocates, Green Power Institute, Independent Energy Producers Association, MRP, PG&E, SCE, and WPTF.

1.2. Background on CPE Framework

In Decision (D.) 20-06-002, the Commission adopted the CPE structure for procurement of local RA resources in PG&E's and SCE's transmission access charge (TAC) areas. PG&E and SCE were identified as the CPEs for their respective distribution areas beginning in the 2023 RA compliance year.¹ The

¹ D.20-06-002 at 35.

CPE framework was not adopted for the San Diego Gas & Electric Company (SDG&E) TAC area.

In D.20-06-002, the Commission adopted a hybrid procurement structure in which the CPE would “secure a portfolio of the most effective local resources, use its purchasing power in constrained local areas, mitigate the need for costly backstop procurement in certain local areas, and ensure a least cost solution for customers and equitable cost allocation.”² The hybrid framework allowed LSEs to voluntarily procure local resources to meet their system and/or flexible RA needs and count them towards the collective local RA requirements. An LSE that procures a resource that meets a local RA need may: (1) self-show the resource to the CPE to reduce the CPE’s overall local procurement obligation and retain the resource to meet the LSE’s system or flexible RA needs, (2) bid the resource into the CPE’s solicitation, or (3) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible RA needs.³ The Commission also provided that the CPE shall have discretion to defer procurement of a local resource to the CAISO’s backstop mechanisms, rather than through the solicitation process, if bid costs are deemed unreasonably high.⁴

D.20-06-002 directed the CPEs to begin procurement in 2021 for 100 percent of the 2023 local requirements and 50 percent of the 2024 local requirements.⁵ In 2022, the CPE is responsible for procuring 100 percent of the three-year forward local requirements for 2023 – 2024 and 50 percent of the three-year forward local requirement for 2025.

² D.20-06-002 at 26.

³ *Id.* at 91.

⁴ *Id.* at Ordering Paragraph (OP) 26.

⁵ *Id.* at 45.

On November 1, 2021, PG&E and SCE, acting as the CPEs, submitted their first Annual Compliance Reports via Advice Letter 6386-E and Advice Letter 4626-E, respectively. The Annual Compliance Reports summarized the CPEs' local RA purchase contracts and self-shown agreements. On November 19, 2021, PG&E's CPE filed a Supplemental Annual Compliance Report that provided aggregate procurement for the 2023 and 2024 RA compliance years. PG&E's Annual Compliance Report revealed that for the 2023 RA compliance year, the CPE's monthly procurement in PG&E's TAC area was below the 100% local requirement by as low as 4,264 MW (or 37.6% of the local requirement) and up to 6,049 MW (or 53.4% of the local requirement). SCE's Annual Compliance Report reflected only a small short position for a few months of the 2023 compliance year.

2. Issues Before the Commission

The Scoping Memo identified the following issues as within the scope of Phase 1 of the Implementation Track:

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.

All proposals and comments submitted by parties were considered but given the number of parties and issues, some proposals and comments may

receive little or no discussion in this decision. Phase 1 was scoped to “consider critical modifications” to the CPE structure and therefore, the Commission has limited this decision to issues deemed critical modifications to the CPE framework. Issues within the scope of the proceeding that are not addressed here, or only partially addressed, may be addressed in a later phase of this proceeding.

3. Discussion

3.1. Requirements for Self-Shown Resources

Under the hybrid procurement framework adopted in D.20-06-002, if an LSE procures a resource that meets a local RA need, the LSE may elect to: “(a) show the resource to reduce the CPE’s overall local procurement obligation and retain the resource to meet its own system and flexible resource adequacy needs, (b) bid the resource into the CPE’s solicitation, or (c) elect not to show or bid the resource to the CPE and only use the resource to meet its own system and flexible resource adequacy needs.”⁶ In D.20-12-006, the Commission also adopted a financial credit mechanism - called the Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) - to incentivize LSE development of new preferred or energy storage resources in local areas to meet system or flexible RA requirements.⁷ The LCR RCM applies to new preferred or energy storage resources selected by the CPE.

In Phase 1, some parties raise concerns about the lack of incentives for LSEs to self-show local resources to the CPE for no compensation. In D.20-12-006, the Commission ordered that “[a] shown resource shall be documented on an agreement as determined by the CPE, which may include the

⁶ D.20-06-002 at 27.

⁷ D.20-12-006 at 20.

Edison Electric Institute Master Agreement.”⁸ PG&E and SCE argue that requiring LSEs to take on a contractual obligation with the CPE discourages self-showing for no compensation due to the time-consuming and costly nature of contractual agreements.⁹ SCE and Calpine add that this is especially true if an LSE is outside the CPE’s service area and the LSE receives no benefit from self-showing via reduced CPE procurement costs.¹⁰

PG&E expresses concern about the lack of consequences for an LSE with a self-shown local resource that fails to perform according to the established timeline.¹¹ PG&E asserts that the CPE has no control over whether a self-showing LSE will submit the resource to the Commission and CAISO, or whether the resource will be available to CAISO when necessary. Without assurances that the resource will perform, PG&E states that the CPE cannot have an accurate picture of available resources, which impacts reliability and the success of the CPE construct. SCE believes the potential liability associated with backstop procurement costs for a resource’s failure to perform further disincentivizes LSE self-showing.¹²

Parties raise several proposals to address these issues.

⁸ *Id.* at OP 3.

⁹ PG&E Revised Proposal, December 23, 2021 (PG&E Revised Proposal), at 4, SCE Initial Proposal, December 13, 2021 (SCE Initial Proposal), at 2.

¹⁰ Calpine Proposal, December 13, 2021 (Calpine Proposal), at 4, SCE Initial Proposal at 2.

¹¹ PG&E Initial Proposal, December 13, 2021 (PG&E Initial Proposal), at 2.

¹² SCE Initial Proposal at 2.

3.1.1. PG&E's Proposal

PG&E proposes a Cost Allocation Mechanism (CAM)-based credit approach to address the issue of a self-shown resource's failure to perform, summarized as follows:¹³

- Step 1 – LSEs commit self-shown resources to the CPE by May 31 through submission of a binding notice of intent.
- Step 2 – CPE submits its RA plan by September 15, including self-shown resources. The submission will be used to determine CAM-based credits to allocate to LSEs.
- Step 3 – LSEs and/or suppliers must submit matching CAISO supply plans, with the CPE as the benefiting entity.
- Step 4 – If a self-showing LSE does not perform, the LSE's CAM credits will be revised. The CPE will notify the Commission of an LSE's failure to perform based on the binding notice.
- Step 5 – Costs associated with CAISO backstop procurement can be directly allocated to the non-performing LSE.

PG&E recommends that a self-showing LSE submit a binding notice of intent to the CPE, which eliminates the need for contractual agreements with the LSE. In addition, executed contracts would include termination provisions triggered upon submission of a binding notice by the LSE.

AReM supports PG&E's proposal.¹⁴ Cal Advocates states that the binding notice proposal, or SCE's attestation proposal, may mitigate concerns about contractual risks for self-shown resources and lead to more self-showing offers.¹⁵

¹³ PG&E Initial Proposal at 4.

¹⁴ AReM Opening Comments at 4.

¹⁵ Cal Advocates Opening Comments at 10.

CalCCA opposes PG&E's proposal as further disincentivizing self-showing since the LSE could face backstop costs if the resource goes on outage.¹⁶ CAISO and MRP oppose changes to CAISO's cost allocation rules in a Commission proceeding, which requires changes to the CAISO tariff.¹⁷

3.1.2. SCE's Proposal

SCE offers several proposals to address potential disincentives for LSE self-showing. SCE first proposes that any backstop costs due to non-performance of self-shown resources from a planned outage should be charged to the CPE and paid evenly by all LSEs in the CPE's service area.¹⁸ SCE believes that LSEs need to account for planned outages without being charged backstop costs because generator contracts typically allow generators to take planned outages without being in default. Further, LSEs are only required to replace system outages with system resources, which is much easier than a like-for-like resource in a local area, which may not exist in some local areas. SCE posits that the benefit of increased self-showing and reducing overall CPE procurement costs, outweighs any backstop costs spread to all LSEs' customers. For deficiencies in the month-ahead process due to non-performance, other than planned outages, SCE recommends that CAISO charge backstop costs to the non-performing LSE or its scheduling coordinator.

SCE recommends that for an LSE outside the CPE's service area, the LSE should not be subject to backstop costs for a self-shown resource's non-performance, due to planned outage or otherwise. SCE believes this is necessary

¹⁶ CalCCA Opening Comments at 6.

¹⁷ CAISO Opening Comments at 2, MRP Opening Comments at 16.

¹⁸ SCE Initial Proposal at 3.

because the LSE is already disincentivized to self-show outside of its service area and being subject to backstop costs further deters the LSE.

SCE also proposes that if an LSE elects not to self-show a local resource but shows on its year-ahead filing for system or flexible RA, the LSE should file a justification to explain why it did not bid or self-show to the CPE. SCE reasons that it is important to understand why local resources are not being bid or self-shown and make adjustments to the process as needed. SCE notes that the justification is not intended as an enforcement mechanism but to improve the CPE framework.

In addition, SCE recommends that the requirement for a contract between the CPE and self-showing LSE be eliminated. Instead, prior to the CPE solicitation, LSEs would submit an attestation to the CPE and the Commission, providing that: (1) the LSE has the rights to the local RA for the period it is self-showing, (2) the LSE plans on self-showing the resources on annual and monthly RA plans to satisfy system and/or flexible needs, and (3) the LSE agrees to provide the CPE with a notice of a planned outage at least 60 days prior to the showing month in which the outage is to occur. If an LSE procures additional local capacity after the date it commits to self-show and elects to self-show the additional resource, SCE proposes the LSE notify the Commission and CPE by August 1 through an attestation. SCE states that this process can also be used for LSEs that bid into the solicitation but indicate that if the bid is not selected, they will self-show for no compensation.

Lastly, SCE recommends that an LSE's self-shown resource for Year 1 should be firm but that LSEs may replace self-shown resources with other local

resources in the next year's RA showing.¹⁹ For example, if an LSE self-shows a resource in 2022 for 2024, it could replace the local resource with another local resource in 2023.

AReM supports SCE's proposal.²⁰ Calpine states that SCE's proposal partially addresses a disincentive for self-showing by eliminating exposure to backstop costs.²¹ Calpine asserts that the proposal does not address when an LSE may not be contractually permitted to self-show capacity procured for system RA as local RA but acknowledges the proposal may eventually encourage LSEs to renegotiate contracts to allow a self-showing. CalCCA believes SCE's proposal creates fewer disincentives for self-showing compared to PG&E's and CAISO's proposals.²² CalCCA states that SCE should clarify if outages between annual and monthly RA showings without replacement, other than planned outages, would be charged to the LSE since CAISO accepts planned outages after monthly showings until seven days before the outage if substitute capacity is provided. Cal Advocates supports SCE's attestation proposal.²³

PG&E suggests modifying SCE's proposal by requiring a justification from an LSE that either does not self-show or bid into the CPE solicitation.²⁴ PG&E points out that in its TAC area, for the May - October 2023 period, 70% of available local RA capacity participated in the CPE's solicitation, while a minimum 85% of the available local RA is needed to meet allocated

¹⁹ SCE Initial Proposal at 5.

²⁰ AReM Opening Comments at 4.

²¹ Calpine Opening Comments at 3.

²² CalCCA Opening Comments at 6.

²³ Cal Advocates Opening Comments at 10.

²⁴ PG&E Opening Comments at 13.

requirements.²⁵ For the August and September 2023 period, the participation rate was 69% and 63% with a minimum 84% and 88% needed, respectively. PG&E states that the modified justification from LSEs would help address the participation issue.

CAISO and MRP oppose changes to CAISO backstop cost allocation rules in a Commission proceeding, which require changes to the CAISO tariff.²⁶ MRP states that SCE does not address why backstop costs due to non-performance unrelated to planned outages should be allocated differently and recommends workshops to develop a standard self-shown contract. MRP adds that allowing LSEs to replace self-shown resources in future years' showings requires further discussion, including considering changes to effectiveness for replaced resources.

3.1.3. CAISO's Proposal

CAISO notes that if it identifies a deficiency and procures additional capacity under the Capacity Procurement Mechanism (CPM), CAISO allocates the costs of local CPM designations to deficient entities based on their ratio of local capacity area deficiency.²⁷ Under the CPE framework, the Commission assigns local obligations directly to the CPEs and therefore, CAISO would assign CPM costs for an individual deficiency to the CPE, which would be responsible for the costs. CAISO proposes the Commission assign local obligations to self-showing LSEs with the amount of local capacity they agreed to show. This allows CAISO to assign CPM costs to the LSE if the LSE failed to show a local resource it agreed to self-show.

²⁵ *Id.*, Appendix A.

²⁶ CAISO Opening Comments at 2, MRP Opening Comments at 16.

²⁷ CAISO Proposal, December 23, 2021 (CAISO Proposal), at 4.

CalCCA, SCE, PG&E, and MRP oppose CAISO's proposal. PG&E and MRP contend that assigning local obligations to LSEs transforms the CPE structure into a residual procurement model, which is not permitted by the hybrid framework.²⁸ CalCCA opposes the proposal because it may further disincentivize LSEs from self-showing if the LSE can face backstop costs if a resource goes on outage.²⁹ SCE opposes the proposal unless it is modified to state that LSEs in the TAC area are charged for non-performance, except for failure due to a planned outage, and that LSEs outside the TAC area are exempt from all backstop procurement.³⁰ AReM supports this proposal.³¹

3.1.4. Discussion

Based on the CPEs' Annual Compliance Reports, the Commission recognizes that a limited amount of local resources were self-shown to the PG&E CPE for no compensation. In addition, in PG&E's TAC area, a lower-than-expected amount of the local resources were bid into the solicitation. By self-showing local resources, LSEs can lower the overall amount of the CPE's local RA obligation, which reduces the amount of local resources the CPE must procure and thus lowers procurement costs for ratepayers in the CPE's service area. Thus, it is important to address and eliminate barriers that may be unnecessarily disincentivizing LSEs from self-showing local resources to the CPE for no compensation. The Commission agrees with parties that some disincentives for self-showing may include the burden and cost of executing a

²⁸ PG&E Opening Comment at 10, MRP Opening Comments at 15.

²⁹ CalCCA Opening Comments at 6.

³⁰ SCE Reply Comments at 4.

³¹ AReM Opening Comments at 4.

contract between a self-showing LSE and the CPE, and the exposure to backstop procurement costs if a self-shown resource fails to perform.

Considering the benefits and concerns of the proposals, the Commission finds that SCE's proposal, with modifications, mitigates several potential disincentives to LSE self-showing. The proposal requires backstop costs to be covered by ratepayers in the CPE's service area if the resource fails to perform due to a planned outage, or for any reason if the self-showing LSE is outside the CPE's service area. By removing the potential exposure to backstop procurement costs, we are persuaded that the potential for increased self-showing by LSEs will further reduce overall CPE procurement costs, and outweigh the potential risk of backstop costs being spread to all LSEs' customers.

In comments to the proposed decision, CalCCA recommends that for an LSE in the CPE's service area that fails to perform for reasons other than a planned outage, any backstop costs should be allocated pro-rata to all LSEs. CalCCA states that when an LSE self-shows a local resource, the LSE only receives a reduction in CPE costs pro-rata based on its load share in the local area. However, if the self-shown resource fails to perform under SCE's proposal, the LSE would take on 100% of the CPM cost risk, introducing additional disincentives to self-showing. The Commission finds CalCCA's modification to SCE's proposal to be reasonable in that it reduces a potential disincentive to self-showing.

CalCCA also recommends that a self-showing LSE should be allowed to substitute non-performing self-shown resources with another resource as the like-for-like local resource, and if there is no substitution, the CPE should be allowed to replace the non-performing resource. It is unclear how the CPE can replace a non-performing resource, as the CPE makes its procurement ahead of

the year-ahead filing and does not manage replacement throughout the year. The Commission, however, finds it reasonable to allow an LSE to substitute for a non-performing local resource.

We recognize parties' concerns regarding changes to CAISO's backstop allocation costs in this proceeding. Therefore, any CPM costs associated with local RA deficiencies in the CPEs' service areas will be allocated directly to the CPE, and the CPE will distribute those costs evenly to ratepayers through the CAM mechanism. Any backstop procurement costs allocated to the CPE should be allocated to all LSEs in the TAC area on a load ratio share basis.

For existing executed self-shown resource contracts, the Commission finds it reasonable to adopt a modified version of PG&E's proposal to require such contracts to include a provision that results in automatic termination of the contract upon submission by the LSE to the CPE of a compliant attestation.

In response to Calpine's comments that capacity procured as system RA may not be contractually allowed to show as local RA, we note that local RA is based on the location of the resource, not based on whether the LSE contracted to use the resource to meet local requirements. In D.20-06-002, the Commission determined that RA attributes should remain bundled and LSEs should receive credits for any system or flexible capacity procured during the local RA or backstop processes.³² Therefore, we find it reasonable to modify SCE's attestation proposal to require that an LSE attest that it has the capacity rights to the RA resource, generally, not that the LSE has the capacity rights to the local RA resource, specifically.

³² D.20-06-002 at OP 9(c).

Further, given the shortfalls in the PG&E CPE's procurement process and the low participation rates in the CPE solicitation process, it is critical to better understand why LSEs are electing not to bid or self-show resources to the CPE. We agree with PG&E's modification that LSEs that decline to self-show or bid shall submit a justification with their year-ahead RA filing explaining their rationale. We concur that this is not meant as an enforcement mechanism but to improve the CPE framework and make adjustments as necessary.

SCE recommends that while an LSE's self-shown resource for Year 1 should be firm, LSEs can replace self-shown resources with other local resources in the subsequent year's RA showing. Because the CPE's procurement amount is 100% for Years 1 and 2, we find it appropriate that LSEs' self-showing commitment should be firm for two years, but LSEs may replace local resources shown for Year 3 with other local resources located in the same local capacity area and at least equal to the capacity of the local resources being replaced in the subsequent year's showing.

Accordingly, we adopt SCE's proposal with CalCCA's modifications. The following requirements are adopted for non-performance of self-shown local resources:

- (1) Self-showing LSEs shall be allowed to provide a substitute resource as the like-for-like local resource to replace non-performing self-shown local resources.
- (2) If the CAISO makes a local CPM designation for an individual deficiency, the CPE shall be charged any associated CAISO backstop procurement costs, including for the non-performance of self-shown resources. Any backstop procurement costs allocated to the CPE shall be allocated to all LSEs in the TAC area on a load ratio share basis.

For purposes of the above requirements, “non-performance” is defined as the failure to provide: (a) the Commission with an RA plan with the self-shown resource, and (b) the CAISO with a matching supply plan for the self-shown resource.

In accordance with the CPE timeline adopted in this decision, an LSE that elects to self-show a local resource to the CPE shall execute an attestation that provides that:

- (1) The LSE has the capacity rights to the RA resource for the period it is self-showing;
- (2) The LSE intends to self-show the RA resource on annual and monthly RA plans to satisfy its system and/or flexible RA needs; and
- (3) If applicable, the resource that the LSE intends to self-show for compensation under the LCR RCM meets the eligibility requirements pursuant to D.20-12-006.

The attestation requirements, adopted here, replace the previous requirement that a shown resource must be documented on an agreement as determined by the CPE, as provided in Ordering Paragraph 3 of D.20-12-006.

This attestation process shall also apply to an LSE that bids a local resource and states that if the bid is not selected, the LSE will self-show the local resource for no compensation. This attestation shall be submitted at the time the LSE submits its bid into the CPE’s solicitation.

For compensated self-shown resources under the LCR RCM, the CPE shall have discretion to require a self-showing LSE to either: (a) execute an agreement between the CPE and self-showing LSE that provides payment information and other relevant terms, or (b) submit an attestation that identifies the resource as a preferred resource and provides the LSE’s payment information. For the latter, the CPE will then provide acknowledgement to the LSE with payment terms.

For any existing self-shown resource contracts, the contract shall include, or be amended to include, a provision resulting in automatic termination of the self-shown contract without any further action of the parties upon submission by the LSE to the CPE of an attestation, provided that the attestation complies with the relevant requirements and conforms to the self-shown commitment originally entered into through the contract between the CPE and LSE.

Amendment and/or automatic termination of any existing self-shown resource contract for which a qualifying attestation is submitted is deemed reasonable and shall not require contract management review as part of a regulatory proceeding.

If an LSE either: (a) declines to self-show a local resource to the CPE, or (b) declines to bid a local resource into the CPE's solicitation process, the LSE shall file a justification statement in its year-ahead RA filing explaining why the LSE declined to self-show or bid the local resource to the CPE.

Lastly, an LSE's self-shown commitment must be firm for Years 1 and 2. LSEs may replace their self-shown local resources for Year 3 with other local resources located in the same local capacity area and at least equal to the capacity of the local resources being replaced in the subsequent year's RA showing.

3.2. CPE Solicitation Selection Criteria

In D.20-06-002, the Commission set forth selection criteria for the CPE to use to guide the selection of local resources. The Commission stated:³³

To guide the selection of local resources procured by the central procurement entity (CPE), the CPE shall use the all-source selection criteria, including the loading order, and least cost best fit methodology adopted in Decision (D.) 04-07-029. The least cost best fit methodology employed shall also include the following selection criteria:

³³ D.20-06-002 at OP 14.

- a. Future needs in local and sub-local areas;
- b. Local effectiveness factors, as published in the California Independent System Operator's Local Capacity Requirement Technical Studies;
- c. Resource costs;
- d. Operational characteristics of the resources (efficiency, age, flexibility, facility type);
- e. Location of the facility (with consideration for environmental justice);
- f. Costs of potential alternatives;
- g. Greenhouse Gas adders;
- h. Energy-use limitations; and
- i. Procurement of preferred resources and energy storage (to be prioritized over fossil generation).

Parties present several proposals to revise the CPE selection criteria and process.

3.2.1. Proposals to Modify the Selection Criteria

PG&E proposes to remove the local effectiveness factors (LEF) (Criteria b) from the selection criteria because the LEFs are dynamic and based on assumptions that may not apply year to year.³⁴ PG&E notes that the LEFs may be of limited value in selecting a portfolio since CAISO bases the LEFs on the most stringent contingency to meet North American Electric Reliability Corporation standards and a local resource may be much less effective at addressing the second most stringent contingency compared to another local resource. PG&E posits that a LEF is unlikely to be a functional metric for local

³⁴ PG&E Revised Proposal at 2.

resources and some local resources (including new resources) do not have a published LEF.

PG&E recommends eliminating aspects of Criteria (d), operational characteristics of the resource (efficiency, age, and flexibility), and removing the data submittal requirements for “facility age, heat rate, start-up time, and ramp rate,” from Ordering Paragraph 15 of D.20-06-002.³⁵ PG&E asserts that some parties have indicated that operational characteristic data is not accessible to LSEs, creating barriers to LSE participation. PG&E adds that other criteria in Ordering Paragraph 15 can be more useful to evaluate portfolio effectiveness, such as future needs in local areas, energy-use limitations, and operational characteristics, such as facility type. PG&E notes that removing these criteria will give the CPE flexibility to define attributes for operational characteristics that mitigate barriers for participation (*e.g.*, using dispatchability versus non-dispatchability, resource type/fuel source, availability during hours of the day).

CalCCA and Calpine generally support PG&E’s proposal.³⁶ Calpine supports giving the CPE discretion on operational characteristics so long as the CPE provides transparency about how the characteristics will be considered and market participants have an opportunity to comment. Cal Advocates recommends keeping the heat rate requirement, as it provides information relevant to the state’s emission reduction goals and the CEC maintains a public database of heat rates so LSEs have access to this information.³⁷

³⁵ *Id.*

³⁶ Calpine Opening Comments at 3, CalCCA Opening Comments at 9.

³⁷ Cal Advocates Opening Comments at 13.

Calpine also proposes discouraging the CPEs from requiring “detailed data on unit operating characteristics for shown capacity.”³⁸ Calpine argues that it is not clear that such information is useful for bid evaluation and is not typically included in RA-only transactions, forcing LSEs to obtain data from suppliers. MRP and AReM support Calpine’s proposal.³⁹

3.2.2. Proposals on CPE Selection Process

Calpine recommends that the CPEs should not include restrictions on terms that are not required by D.20-06-002, such as restrictions on long-term contracts.⁴⁰ Calpine states that the CPE should be encouraged to negotiate long-term contracts bilaterally and obtain approval through an advice letter.

MRP and Cal Advocates support Calpine’s proposal.⁴¹ Cal Advocates reasons that overly prescriptive requirements may discourage LSE offers and recommends requiring the CPE to consider bids of any length greater than or equal to one month. SCE supports allowing the CPE to bilaterally contract resources if needed but notes that executing contracts of five years or more requires a Tier 3 Advice Letter, which would not be approved in time for the CPE’s showing.⁴² PG&E opposes Calpine’s proposal and states that the CPE should have discretion to determine appropriate term lengths to best meet procurement obligations.⁴³

³⁸ Calpine Proposal at 7.

³⁹ MRP Opening Comments at 19, AReM Opening Comments at 5.

⁴⁰ Calpine Proposal at 9.

⁴¹ MRP Opening Comments at 19, Cal Advocates Opening Comments at 2.

⁴² SCE Opening Comments at 10.

⁴³ PG&E Reply Comments at 20.

CalCCA proposes that the Commission neutrally review and compare bid and self-showing contracts executed by the CPE to determine if certain requirements inhibited LSEs from self-showing.⁴⁴ CalCCA recommends the Commission identify discrepancies between each CPE's requirements and determined whether those requirements are necessary.

3.2.3. Discussion

Considering the lower-than-expected participation among LSEs that bid into the CPEs' solicitation, it is important to address barriers that may be unnecessarily disincentivizing LSEs from bidding or self-showing resources into the solicitation process. The Commission finds that PG&E's proposal to modify the selection criteria and data requirements is reasonable in removing some potential barriers. We are persuaded that the LEF may not be a useful metric for local resource procurements because LEFs can change from year to year based on transmission assumptions. Additionally, some local resources do not have a LEF, which could unfairly advantage other resources in the selection process. We also concur that requiring certain operational characteristics (efficiency, age, and flexibility) may be hindering LSE participation due to the difficulty in obtaining this information. To the extent that LEFs are a useful metric, we encourage the CPEs to consider LEFs in deliberations as appropriate.

The Commission also agrees with removing heat rate from the data submittal requirements and encourages the CPE to utilize publicly available information, including heat rate, in deliberations as appropriate. Other selection criteria, such as prioritizing procurement of preferred resources, will provide information necessary for the CPE to evaluate procurement that advances the

⁴⁴ CalCCA Proposal, December 13, 2021, at 6.

state's clean energy goals. Moreover, LSEs are required to comply with the Renewables Portfolio Standard (RPS) procurement requirements, as well as the recently approved 35 million metric ton electric sector greenhouse gas planning target by 2032, which equates to a portfolio with 73 percent RPS resources and 86 percent greenhouse gas-free resources by 2032.⁴⁵ Thus, the pool of resources that LSEs bid into the CPEs' solicitations should mirror the state's transition to clean energy. To the extent that heat rate information is not publicly available or updated, the CPE is encouraged to consult with Energy Division and the CAM PRG to develop a proxy for heat rate information.

For these reasons, we adopt PG&E's proposal to revise the selection criteria and data submittal requirements. Accordingly, the selection criteria in Ordering Paragraph 14 of D.20-06-002 are replaced with the following criteria:

- a. Future needs in local and sub-local areas;
- b. Resource costs;
- c. Operational characteristics of the resources (facility type);
- d. Location of the facility (with consideration for environmental justice);
- e. Costs of potential alternatives;
- f. Greenhouse Gas adders;
- g. Energy-use limitations; and
- h. Procurement of preferred resources and energy storage (to be prioritized over fossil generation).

The CPE shall have discretion to define attributes for the operational characteristics, and such attributes shall be provided to market participants in the CPE's bidders' conference.

⁴⁵ D.20-02-004 at 94-95.

Accordingly, Ordering Paragraph 15 of D.20-06-002 is modified as follows: “In its solicitation, the central procurement entity shall direct bidders to include the CalEnviroScreen score of the resource location (or if unavailable, the pollution burden of the resource location).”

In addition, we agree with Calpine and other parties that the CPE should not include restrictions on the length of contract terms in its solicitation, as such restrictions are not authorized by the Commission and may unnecessarily deter LSE participation in the solicitation process. Accordingly, in its solicitation process, the CPE shall consider bids of any contract term length greater than or equal to one month.

3.3. CPE Procurement Outside of Annual RA Solicitation

Both PG&E and SCE assert that the CPE should be granted authority to procure outside of the all-source solicitation. PG&E states that the CPE is best positioned to evaluate the entire portfolio of local resources but that if the CPE’s authority is expanded, the Commission should provide clear, narrowly defined parameters for the authority.⁴⁶

SCE advocates for the CPE’s authority to be expanded to procure outside of the annual solicitation for targeted technologies to meet specific needs.⁴⁷ SCE proposes that this should include procurement through other means, such as broker markets or bilateral transactions and on timelines other than the typical timeline. SCE proposes that the CPE use the least cost best fit methodology and, if applicable, the selection criteria adopted in D.20-06-002.

⁴⁶ PG&E Initial Proposal at 9.

⁴⁷ SCE Initial Proposal at 8.

For contracts that exceed a five-year term, the CPE would submit a Tier 3 Advice Letter for approval. For contracts with terms of less than five years, SCE recommends that, similar to Ordering Paragraph 22 of D.20-06-002, the contract should be deemed reasonable and preapproved provided that these conditions are met: (1) the resource meets the local capacity needs identified by CAISO's Local Capacity Requirements Technical Study (LCRTS), (2) the CAM Procurement Review Group (PRG) was properly consulted, and (3) procurement was deemed by the independent evaluator (IE) to have followed all relevant Commission guidance, including the least cost best fit methodology and other selection criteria.

CalCCA supports allowing the CPE to procure outside the annual solicitation, but the procurement must be completed in June to allow sufficient time for LSE procurement.⁴⁸ CalCCA states that procurement outside of the annual solicitation should be communicated in supplemental compliance reports in June. MRP opposes PG&E's and SCE's proposals, noting the challenges the CPEs faced in meeting local requirements for 2023 and 2024.⁴⁹ MRP believes that if technology-specific procurement is needed, the Commission may authorize it as needed, such as was done in the Emergency Reliability Rulemaking.

3.3.1. Discussion

In the event of procurement shortfalls following the CPE's annual solicitation, the Commission agrees that the CPE is in the best position to evaluate the entire local portfolio and consider what additional resources are needed. Therefore, we agree that the CPE should have authority to procure

⁴⁸ CalCCA Opening Comments at 11.

⁴⁹ MRP Opening Comments at 18.

outside of the annual solicitation process in certain situations. Such outside procurement should only occur, however, if there are deficiencies following the CPEs' annual solicitation and only to cover those deficiencies. The CPE is still permitted to conduct additional solicitations following its annual solicitation, as provided in D.20-06-002. We encourage the CPEs to fill their positions to the extent possible prior to initial RA allocations in July.

Accordingly, in the event that the CPE does not procure sufficient resources to meet its multi-year local requirements following its annual all-source solicitation, the CPE is granted authority to procure additional local RA resources outside of its annual solicitation process. The CPE is authorized to use broker markets or bilateral transactions to fill short positions for any deficiencies in the three-year forward period. The CPE shall consult with the CAM PRG on plans for conducting procurement outside of its all-source solicitation, including opportunities it plans to pursue and criteria with which it plans to evaluate offers.

The CPE shall use the least cost best fit methodology and, if applicable for the procurement being undertaken, consider the selection criteria set forth in D.20-06-002, as modified in this decision. For contracts that exceed a five-year term, including bilateral or broker contracts, the CPE shall submit a Tier 3 Advice Letter for approval. For contracts with terms of five years or less, the contract should be deemed reasonable and preapproved provided that these conditions are met: (1) the resource meets the local capacity needs identified by CAISO's LCRTS, (2) the CAM PRG was properly consulted, as directed in Ordering Paragraph 13 of D.20-06-002, and (3) procurement was deemed by the IE to have followed all relevant Commission guidance, including the least cost best fit methodology and other selection criteria. For reasonable and preapproved

broker or bilateral contracts with a term of five years or less, the CPE shall notify the CAM PRG as soon as practicable after the execution of the broker or bilateral transaction.

3.4. CPE Procurement Timeline

In D.20-06-002, the following timeline was adopted for CPE procurement:⁵⁰

- **April-May 2021:**
 - The CAISO files draft and final Local Capacity Requirements (LCR) one- and five-year ahead studies. LCR studies will include any CAISO-approved transmission upgrades from the Transmission Planning Process (TPP) LCR study.
 - LSEs in SCE and PG&E TAC areas commit to CPE to show self-procured local resources in RA filing for 2023 and 2024.
 - Parties file comments on draft and final LCR studies.
- **June 2021:**
 - The Commission adopts multi-year local RA requirements for the 2022-2024 compliance years as part of its June decision.
 - CPE receives total jurisdictional share of multi-year local RA requirements for 2022-2024 compliance years.
- **July 2021:**
 - For the SCE and PG&E TAC areas, LSEs receive initial RA allocations, including CAM credits and system, flexible, and local requirements for 2022 (but are not allocated local requirements for 2023 and 2024).
- **Late September 2021:** CPE and LSEs that voluntarily committed local resources to the CPE make local RA showing to the Commission and the CAISO.

⁵⁰ D.20-06-002 at 65.

- **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.
- **End of October 2021:** LSEs in PG&E and SCE TACs make local showing only for 2022, as well as 2022 year ahead system and flexible showings.

Parties and Energy Division offer several proposals to revise the timeline.

3.4.1. Energy Division's Proposal

Energy Division states that the current timeline accounts for CPE CAM credits being distributed in late September/early October, following the CPE's procurement filings in late September.⁵¹ Because LSEs are dependent on these allocations to finalize year-ahead RA positions, Energy Division states that the timeline does not provide sufficient time for LSEs to manage their portfolios. Energy Division proposes to no longer require LSEs to commit self-shown resources in April – May, and to move the CPE's finalized procurement to late July. The proposed revisions are as follows:

- **Late July:** CPE procurement is finalized. LSEs that self-show local resources make local RA showings to the Commission. Initial year-ahead allocations in July will not include CAM credits but will include CPE procurement completed in prior years.
- **Mid-August:** Preliminary CPE allocations are sent to LSEs 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. Final

⁵¹ Energy Division Proposal, December 13, 2021 (Energy Division Proposal), at 4.

allocations will be based on revised load ratios provided by the August LSE load forecast revisions.

- End of October: The CPE and LSEs make year-ahead showings to the Commission and CAISO, including showings for self-shown resources provided to the CPE.

AReM and CAISO support the proposal as it gives LSEs additional time to manage system and flexible positions.⁵²

Several parties oppose Energy Division's timeline, including PG&E, SCE, and Shell. PG&E opposes moving the CPEs' RA showing to late July as that gives the CPE less than four weeks for procurement after receiving final requirements.⁵³ PG&E opposes eliminating the April-May deadline for self-showing because the CPE needs a clear understanding of committed self-shown capacity at the time of the solicitation to prevent inefficient procurement. PG&E supports including a deadline for LSEs to receive a preliminary update to the system and flexible allocations from the CPE.

SCE states that implementing Energy Division's revisions for 2022 is impractical because SCE must launch the solicitation prior to a Phase 1 final decision.⁵⁴ The proposal contemplates the CPE will begin procurement before the CAISO LCR study results are adopted, which may lead to inefficient procurement. If the CPE final allocations are provided in early July, the CPE cannot finalize negotiations to meet the July 31 deadline. Shell argues that Energy Division's proposal still does not give LSEs sufficient time for

⁵² AReM Opening Comments at 1, CAISO Opening Comments at 4.

⁵³ PG&E Opening Comments at 7.

⁵⁴ SCE Opening Comments at 5.

procurement and that LSEs should have at least four months from the CPEs' credit allocation to conduct final procurement for system and flexible RA.⁵⁵

3.4.2. PG&E's Proposal

PG&E offers a proposal intended to give LSEs more time to incorporate CPE procurement results and give the CPE sufficient time to finalize procurement.⁵⁶ The proposal gives the CPE and LSEs a similar amount of time to complete necessary procurement (within 6-8 weeks) after receiving allocations. The proposed revisions are as follows:

- No Later than Mid-May: LSEs in SCE and PG&E TAC areas make self-shown commitment of local resources to the CPE for relevant compliance years.
- No Later Than Early July: CPE receives share of multi-year local RA requirements for applicable compliance years.
- July: For the SCE and PG&E TAC areas, LSEs receive initial RA allocations, including CAM credits from CPE-procured system and flexible capacity from the prior year.
- Mid-August: CPE makes local RA showing to the Commission.
- End of August: LSEs in the SCE and PG&E TAC areas receive updated CAM credits for multi-year system/flexible capacity that was procured by the CPE as a result of the CPE's multi-year local RA showing to the Commission in Mid-August.
- September: For PG&E and SCE's TAC areas, LSEs are allocated final year-ahead system and flexible RA allocations.

⁵⁵ Shell Opening Comments at 4.

⁵⁶ PG&E Revised Proposal at 5.

- End of October: LSEs in PG&E and SCE TACs make year-ahead system and flexible showings. CPE makes year-ahead showing to CAISO.

CAISO supports this timeline and the modification that early showings only apply to the Commission, as CAISO's process does not require early showings.⁵⁷ SCE supports PG&E's timeline provided that the CPE has until end of August to make its RA showing and in early September, LSEs receive updated CAM credits for capacity procured by the CPE in the most recent solicitation.⁵⁸

AReM opposes PG&E's timeline as it delays finalizing CPE procurement by several weeks and does not have a specific deadline for allocating CAM credits to LSEs.⁵⁹ CalCCA opposes the timeline as it does not give LSEs enough time to effectively plan for year-ahead obligations.⁶⁰

3.4.3. CalCCA's Proposal

CalCCA states that when LSEs begin procurement for 2023 RA obligations, LSEs should not compete for the same resources that the CPE is trying to procure, which may lead to over-procurement.⁶¹ CalCCA recommends the CPE complete procurement by October two years before the operational year. For 2023, CalCCA recommends allowing expedited additional procurement to meet 2023 PG&E local needs by June 2022. This gives LSEs five months to complete procurement to meet obligations by October 2022. CalCCA also recommends that CPEs provide additional information in an updated compliance report,

⁵⁷ CAISO Opening Comments at 4.

⁵⁸ SCE Opening Comments at 5.

⁵⁹ AReM Opening Comments at 1.

⁶⁰ CalCCA Opening Comments at 12.

⁶¹ CalCCA Proposal at 10.

specifying allocations of system and flexible RA as a result of incremental procurement and providing reasons for procurement deferred to backstop.

CalCCA recommends the Commission and CAISO consider under what conditions CAISO would undertake backstop procurement after the year-ahead RA showings since it is unclear if local resources shown as system RA on year-ahead filings, which are not required to be shown each month, would be satisfactory to CAISO. CalCCA proposes that if the CPE fails to meet full procurement needs by June, system and flexible RA waivers should be considered for LSEs whose procurement was impacted by the shortfalls.

CalCCA's revisions to the existing RA timeline are as follows:

- February – May 2022: CPE conducts additional all-source solicitations for 2023.
- June 2022: The Commission adopts multi-year local RA requirements for the 2023-2025 compliance years as part of its June decision. CPE receives share of multi-year local RA requirements for 2023-2025 compliance years. CPE completes all-source solicitations for 2023 and submits updated compliance report.

Shell supports CalCCA's proposed timeline.⁶²

Several parties oppose CalCCA's proposal, including PG&E, AReM, SCE, and Cal Advocates. PG&E states that moving CPE procurement results to June is untenable, unnecessary, and will constrain efficient procurement.⁶³

Cal Advocates likewise opposes moving CPE procurement to June since local requirements are not finalized until June and requiring the CPE to complete procurement based on an uncertain target may result in over-procurement and

⁶² Shell Opening Comments at 5.

⁶³ PG&E Opening Comments at 3, 5.

unnecessary ratepayer costs.⁶⁴ SCE opposes requiring the CPE to conduct an additional solicitation in February 2022 because the SCE CPE largely met its procurement targets for 2023 and the small residual amount left to procure can be met in the next solicitation.⁶⁵ AReM opposes CalCCA's timeline because it does not set specific deadlines for finalizing procurement and issuing final CAM credits to LSEs.⁶⁶

3.4.4. Discussion

In considering revisions to the CPE procurement timeline, the Commission must balance the need for LSEs to have sufficient time to incorporate the CPE's procurement actions into their system and flexible RA portfolio planning, with the need for the CPEs to have adequate time to complete an effective all-source solicitation that accounts for self-shown resources and the procurement review process required by D.20-06-002.

Weighing the benefits and concerns raised for each proposal, the Commission finds that PG&E's proposal strikes a reasonable balance between the competing needs of LSEs and the CPEs in that it gives both LSEs and the CPEs a similar amount of time (6-8 weeks) to complete necessary procurement after receiving allocations. Under PG&E's proposal, CPE allocations will be sent to LSEs at the end of August to assign LSEs in managing their system and flexible positions. As discussed in Section 3.3, the CPE is authorized to procure outside of the annual all-source solicitation if there are any deficiencies in meeting the CPE's multi-year local requirements after the annual solicitation process.

⁶⁴ Cal Advocates Reply Comments at 3.

⁶⁵ SCE Opening Comments at 5.

⁶⁶ AReM Opening Comments at 2.

Accordingly, the following timeline is adopted for CPE procurement and replaces the timeline adopted in Ordering Paragraph 28 of D.20-06-002:

- **April-May:** The CAISO files draft and final LCR one- and five-year ahead studies. LCR studies will include any CAISO-approved transmission upgrades from the TPP LCR study. Parties file comments on draft and final LCR studies.
- **No Later Than Mid-May:** LSEs in SCE and PG&E TAC areas make self-shown commitment of local resources to the CPE for the applicable RA years.
- **No Later than June:** The Commission adopts multi-year local RA requirements for the applicable compliance years as part of its June decision.
- **No Later Than Early July:** CPE receives total jurisdictional share of multi-year local RA requirements for the applicable compliance years.
- **July:**
 - For the SCE and PG&E TAC areas, LSEs receive initial RA allocations, including CAM credits from CPE-procured system and flexible capacity from the prior year and any bilateral contracts.
 - For the SDG&E TAC area, LSEs receive initial RA allocations (system, flexible, local requirements) and CAM credits.
- **Mid-August:** CPE makes local RA showing to the Commission.
- **End of August:** LSEs in the SCE and PG&E TAC areas receive updated CAM credits for multi-year system/flexible capacity that was procured by the CPE as a result of the CPE's multi-year local RA showing to the Commission in Mid-August.
- **September:**
 - For PG&E and SCE's TAC areas, LSEs are allocated final year-ahead system and flexible RA allocations,

including CAM credits from CPE-procured system and flexible RA capacity based on revised year-ahead load forecast load ratios.

- For the SDG&E TAC area, LSEs receive final RA allocations (system, flexible, local requirements) and CAM credits.
- **End of October:**
 - LSEs in SDG&E TACs make system, flexible, and three-year local RA showing.
 - LSEs in PG&E and SCE TACs make year-ahead system and flexible showings, and provide applicable justification statements for local resources not self-shown or bid to the CPE.
 - CPEs and LSEs that committed to self-show make year-ahead showing to CAISO.

Given the procurement shortfalls in the PG&E TAC area for the 2023 RA compliance year, we find it reasonable to give LSEs in the PG&E TAC area additional flexibility in securing their year-ahead system and flexible RA portfolios. As such, for 2023 year-ahead RA compliance only, Energy Division will not send deficiency notices to LSEs serving load in the PG&E TAC area earlier than January 1 following the year-ahead showing deadline.

3.5. Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM)

In D.20-12-006, the Commission adopted the LCR RCM for new preferred resources and new energy resources that are selected by the CPE. To calculate the pre-determined local price, the Commission directed that:⁶⁷

If selected, the LSE shall be paid the showing price (pre-determined or below) without annual adjustment for

⁶⁷ D.20-12-006 at OP 3.

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 the Energy Division Power Charge Indifference Adjustment (PCIA) responses for system and local RA; subtract system 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 and the most recent weighted average price reported in the CPE solicitation results (prior year's results) for local RA; subtract system RA price from local RA price.

Energy Division and Calpine put forth proposals to modify the LCR RCM calculation.

After reviewing the CPEs' Annual Compliance Reports, Energy Division observes that for the 2023 compliance year, the CPEs procured a very limited number of RA-only contracts. Energy Division states that "due to the LSE self-shown resources, contracts that include energy settlement, and the need for additional CPE procurement in PG&E's service area for 2023, certain local areas did not have any RA-only contracts executed by the CPE."⁶⁸ As a result, Energy Division believes it is not possible to implement the LCR RCM calculation for subsequent years at the local-area level, as directed in D.20-12-006.

Energy Division recommends that rather than basing the local RA price calculation on "the most recent weighted average price reported in the CPE solicitation results," the local price should be calculated as the weighted average price from the last four quarters of Energy Division PCIA responses for local RA.

⁶⁸ Energy Division Proposal at 2.

In other words, apply the calculation for Year 1 of the LCR RCM to subsequent years. Energy Division states that the PCIA data includes RA-only contracts reported by the CPEs, as well as other LSE contracts for local resources. The LCR RCM would continue to be the difference between the system RA and local RA prices.

SCE agrees with Energy Division's proposal.⁶⁹ Calpine believes PCIA data includes transactions for local resources that have not necessarily been contracted for local capacity and Energy Division's proposal would understate the premium for local RA unless the calculation to derive local premia were limited transactions for local capacity.⁷⁰ Calpine recommends limiting the calculation of local premia to transactions for local RA capacity, including bilateral and CPE transactions. If there is insufficient data for specific local areas, Calpine recommends calculating premia for aggregations of local areas.

Calpine also offers a proposal to revise the LCR RCM calculation, as the methodology reflects the difference between MW-weighted average system and local prices.⁷¹ Calpine states the MW-weighted system price overestimates the highest demand months and underestimates the local premium, and proposes that the premium be calculated month-by-month. SCE opposes changing the LCR RCM calculation since there was insufficient contract pricing from the CPEs' first year solicitations to update the calculation.⁷²

⁶⁹ SCE Opening Comments at 9.

⁷⁰ Calpine Opening Comments at 2.

⁷¹ Calpine Proposal at 5.

⁷² SCE Opening Comments at 9.

3.5.1. Discussion

Given the limited number of RA-only contracts procured for the 2023 compliance year by the CPEs, the Commission agrees that the calculation for the LCR RCM in subsequent years cannot be applied. We find Energy Division's proposal to apply the calculation for Year 1 to subsequent years to be reasonable, and we adopt it here.

Accordingly, Ordering Paragraph 3 of D.20-12-006 is modified as follows:

If selected, the LSE shall be paid the showing price (pre-determined or below) without annual adjustment for effectiveness. The showing price shall not exceed the pre-determined local price, which is calculated as follows:

- Use the weighted average price from the last four quarters of the Energy Division PCIA responses for system and local RA; subtract system RA price from local RA price.

With respect to Calpine's proposal, the Commission agrees with parties that there is insufficient contract pricing data to consider changes to the LCR RCM calculation at this time, and we decline to adopt further modifications.

The Commission recognizes that some parties raise proposals to modify the LCR RCM to apply to either gas resources or existing preferred resources.⁷³ We note that these topics were raised and considered by the Commission prior to the issuance of D.20-06-002 and D.20-12-006. The LCR RCM was specifically designed to incentivize self-showing of new preferred or energy storage resources. In D.20-12-006, the Commission stated:

The Commission's original rationale for considering a potential LCR RCM was to incentivize, or at the very least not allow the CPE framework to discourage, LSE development of

⁷³ See Calpine Proposal at 5, CEJA/UCS Opening Comments at 4.

new preferred or energy storage resources in local areas to meet their system or flexible RA requirements.⁷⁴

The Commission declines to relitigate these issues here. In D.20-06-002, Energy Division was directed to submit a report by 2025 assessing the effectiveness of the CPE structure and such evaluation will consider the effectiveness of the LCR RCM.⁷⁵ As discussed below, Energy Division is directed to submit this report in 2024.

3.6. Investor-Owned Utility Bidding at Levelized Fixed Costs

In D.20-06-002, the Commission directed that the IOU “bid its own resources, that are not already allocated to all benefiting customers, into the solicitation process at their levelized fixed costs.”⁷⁶ Levelized fixed costs refer to “the annual revenue requirement for utility-owned resources or the PPA price for contracted resources.”⁷⁷ PG&E and SCE put forth two proposals on the levelized fixed cost requirement.

PG&E asserts that the fixed cost requirement is incompatible with the products/attributes procured by the CPE and how the bundled procurement arm’s portfolio is comprised.⁷⁸ PG&E states that, for example, a resource’s contracted price may contain all product attributes, such as renewable energy and renewable energy credits, and components of the contracted price cannot be parsed out. PG&E states that the CPE has no clear authority to procure all product attributes and CAM does not allocate renewable energy credits to

⁷⁴ D.20-12-006 at 22.

⁷⁵ D.20-06-002 at 35.

⁷⁶ *Id.* at OP 11.

⁷⁷ *Id.* at 48.

⁷⁸ PG&E Initial Proposal at 8.

benefiting customers. PG&E also argues that the fixed cost requirement creates barriers for IOU participation in the CPE process and recommends removing the requirement. Rather, PG&E proposes that the IOU's bundled procurement arm file a Tier 2 Advice Letter proposing a methodology for bidding utility-owned generation (UOG) and other contracted resources into the CPE process.

SCE likewise advocates for removing the levelized cost requirement because it puts IOUs acting as the CPE at a disadvantage by not allowing them to bid at market prices like other LSEs.⁷⁹ SCE argues that it prevents IOUs from bidding competitively, which may result in the CPE procuring resources at higher premiums and socializing that cost to all customers. SCE notes that any concerns about unfair competitive advantage by IOUs are unfounded and that any potential unfair competitive advantage is covered by layers of protection established in D.20-06-002 (*e.g.*, competitive neutrality rules and code of conduct, IE monitoring, bid submission to the CAM PRG and IE, internal firewalls).

Cal Advocates supports PG&E's proposal and states that if the IOU resource's price calculation includes products the CPE does not use or re-distribute, ratepayers are harmed by the inefficiencies and improper pricing.⁸⁰ Cal Advocates recommends that changes to the fixed cost requirement should apply to both CPEs in the same manner and the IOUs should jointly file a Tier 2 Advice Letter proposing changes. In reply comments, PG&E opposes standardizing IOUs' bid methodologies because each IOU has different portfolios and contracts, and requiring the same methodology is not in the best interest of customers and potentially implicates antitrust laws.⁸¹ SCE supports

⁷⁹ SCE Initial Proposal at 6.

⁸⁰ Cal Advocates Opening Comments at 7.

⁸¹ PG&E Reply Comments at 19.

PG&E's proposal.⁸² Alternatively, SCE states that the CPE should be permitted to bid in a monthly shaped price, which would allow more competitive offers as compared to other LSEs.

MRP and CalCCA oppose removing the fixed cost requirement.⁸³ MRP states that IOUs are not like other market participants because IOUs have the PCIA for resources regardless of the bid price offered. MRP states that if the CPE accepts the levelized fixed cost bid, costs are allocated to customers through CAM; if the CPE does not accept the fixed cost bid, customers of certain vintages pay the difference through the PCIA. MRP opposes removing the requirement without further discussion to understand the impact on PCIA and CAM costs. CalCCA similarly argues that allowing IOUs to bid resources at a value other than the levelized fixed cost means allowing IOUs to charge CAM customers at a different cost than the cost charged to PCIA customers, effectively transferring costs from one set of customers to another.

In reply comments, SCE disagrees with MRP and CalCCA and states that it is not true that allowing the IOUs to bid resources at market prices would produce a cost shift.⁸⁴ SCE states that the revenue from IOU sales would offset the cost of PCIA contracts in the same way other IOU sales of Renewable Energy Credits and RA do while providing LSEs with CAM credits for resources competitively procured by the CPE.

3.6.1. Discussion

Parties raise concerns that if the levelized fixed cost requirement results in inefficient and improper pricing of IOU resources, this can result in

⁸² SCE Opening Comments at 7.

⁸³ CalCCA Opening Comments at 9, MRP Opening Comments at 13.

⁸⁴ SCE Reply Comments at 2.

disincentivizing IOUs from participating in the CPE's solicitation or result in the CPE procuring IOU resources at costs that do not reflect market rates. The Commission is persuaded that these concerns favor removing the levelized fixed cost requirement. We also agree that there are numerous layers of protection in place to address unfair competitive advantage concerns with IOUs bidding as the CPE, such as the IOUs' submission of bids to the CAM PRG and IE in advance of other market participants' bids and the IE monitoring the CPE solicitation process. With respect to parties' concerns regarding the PCIA, we agree with SCE that sales of PCIA resources to the CPE through a competitive process should not result in an unfair cost shift.

As such, the Commission deems that the levelized fixed cost requirement should be removed and IOUs should be permitted to bid their resources into the CPE's solicitation at competitive market prices. As directed in D.20-06-002, IOU bids will be subject to review by the IE and CAM PRG. Accordingly, the levelized fixed cost requirement adopted in Ordering Paragraph 11 of D.20-06-002 is eliminated.

3.7. Additional Reporting Requirements

Several parties, including MRP, WPTF, and CalCCA, have concerns about the lack of transparency and information about the CPE procurement process, particularly given the PG&E CPE's procurement shortfalls for 2023 and 2024. These parties generally state that the information provided by the PG&E CPE, through the Annual Compliance report and supplemental responses, does not sufficiently explain the reasons behind the procurement shortfalls, including why self-shown capacity or bids were rejected by the CPE.⁸⁵

⁸⁵ See WPTF Proposal, December 23, 2021 (WPTF Proposal), at 2, MRP Proposal, December 23, 2021 (MRP Proposal), at 6, CalCCA Proposal at 4.

MRP and WPTF propose that Energy Division prepare a report on the CPE structure's effectiveness given the outcome of the initial CPE procurement. WPTF recommends a report on reasons behind the PG&E and SCE CPE's procurement shortfalls to be submitted in February 2022.⁸⁶ MRP recommends a report in 2022 on why resources did not participate in the solicitation, why the CPE rejected self-shown capacity, and whether lack of penalties or risk of backstop in 2021 resulted in lower CPE procurement.⁸⁷

In addition, CalCCA, MRP, and WPTF propose that the CPEs submit additional information in their Compliance Reports. CalCCA proposes that the CPEs file updated Compliance Reports requiring the following:⁸⁸

- The amount of local RA self-shown to the CPE, with resources shown for no compensation and under the LCR RCM;
- The amount of local RA bid as a bundled product in the CPE solicitation;
- The amount of local RA procured by the CPE, with the amount procured through self-showing and bids;
- Reasons for rejecting or withdrawing bids or self-showing offers for each category of procurement; and
- Of the resources not procured, the nature of the entity that controls the asset (i.e., generator, LSE, marketer).

MRP proposes that future CPE compliance reports include:⁸⁹

- Aggregate amount of offers (by MW and local area) the CPE received and the CPE did not accept;

⁸⁶ WPTF Proposal at 4.

⁸⁷ MRP Proposal at 4.

⁸⁸ CalCCA Proposal at 12.

⁸⁹ MRP Proposal at 6.

- Aggregate amount of self-shown resources (by MW and local area) to the CPE and the CPE did not accept;
- Reasons - not associated with amounts of capacity or parties -the CPE rejected offered or self-shown capacity; and
- List of resources the CPE accepted, shown and offered, in MWs and by local area.

WPTF recommends that future CPE compliance reports include:⁹⁰

- Total amount of local RA resources offered to the CPE for no compensation or under the LCR RCM.
- Total amount of local RA resources bid into the CPE's solicitation.
- Total amount of CPE-procured and shown/accepted local resources by category (i.e., no compensation, under LCR RCM, awarded bids).
- For each CPE-procured and shown/accepted resource, resource's CAISO Resource ID and type of entity that controls the resource.
- Explanation of CPE's reasons for rejecting offered capacity, including amount of capacity rejected by resource category.

AReM, Calpine, and CEJA/UCS support the proposals for standardizing the compliance reports.⁹¹ CEJA/UCS also recommend transparency with the IE report to include aggregated information about preferred resources bid or self-shown, generation resources selected from disadvantaged communities, and

⁹⁰ WPTF Proposal at 4.

⁹¹ AReM Opening Comments at 5, CEJA/UCS Opening Comments at 5, Calpine Opening Comments at 4.

total fossil fuel capacity procured. Cal Advocates supports CEJA/UCS's proposal.⁹²

SCE and PG&E oppose additional reporting in the compliance reports. Both parties oppose reporting confidential information that cannot be shared with market participants and where disclosure can negatively impact the CPE process.⁹³ PG&E points out that there is an established process for a designated non-market participant to review the confidential Annual Compliance Report upon execution of a non-disclosure agreement. In reply comments, CalCCA, MRP, and WPTF generally state that the proposed information can be aggregated to protect confidentiality of market participants.⁹⁴ Cal Advocates cautions that there are instances when data aggregation may be insufficient to protect market-sensitive data, such as when there are only a handful of offers.⁹⁵

CEJA/UCS support WPTF and MRP's proposals for a 2022 Energy Division report.⁹⁶ SCE opposes a 2022 Energy Division report.⁹⁷

3.7.1. Discussion

The Commission agrees that additional transparency in the CPE procurement process would be beneficial to improving the CPE framework. We also recognize that protecting market-sensitive information in the CPE's possession is critical to the effective functioning of the CPE structure. In balancing these interests, the Commission is persuaded that the CPEs' Annual

⁹² Cal Advocates Reply Comments at 1.

⁹³ SCE Opening Comments at 10, PG&E Opening Comments at 15.

⁹⁴ CalCCA Reply Comments at 6, WPTF Reply Comments at 3, MRP Reply Comments at 5.

⁹⁵ Cal Advocates Reply Comments at 2.

⁹⁶ CEJA/UCS Opening Comments at 7.

⁹⁷ SCE Opening Comments at 10.

Compliance Reports should disclose certain aggregated information about the solicitation process that does not disclose market-sensitive information. We agree with parties that support disclosure of additional information about preferred resources selected by the CPE and procurement of generation facilities located in Disadvantaged Communities, so long as such information is aggregated to protect market-sensitive information.

Accordingly, the CPE's Annual Compliance Report shall include the following information:

- 1) Total local RA allocation for the CPE from the Commission;
- 2) Total local demand response (DR) resources allocated for the CPE by the Commission;
- 3) Total local CAM resources (non-DR) applied towards CPE requirements;
- 4) Total local resources procured by the CPE;
- 5) Total LSE self-shown local resources;
- 6) Net total position associated with the CPE;
- 7) Total capacity of preferred resources that were bid or shown to the CPE;
- 8) Total capacity of preferred resources selected and not selected by the CPE; and
- 9) Total capacity of MW procured by the CPE from generation facilities located in Disadvantaged Communities.

The new data requirements for the Annual Compliance Report shall be effective for the 2023 Annual Compliance Report. To the extent that parties seek to gain access to confidential information, we note that there is an established process for a designated non-market participant to review the Annual Compliance Reports upon execution of a non-disclosure agreement.

Because the CPEs began their first solicitations in 2021, additional monitoring and data are necessary to evaluate the overall effectiveness of the CPE structure. In D.20-06-002, the Commission authorized Energy Division to prepare a report assessing the effectiveness of the CPE structure by 2025.⁹⁸ We agree with parties that an earlier assessment of the effectiveness of the CPE structure is necessary. Accordingly, Energy Division is authorized to submit this report in 2024. The newly-adopted data requirements for the Annual Compliance Report will provide necessary insight into the CPE procurement process in furtherance of Energy Division's report. In its report, Energy Division is also authorized to provide an assessment of the justification statements submitted by LSEs that declined to self-show or bid local resources to the CPE.

3.8. Confidentiality of CPE Information

PG&E expresses concern that it is unclear that the confidentiality protections established by D.06-06-066 apply to CPE procurement information, or information related to the CPE submitted by PG&E to the Commission.⁹⁹ PG&E states that because D.06-06-066 appears to apply to market-sensitive information submitted by IOUs to the Commission resulting from a procurement plan, D.06-06-066 may not be adequate to protect CPE information in the event of a California Public Records Act or Freedom of Information Act Request. PG&E asserts that given the unique nature of CPE procurement, it is necessary to protect market-sensitive CPE transaction information that impacts parties that transact with the CPE, LSEs on behalf of the which the CPE procures, and ratepayers.

⁹⁸ D.20-06-002 at 35.

⁹⁹ PG&E Initial Proposal at 15.

PG&E proposes a matrix that outlines the applicable bases for confidential treatment of information submitted by PG&E to the Commission related to the CPE.¹⁰⁰ PG&E further recommends that the Commission expressly state that certain CPE information qualifies for confidentiality protections under various California statutes, including propriety and trade secret information, third-party information subject to non-disclosure agreements, and commercially sensitive information.

CalCCA provides revisions to PG&E's category for "Contract Terms and Conditions," stating that contract summaries must be made public to be consistent with the confidentiality matrix in D.06-06-066.¹⁰¹ CalCCA adds that the proposed "Forecasted RA Requirements" category is unclear based on the described basis for confidential treatment. PG&E counters that D.06-06-066 and Pub. Util. Code § 4545.5(g) are only one basis for entities to request confidential treatment from the Commission and that PG&E's proposed matrix is intended to draw on all relevant legal bases applicable to CPE information.¹⁰² PG&E agrees that the "Forecasted RA Requirements" may create confusion and recommends removing the category.

3.8.1. Discussion

D.06-06-066 established procedures to be followed when an IOU seeks confidential treatment of certain market-sensitive information submitted in procurement plans and related documents. The Commission adopted an IOU Matrix in D.06-06-066 that identified categories of information deemed confidential. The CPE framework in the RA program was adopted in 2020 in

¹⁰⁰ *Id.*, Appendix A.

¹⁰¹ CalCCA Opening Comments at 13.

¹⁰² PG&E Reply Comments at 13.

D.20-06-002. Because CPE procurement and filings were not established when the D.06-06-066 confidentiality matrix was adopted, and the nature of CPE procurement is different from procurement solely on behalf of bundled customers, it is necessary to adopt a matrix to protect market-sensitive CPE information and provide uniform guidance to the CPE.

The Commission may preemptively adopt confidential matrices that designate certain information as confidential or public in a decision, pursuant to General Order (GO) 66-D, Section 3.4(a).¹⁰³ In addition, D.20-08-031, adopting GO 66-D, provides that the “official information” privilege in California Evidence Code § 1040 provides a legal basis for the Commission to refrain from disclosing certain information acquired in confidence by the Commission “where disclosure is either prohibited by federal or state law, or where there is a need for confidentiality that outweighs the necessity for disclosure in the interests of justice.”¹⁰⁴

The Commission recognizes the importance of protecting market-sensitive information in the CPE’s possession that may reveal market prices and competitive bid information, as disclosure of such information may adversely impact ratepayer interests, LSEs on behalf of which the CPE procures, and market participants transacting with the CPE. For these reasons, the

¹⁰³ GO 66-D, Section 3.4(a) provides:

The Commission may adopt confidential matrices which preemptively designate certain information as confidential or public in a decision. Information submitted to the Commission per this Section shall clearly designate the relevant decision adopting the applicable confidential determination. If the information is appropriately identified as being preemptively determined to be confidential, the Commission will not release information in response to a CPRA, unless by order of the Commission.

¹⁰⁴ D.20-09-031, Conclusion of Law 6.

Commission finds that preemptively designating certain CPE information as confidential is warranted here, as the need for confidentiality outweighs the need for disclosure, pursuant to GO 66-D.

The Commission deems PG&E's proposed matrix to be reasonable, subject to certain revisions. We agree with the removal of the "Forecasted RA Requirements" category. We also find that the time period for data to be kept confidential under the "Contracts and power purchase agreements" category should be modified to remove the "1-year after expiration," as this can be burdensome to track. The three-year time period should start from the contract execution date, rather than the delivery start date, to simplify the tracking process.

Accordingly, PG&E's Attachment A matrix is adopted with modifications. The adopted matrix is attached here as Appendix A. Given the recent inception of the CPE framework, the Commission may refine the confidentiality matrix in the future as additional information arises. The CPEs shall track whether information previously designated as confidential becomes public and provide such tracking to Energy Division Staff upon request. The process for seeking confidentiality protection for data contained in the adopted matrix shall be the same as the process adopted in D.20-07-005.¹⁰⁵

¹⁰⁵ D.20-07-006 at Ordering Paragraph 3:

Where a party seeks confidentiality protection for data contained in the Matrix, its burden shall be to prove that the data match the Matrix category. Once it does so, it is entitled to the protection the Matrix provides for that category. The submitting party must file a motion in accordance with Law and Motion Resolution ALJ-164 or any successor Rule, accompanied with any proposed designation of confidentiality, proving:

- (1) That the material it is submitting constitutes a particular type of data listed in the Matrix,

Footnote continued on next page.

In addition, PG&E requests that the Commission expressly state that general categories of CPE information qualify for confidentiality protection under various California codes. The Commission finds that these requests are unnecessary and overly broad. The information contained in the matrix, adopted in this decision, is specific to the CPE's procurement efforts, which impact various third-parties including LSEs and other market participants. Thus, the information is market-sensitive and entitled to confidentiality protections. The CPEs may cite to additional authority when submitting confidential information, either pursuant to the matrix or otherwise.

3.9. Swaps

Calpine proposes that the CPE should be permitted to facilitate swaps of local RA for system RA.¹⁰⁶ Calpine states that “[s]waps 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.”¹⁰⁷ Calpine recommends that the CPE should be permitted to solicit offers for system RA capacity to execute swaps.

PG&E, SCE, and Cal Advocates oppose the proposal.¹⁰⁸ Cal Advocates states that allowing CPE procurement of system RA would significantly increase the scope of procurement, slow down the solicitation process, and require

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- (2) Which category or categories in the Matrix the data correspond to,
 - (3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
 - (4) That the information is not already public, and
 - (5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.

¹⁰⁶ Calpine Proposal at 6.

¹⁰⁷ *Id.*

¹⁰⁸ Cal Advocates Opening Comments at 4, SCE Opening Comments at 9, PG&E Reply Comments at 21.

substantial modification to the CPE's design.¹⁰⁹ SCE states that the proposal adds obligations and risk to the CPE and should not be rushed through an expedited track.¹¹⁰ PG&E states that swaps may have unintended consequences that require the CPE to act as a market broker and extend beyond the scope of the CPE.¹¹¹ MRP supports this proposal.¹¹²

The Commission agrees with parties' concerns in opposing this proposal and declines to adopt it. We encourage LSEs to engage in swap transactions for local resources located in local areas outside of the TAC areas they serve load in ahead of the annual CPE solicitation. This will help ensure that the incentives to self-show local resources to the CPE are aligned, and allow for LSEs to potentially extract local premium values for resources in exchange for a needed system MW.

3.10. Cost Recovery

3.10.1. Forecasted CPE Costs

In D.20-06-002, the Commission adopted the CAM methodology as the cost recovery mechanism to cover procurement and administrative costs incurred by the CPE.¹¹³ PG&E states that while CPE administrative costs associated with the CPE function are submitted for review in the annual Energy Resource Recovery Account (ERRA) forecast and compliance process, there is no direction requiring the CPE to present forecasted CPE procurement costs for cost

¹⁰⁹ Cal Advocates Opening Comments at 4.

¹¹⁰ SCE Opening Comments at 9.

¹¹¹ PG&E Reply Comments at 21.

¹¹² MRP Opening Comments at 19.

¹¹³ D.20-06-002 at OP 16.

recovery.¹¹⁴ PG&E recommends that CPE procurement costs be forecasted and implemented in rates through the annual ERRA forecast proceeding and handled in a separate confidential chapter in ERRA forecast testimony. PG&E states that, similar to Ordering Paragraph 10 of D.20-12-006, the confidential contents of the chapter should only be viewable to PG&E's CPE and support personnel.

PG&E also proposes that only CPE transactions that include compensation or sale of system RA attributes to the CPE should be required for inclusion in supporting workpapers or other testimony. PG&E recommends that transactions for self-shown resources for no compensation or sale of system RA attributes should not be required to be presented in the ERRA forecast as those agreements have no incremental impact on an IOU's revenue requirement forecast for the applicable ERRA forecast year.

Cal Advocates states that the Commission should consider the large volume of accounting that CPE procurement adds to the ERRA forecast filing.¹¹⁵ If PG&E's proposal is adopted, Cal Advocates recommends that CPE forecasts and associated rates impacted should be provided in the supplemental ERRA forecast application and updates be filed in supplemental testimony no later than October of the filing year. PG&E responds that it is unclear what a supplemental application will entail, as Commission rules do not provide for application supplements.¹¹⁶ PG&E clarifies that it will forecast annual CPE-related costs in the initial ERRA forecast application and update testimony to reflect cost changes. PG&E states that schedule changes applicable to IOUs' ERRA forecasts

¹¹⁴ PG&E Initial Proposal at 10.

¹¹⁵ Cal Advocates Opening Comments at 9.

¹¹⁶ PG&E Reply Comments at 8.

should not be made in the instant proceeding given the complexities of the ERRA proceeding schedule.

The Commission finds PG&E's proposal to be reasonable and adopts it here. Accordingly, CPE procurement costs shall be forecasted and implemented in rates through the annual ERRA forecast proceeding. The CPE procurement costs shall be handled in a separate confidential chapter in ERRA forecast testimony, whereby the confidential contents shall only be viewable to the IOU CPE's personnel and support personnel, including staff such as contract management, law and regulatory compliance staff. In addition, only CPE transactions that include compensation or sale of system RA attributes to the CPE shall be required for inclusion in supporting workpapers or other testimony.

3.10.2. Transactions with IOUs

In D.20-06-002, the Commission directed that:

Investor-owned utility (IOU) resources procured by the central procurement entity shall be reclassified from their existing cost recovery mechanisms designations to the Cost Allocation Mechanism (CAM) for the duration of the contract with the central procurement entity. After that time, IOU resources shall be reclassified back to their existing cost recovery mechanism designation.¹¹⁷

PG&E states that it is not clear whether this direction applies to certain scenarios; for example, whether it applies only to costs associated with capacity attributes or all associated procurement costs, or whether self-shown IOU resources are reclassified.¹¹⁸ PG&E proposes the following clarifications:

- An IOU LSE transaction with the CPE should be presented as it would be if the transaction was with an LSE (*e.g.*, RA

¹¹⁷ D.20-06-002 at OP 12.

¹¹⁸ PG&E Initial Proposal at 11.

- sale from PCIA-eligible resource to the CPE would continue to be an RA sale in the PCIA revenue calculation).
- Existing principles on how attributes are sold between entities and presented for cost recovery should be maintained.
 - Only attributes identified in a CPE agreement as sold to the CPE should be recovered as volumes and costs with CAM.
 - Self-shown IOU resources with no transaction should not be recorded as an RA purchase by the CPE within CAM or the underlying cost recovery mechanism. Self-shown IOU resources that receive a LCR RCM credit will be modeled as revenue only transactions, but because they do not include system RA being sold to the CPE, no system RA volumes would be presented as being sold from one cost recovery mechanism to CAM.
 - Unsold PCIA-eligible resource with system RA within a local area will continue to be retained based on the local RA price benchmark. The underlying position for PCIA-eligible resources self-shown or unsold will continue to be retained based on the local RA benchmark in the ERRRA forecast proceeding.

SCE similarly requests clarification regarding cost recovery for IOU transactions. SCE states that Ordering Paragraph 12 of D.20-06-002 can be interpreted to mean that the full costs of PCIA contracts selected by the CPE are moved to CAM and back to PCIA. SCE states that this is problematic for contracts, such as Renewables Portfolio Standard (RPS) contracts, as the CPE should be procuring only local attributes, not RPS attributes.¹¹⁹ If the full costs of RPS contracts are moved to CAM, CAM customers pay for RPS attributes they may not receive because RPS attributes cannot be allocated to CAM customers. SCE adds states that in D.21-05-030, PCIA-eligible resources can elect to receive

¹¹⁹ SCE Initial Proposal at 9.

allocations of customers' vintaged load shares of RPS attributes from IOUs' PCIA portfolios, if the LSE pays the IOU market value of the allocated RPS resources.

To address this, SCE recommends that an IOU contract providing local attributes procured by the CPE should stay in its original cost recovery mechanism for the duration of the CPE contract and the CPE will apply credits/debits to the appropriate accounts to reflect costs of the local RA. For example, if an IOU resource is PCIA-eligible, and costs are recorded in the Portfolio Allocation Balancing Account (PABA), costs would remain in PABA for the duration of the CPE procurement. However, costs of the local resource will be charged to CAM and offsetting credits recorded in the subaccounts of the PABA. Credits will reduce the costs recovered in PABA by the costs of the local resources procured by the CPE and recovered through CAM.

CalCCA seeks clarification regarding the Commission's statement in D.20-06-002 that "[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."¹²⁰ CalCCA states that benchmarks are applied in the PCIA for purposes of pricing resource attributes retained for bundled customer use, and if a resource is shown for local RA (rather than bid), the IOU likely has retained the resource to use as system RA. CalCCA states that if bundled customers retain the resource for system use, the appropriate price for retention is the system RA benchmark, not the local benchmark.

The Commission finds that PG&E's proposals provide necessary clarifications for how costs and benefits associated with IOU transactions (both self-shown and bid) should be accounted for. These clarifications will help

¹²⁰ CalCCA Proposal at 5 (citing D.20-06-002 at 77).

ensure IOU participation, to the fullest extent possible, in the CPE's solicitation process. We also believe that these clarifications are consistent with the cost allocation mechanism adopted in D.20-06-002. PG&E's proposals also appear to address the concerns raised by SCE. Accordingly, PG&E's proposals, outlined above, are adopted.

Regarding CalCCA's clarification, currently local RA PCIA benchmarks are based on the location of the resource, not on whether they are used to meet system RA requirements. As such, the requested clarification is inapplicable.

4. Comments on Proposed Decision

The proposed decision of ALJ Chiv in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on March 2, 2022 by: CAISO, CalCCA, Calpine, Cal Advocates, CEJA/UCS, GPI, MRP, PG&E, SCE, and Shell. Reply comments were filed on March 7, 2022 by: CalCCA, CEJA/UCS, MRP, PG&E and SCE.

All comments have been carefully considered. Significant aspects of the proposed decision that have been revised in light of comments are mentioned in this section. However, additional changes may be made to the proposed decision in response to comments that may not be discussed here. We do not summarize every comment but focus on major arguments made in which the Commission did or did not make revisions in response to party input.

CAISO and PG&E support the decision's CPE timeline. SCE comments that the timeline should be modified to give the CPE eight weeks after receiving final allocations to finalize procurement. Shell and CalCCA oppose the timeline and reiterate that LSEs do not have sufficient time to procure to meet RA obligations. CalCCA disputes that LSEs and CPEs receive a similar amount of

time to complete procurement and argues that the time between LSEs receiving credits from the CPE and year-ahead showings is reduced from 13 months to two months. PG&E disagrees with CalCCA and states that under the adopted timeline, CPEs receive final allocations in late June with a mid-August showing deadline (allowing 6-8 weeks to procure). LSEs receive final allocations at the end of August 2022 with an end of October showing deadline (allowing 6-8 weeks to procure). CalCCA reiterates that the CPE should finalize procurement by June 2022, while Shell recommends finalizing procurement by July 2022. PG&E and SCE oppose Shell's and CalCCA's proposals, as each would require the CPE to procure before receiving final allocations and would give the CPE less than four weeks to procure after receiving final allocations.

As discussed in the decision, the Commission must balance the need for LSEs to have sufficient time to incorporate the CPE's procurement into their portfolio planning, with the need for the CPE to have adequate time to complete an effective solicitation that accounts for the procurement review process. We maintain that the adopted timeline strikes the appropriate balance between the competing needs, and we decline to modify the timeline. However, given the PG&E procurement shortfalls for the 2023 compliance year, we find it reasonable to give LSEs in the PG&E TAC area additional flexibility in securing their year-ahead system and flexible RA portfolios for the 2023 RA compliance year. As such, for 2023 year-ahead RA compliance only, Energy Division will not send deficiency notices to LSEs in the PG&E TAC area before January 1 following the year-ahead showing deadline. The decision has been modified to reflect this.

CalCCA comments that assigning backstop costs if a self-shown resource cannot perform for reasons other than a planned outage may result in an LSE being subject to high backstop costs. CalCCA recommends that the CPE allocate

backstop costs pro-rata to all LSEs, commensurate with the benefits received. CalCCA states that when an LSE self-shows, it only receives a reduction in CPE costs pro-rata based on its load share in the local area. However, if the self-shown resource fails to perform, the LSE would take on 100% of the CPM cost risk, introducing additional risks to self-showing. CalCCA also proposes allowing the self-showing LSE an opportunity to substitute the non-performing resource for a like-for-like local resource, and if there is no substitution, the CPE should be allowed to replace the non-performing resource.

The Commission believes that LSEs have strong incentives to show procured local resources because of the penalty regime adopted in the RA program for system RA deficiencies. We, however, find CalCCA's proposal for allocating backstop costs pro-rata to all LSEs to be reasonable in reducing a further potential disincentive to self-showing. We also find the proposal to allow an LSE to substitute a non-performing local resource to be reasonable. It is unclear how the CPE can replace a non-performing resource, as the CPE makes its procurement ahead of the year-ahead filing and does not manage replacement throughout the year. As such, we adopt CalCCA's proposal to allow an LSE to substitute a non-performing resource for a like-for-like resource, and the proposal to allocate backstop costs pro-rata to all LSEs. The decision has been amended with these changes.

PG&E comments that existing self-showing contracts must be addressed since the decision no longer requires contracts between LSEs and the CPE. PG&E recommends adopting its previous proposal with the modification that any existing self-showing contract include, or be amended to include, a provision that results in automatic termination of the self-showing contract upon submission by the LSE to the CPE of an attestation, provided that the attestation

complies with all relevant requirements. PG&E also recommends that an amendment and/or termination of any existing self-showing contract for which an attestation is submitted should be deemed reasonable and not subject to contract management review. SCE agrees with PG&E's proposal as it would simplify the self-show process for LSEs and the CPEs. The Commission agrees with PG&E's recommendation, and the decision has been modified to add these requirements.

SCE and PG&E seek clarification as to how an LSE self-showing a preferred resource will receive payment of the LCR RCM premium. SCE proposes that an LSE that self-shows preferred resources submit an attestation that identifies the preferred resource and provides the CPE with payment instructions. The CPE will then provide acknowledgement of the LCR RCM premium and other payment terms to the LSE. PG&E recommends, by contrast, that a self-showing LSE execute a contract with the CPE that includes payment and other terms for contracting for LCR RCM-eligible resources. SCE opposes this and states that the CPE should have discretion to elect to either use PG&E's proposed process or SCE's proposal.

The Commission agrees with SCE's modified proposal that the CPE should have discretion to require the self-showing LSE to either: (a) execute a contract between the LSE and CPE with payment information and other relevant terms, or (b) submit an attestation that identifies a resource as preferred and provides payment information, with the CPE providing acknowledgment of the payment terms. Accordingly, we adopt this direction and the decision has been modified to reflect this.

PG&E proposes removing the requirement that LSEs provide planned outages 60 days before the showing month. PG&E notes that planned outages

scheduled 60 days prior can be updated up to seven days before the outage and providing this information will not necessarily assess performance. SCE disagrees and states that suppliers generally finalize outages 60 days prior because the RA requirement is for generators to submit monthly supply plans 45 days prior to the showing month. SCE states that the CPE needs planned outage information ahead of time to socialize backstop costs resulting from non-performance and to ensure that CPE's filings are consistent with the supply plan. Because this decision has been modified so that LSEs will be charged pro-rata for any backstop costs associated with non-performance of self-shown resources, the Commission finds PG&E's proposal to remove the notification requirement to be reasonable. The decision has been modified to remove the requirement.

SCE states that for procurement outside of the solicitation process, it will be difficult to consult the PRG prior to executing a broker transaction, as timing from negotiation to execution for these transactions is very short. SCE proposes that broker contracts with terms of five years or less do not require consultation with the CAM PRG prior to execution, provided the CPE follow all other selection requirements in Ordering Paragraph 12. SCE proposes to notify the PRG as soon as practicable after the execution of any broker transactions. CalCCA agrees that there may not be enough time to consult the PRG prior to executing broker or bilateral contracts; however, the CPE should be required to consult with the PRG on its plans for conducting procurement outside of the solicitation, including potential opportunities and criteria to evaluate offers. CEJA/UCS oppose SCE's proposal, stating that skipping the PRG consultation will reduce checks on evaluating the CPE process.

The Commission agrees that for broker and bilateral contracts, there may be insufficient time to consult with the PRG prior to conducting procurement

and finds that SCE's proposal is reasonable. We also agree with CalCCA that the CPE should consult with the PRG about its plans prior to conducting procurement outside of the all-source solicitation, including potential opportunities it intends to pursue and criteria to evaluate offers. Accordingly, we adopt SCE's and CalCCA's proposed modifications, and the decision has been amended with these changes.

PG&E disagrees with prohibiting restrictions on the length of contracts in the CPE's solicitation and states that allowing restrictions, especially for fossil-fuel resources, aligns with clean energy goals. In addition, because contracts exceeding five years must go through the Tier 3 Advice Letter process, such contracts will not be approved in time for the CPE's compliance obligation. CEJA/UCS comment that contracts for fossil fuel resources should be limited to five years to facilitate the orderly retirement of gas-fired plants. MRP disagrees with PG&E's and CEJA/UCS's comments, noting that this limits solutions available to maintain local reliability and that LSEs are already encouraged to develop new preferred resources through the LCR RCM and other mechanisms. While the decision requires the CPE to consider bids of any contract term length greater than one month, we note that the CPE still has discretion to procure local resources based on the CPE selection criteria and other requirements. The Commission declines to modify this requirement.

CalCCA reiterates that a flexible and system waiver should be adopted for the 2023 compliance year if the CPE does not meet its local obligations, or alternatively, that points should not be assigned to LSEs with deficiencies within the amount of credits they could have received from the CPE. The Commission notes that pursuant to D.21-06-029, LSEs only accrue points for month-ahead deficiencies, not year-ahead deficiencies. Further, as discussed above, for 2023

year-ahead RA compliance, Energy Division will not send deficiency notices to LSEs in the PG&E TAC area before January 1 following the year-ahead deadline.

MRP contends that the decision implies that there is only one annual all-source solicitation and that the Commission should not allow the CPEs to abandon additional solicitations if the first solicitation fails to secure needed capacity. SCE disagrees that that the decision abandons the solicitation process and notes that the decision proposes to use broker and bilateral contracting only if the solicitation does not produce enough supply. The Commission clarifies that a CPE may conduct additional solicitations but that the decision allows the CPE to use broker or bilateral contracting if the first solicitation fails to procure sufficient capacity.

CalCCA and MRP state that a comprehensive review of the CPE framework must be performed in later phase of the proceeding. CEJA/UCS recommend that LSEs' justification for not showing local resources be made public one year after submission to Energy Division. CalCCA opposes this and states that the justification statements are not meant to be an enforcement mechanism. Given the multiple changes adopted in this decision to eliminate disincentives to self-show/bid resources, additional procurement cycles must be completed before conducting a comprehensive review of the CPE framework. We agree with parties, however, that Energy Division should assess the effectiveness of the CPE structure earlier than 2025, and the decision is modified to authorize Energy Division to submit this report in 2024. We decline to make LSEs' justification statements public, as these statements are intended to provide information to the Commission as to whether changes to the CPE framework are warranted. Energy Division is authorized to include an assessment of the

justification statements in the 2024 report. The decision is modified with these changes.

Cal Advocates states that the decision fails to specify whether a Year 3 showing must be replaced by resources that meet the same criteria as the initial Year 3 showing. Cal Advocates recommends clarifying that LSEs may replace resources shown for Year 3 with other local resources in the same local capacity area and at least equal to the capacity of the local resources being replaced in the subsequent year's showing. SCE agrees. We agree with the clarification and the decision has been modified.

CEJA/UCS state that heat rate information should be reported by entities that bid/self-show, stating that the public database does not necessarily contain accurate information because plants may report past heat rates and new plants do not yet have a heat rate. The Commission finds that other selection criteria, including prioritizing procurement of preferred resources, will provide information necessary for the CPE to evaluate procurement that advances clean energy goals. In addition, LSEs are required to comply with the RPS requirements, as well as the recently approved 35 million metric ton electric sector greenhouse gas planning target by 2032, as directed in D.22-02-004. Thus, the pool of resources that LSEs bid into the CPEs' solicitation should mirror the state's transition to clean energy. To the extent that heat rate information is not publicly available or updated, the CPE is encouraged to consult with Energy Division and the CAM PRG to develop a proxy for heat rate information. The decision is modified with these clarifications.

CEJA/UCS comment that the confidentiality matrix does not conform to D.06-06-066, and that information that is otherwise publicly available should not be deemed confidential. Shell states that the decision should ensure that

confidentiality rules applied to the CPE's procurement information do not restrict public access more than the rules that apply to LSEs' procurement under D.06-06-066. PG&E disagrees and states that the matrix does not afford the CPE any confidentiality protections that are not also available to other LSEs, and that the matrix reflects other legal bases, in addition to D.06-06-066, to preemptively designate CPE information as confidential.

In adopting the matrix, the Commission has made a determination, consistent with D.06-06-066, as modified by D.07-05-032, that the public benefit of withholding market-sensitive information outweighs the public interest in disclosure, at least for a 3-year period. While the decision adopts a new matrix to apply to CPE procurement, the rationale of D.06-06-066 is still applicable and this decision does not afford CPEs more confidentiality protections than would be available to LSEs under relevant statutory authority. We agree that information that has been publicly disclosed should not be designated as confidential and clarify that the process for obtaining confidentiality protection under the adopted matrix, as directed in D.20-07-005, is applicable to the matrix here. That process includes requiring the party seeking protection to declare that the information is not already public.¹²¹ The decision has been modified with this clarification.

PG&E disagrees with the matrix's limiting of the confidentiality period to three years from the contract execution date. PG&E states that this ensures disclosure of longer-term contracts in connection with the CPE's portfolio and recommends the confidentiality period to be the later of 3 years from delivery start or 1 year after expiration. CEJA/UCS oppose PG&E's proposal and note that there is a process for claiming material as confidential that is not included

¹²¹ D.20-07-005, Decision Granting In Part Petition to Modify Decision 06-06-066, at Ordering Paragraph 3.

within the matrix. We decline to adopt confidentiality protections for an indeterminate amount of time. The matrix does not require confidential market-sensitive information to be made public three years after contract execution. Rather, after the three-year mark, the burden of proof shifts back to the party seeking confidentiality to establish that the information is still market-sensitive and entitled to be protected as such.

PG&E states that the proposed decision may be interpreted as directing IOUs to value unsold RA capacity from PCIA-eligible resources at the market price benchmark regardless of whether the RA capacity is used for the IOU's compliance and recommends clarifying this direction. We agree with the clarification to Ordering Paragraph 20(e) and the decision has been modified.

PG&E and SCE propose removing the August 1 deadline to allow LSEs to show additional capacity to the CPE. SCE comments that the deadline was intended as part of its proposed late September CPE showing; with the adoption of a mid-August showing, the August 1 deadline does not give the CPE enough time to finalize procurement. PG&E comments that LSEs that procure additional resources after mid-May, but before the LSEs' showing deadline, can include those resources in their justification statement. We agree that the August 1 deadline is unnecessary and does not provide adequate time for the CPE to finalize procurement for the mid-August CPE showing. The decision has been modified to remove the August 1 deadline.

5. Assignment of Proceeding

Alice Reynolds is the assigned Commissioner and Debbie Chiv is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. It is important to address and eliminate barriers that may be unnecessarily disincentivizing LSEs from self-showing local resources to the CPE for no compensation. SCE's proposal, with modifications, best mitigates some potential disincentives for LSEs to self-show local resources.

2. It is reasonable that existing self-shown contracts should include, or be amended to include, a provision that results in automatic termination of the contract upon submission by the LSE to the CPE of a complaint attestation.

3. Given the shortfalls in the PG&E CPE's procurement process and the low participation rates in the CPE solicitation process, it is critical to better understand why LSEs are electing not to bid or self-show local resources to the CPE.

4. It is reasonable that LSEs' self-showing commitment should be firm for Years 1 and 2, and LSEs may replace local resources shown for Year 3 with other local resources in the subsequent year's showing.

5. PG&E's proposal to modify the CPE selection criteria and data submittal requirements is reasonable in that it removes some disincentives for LSEs to self-show or bid local resources to the CPE.

6. It is reasonable that the CPE not restrict bids based on the length of contract terms in its solicitation, as such restrictions are not authorized by the Commission and may unnecessarily deter LSE participation in the solicitation process.

7. The CPE is in the best position to evaluate the entire local portfolio and consider what additional resources are needed. It is reasonable to allow the CPE to procure outside of the annual solicitation process in the event of procurement shortfalls following the annual all-source solicitation.

8. It is appropriate that when procuring outside of the annual all-source solicitation, the CPE should use the least cost best fit methodology and the selection criteria set forth in D.20-06-002, as modified in this decision.

9. PG&E's proposed CPE procurement timeline strikes a reasonable balance between the need of LSEs to have sufficient time for RA portfolio planning and the need for the CPEs to have adequate time to complete an all-source solicitation. PG&E's proposal gives both LSEs and the CPEs a similar amount of time (6-8 weeks) to complete necessary procurement after receiving allocations.

10. Given the limited number of RA-only contracts procured by the CPEs for the 2023 compliance year, the calculation for the LCR RCM adopted in Ordering Paragraph 3 of D.20-12-006 for "subsequent years" cannot be applied. Energy Division's proposal to modify the calculation for subsequent years is reasonable.

11. The requirement that IOUs bid their own resources at their levelized fixed costs may result in the CPE procuring IOU resources at inefficient, improper prices that do not reflect market costs, and that may disincentivize IOUs from participating in the CPE's solicitation.

12. It is appropriate that the CPEs' Annual Compliance Reports disclose certain aggregated information about the solicitation process that does not disclose market-sensitive information, including information about preferred resources selected by the CPE and procurement of generation facilities located in Disadvantaged Communities.

13. It is important to protect market-sensitive information in the CPE's possession that may reveal market prices and competitive bid information, as disclosure of such information may adversely impact ratepayer interests, LSEs on behalf of which the CPE procures, and market participants transacting with the CPE.

14. Pursuant to GO 66-D, preemptively designating certain CPE information as confidential is warranted, as the need for confidentiality outweighs the need for disclosure. Subject to modifications, PG&E's proposed matrix is reasonable.

15. PG&E's proposal on CPE procurement costs forecasted through the ERRA forecast proceeding is reasonable.

16. PG&E's proposals to clarify IOU transactions are necessary clarifications for how costs and benefits associated with IOU transactions should be accounted for, and will help ensure IOU participation in the CPE's solicitation process.

Conclusions of Law

1. SCE's proposal to address some disincentives for LSEs to self-show local resources should be adopted, with modifications.

2. PG&E's proposal for existing self-shown contracts to include an automatic termination provision should be adopted, with modifications.

3. PG&E's proposal to modify the selection criteria and data submittal requirements should be adopted.

4. The CPE should be required to consider bids of any contract term length greater than or equal to one month.

5. The CPE should be granted authority to procure outside of the annual solicitation process if there are deficiencies following the CPEs' annual solicitation and to cover those deficiencies.

6. PG&E's proposed CPE procurement timeline should be adopted to replace the timeline previously adopted in Ordering Paragraph 28 of D.20-06-002.

7. Energy Division's proposal to modify Ordering Paragraph 3 of D.20-12-006 should be adopted.

8. The levelized fixed cost requirement adopted in Ordering Paragraph 11 of D.20-06-002 should be removed and IOUs should be permitted to bid their resources into the CPE's solicitation at competitive market prices.

9. The CPEs' Annual Compliance Reports should disclose certain aggregated information about the solicitation process that does not disclose market-sensitive information.

10. PG&E's proposed confidentiality matrix should be adopted, with modifications.

11. PG&E's proposal on CPE procurement costs forecasted through the ERRA proceeding should be adopted.

12. PG&E's clarifications on the accounting of IOU transactions should be adopted.

O R D E R

IT IS ORDERED that:

1. The following requirements are adopted for non-performance of self-shown local resources:

- a. A self-showing load-serving entity (LSE) shall be allowed to provide a substitute local resource as the like-for-like local resource to replace non-performing self-shown resources.
- b. If the California Independent System Operator (CAISO) makes a local Capacity Procurement Mechanism (CPM) designation for an individual deficiency, the central procurement entity (CPE) shall be charged any associated

CAISO backstop procurement costs, including for the non-performance of self-shown resources. Any backstop procurement costs allocated to the CPE shall be allocated to all LSEs in the transmission access charge area on a load ratio share basis.

“Non-performance” is defined as the failure to provide: (a) the Commission with a Resource Adequacy plan with the self-shown local resource, and (b) the CAISO with a matching supply plan for the self-shown local resource.

2. In accordance with the timeline adopted in Ordering Paragraph 13, a load-serving entity (LSE) that elects to self-show a local resource to the central procurement entity (CPE) shall execute an attestation that provides that:

- a. The LSE has the capacity rights to the Resource Adequacy (RA) resource for the period it is self-showing;
- b. The LSE intends to self-show the RA resource on annual and monthly RA plans to satisfy its system and/or flexible RA needs; and
- c. If applicable, the resource that the LSE intends to self-show for compensation under the Local Capacity Requirement Reduction Compensation Mechanism (LCR RCM) meets the eligibility requirements pursuant to Decision 20-12-006.

These attestation requirements replace the previous requirement that a shown resource must be documented on an agreement as determined by the CPE, as provided in Ordering Paragraph 3 of Decision 20-12-006.

3. The attestation process adopted in Ordering Paragraph 2 shall apply to a load-serving entity (LSE) that bids a local resource and states that if the bid is not selected, the LSE will self-show the local resource for no compensation. The attestation shall be submitted at the time the LSE submits its bid into the central procurement entity’s solicitation.

4. For compensated self-shown resources under the Local Capacity Requirement Reduction Compensation Mechanism, the central procurement entity (CPE) has discretion to require a self-showing load-serving entity (LSE) to either: (a) execute an agreement between the CPE and self-showing LSE that provides payment information and other relevant terms, or (b) submit an attestation that identifies the resource as a preferred resource and provides the LSE's payment information. For the latter attestation, the CPE will then provide acknowledgement to the LSE with payment terms.

5. For any existing self-shown resource contract, the contract shall include, or be amended to include, a provision resulting in automatic termination of the self-shown contract without any further action of the parties upon submission by the load-serving entity (LSE) to the central procurement entity (CPE) of an attestation, provided that the attestation complies with the relevant requirements and conforms to the self-shown commitment originally entered into through the contract between the CPE and LSE. Amendment and/or automatic termination of any existing self-shown resource contract for which a qualifying attestation is submitted is deemed reasonable and shall not require contract management review as part of a regulatory proceeding.

6. If a load-serving entity (LSE) either: (a) declines to self-show a local resource to the central procurement entity (CPE), or (b) declines to bid a local resource into the CPE's solicitation process, the LSE shall file a justification statement in its year-ahead Resource Adequacy filing explaining why the LSE declined to self-show or bid the local resource to the CPE.

7. A load-serving entity's (LSE) self-shown commitment must be firm for Years 1 and 2. An LSE may replace its self-shown local resources for Year 3 with other local resources located in the same local capacity area and at least equal to

the capacity of the local resources being replaced in the subsequent year's Resource Adequacy showing.

8. The selection criteria in Ordering Paragraph 14 of Decision 20-06-002 are replaced with the following criteria:

- a. Future needs in local and sub-local areas;
- b. Resource costs;
- c. Operational characteristics of the resources (facility type);
- d. Location of the facility (with consideration for environmental justice);
- e. Costs of potential alternatives;
- f. Greenhouse Gas adders;
- g. Energy-use limitations; and
- h. Procurement of preferred resources and energy storage (to be prioritized over fossil generation).

The central procurement entity (CPE) shall have discretion to define attributes for the operational characteristics and such attributes shall be provided to market participants in the CPE's bidder's conference.

9. Ordering Paragraph 15 of Decision 20-06-002 is replaced with the following: "In its solicitation, the central procurement entity shall direct bidders to include the CalEnviroScreen score of the resource location (or if unavailable, the pollution burden of the resource location)."

10. In its solicitation process, the central procurement entity shall consider bids of any contract term length greater than or equal to one month.

11. If the central procurement entity (CPE) does not procure sufficient resources to meet its multi-year local Resource Adequacy (RA) requirements following the annual all-source solicitation, the CPE is authorized to procure additional local RA resources outside of the annual all-source solicitation

process. The CPE is authorized to use broker markets or bilateral transactions to fill short positions for any deficiencies in the applicable three-year forward period. The CPE is encouraged to fill its positions to the extent possible prior to initial RA allocations in July. The CPE shall consult with the Cost Allocation Mechanism Procurement Review Group on plans for conducting procurement outside of the all-source solicitation, including opportunities it plans to pursue and criteria with which it plans to evaluate offers.

12. To guide the selection of local resources procured outside of the annual all-source solicitation, the central procurement entity (CPE) shall evaluate resources using the least cost best fit methodology and, if applicable for the procurement being undertaken, include the selection criteria set forth in Ordering Paragraph 14 of Decision (D.) 20-06-002, as modified in this decision.

For contracts that exceed a five-year term, the CPE shall submit a Tier 3 Advice Letter for approval. For a contract with a five-year term or less the contract, including a broker or bilateral contract, shall be deemed reasonable and preapproved if the following conditions are met:

- a. The procured resource meets the established local capacity requirements and underlying data supporting those requirements, which are based on the California Independent System Operator's Local Capacity Requirements Technical Study;
- b. The Cost Allocation Mechanism Procurement Review Group (CAM PRG) was properly consulted, as described in Ordering Paragraph 13 of D.20-06-002;
- c. For reasonable and preapproved broker or bilateral contracts with a term of five years or less, the CPE shall notify the CAM PRG as soon as practicable after the execution of the broker or bilateral transaction; and
- d. Procurement was deemed by the independent evaluator to have followed all relevant Commission guidance,

including the least cost best fit methodology and other noted selection criteria.

13. The following timeline is adopted for central procurement entity (CPE) procurement and replaces the timeline adopted in Ordering Paragraph 28 of Decision 20-06-002:

- **April-May:** The California Independent System Operator (CAISO) files draft and final Local Capacity Requirement (LCR) one- and five-year ahead studies. The LCR studies will include any CAISO-approved transmission upgrades from the Transmission Planning Process LCR study. Parties file comments on draft and final LCR studies.
- **No Later Than Mid-May:** Load-serving entities (LSEs) in Southern California Edison (SCE) and Pacific Gas & Electric Company (PG&E) transmission access charge (TAC) areas make self-shown commitment of local resources to the CPE for the applicable Resource Adequacy (RA) years.
- **No Later than June:** The Commission adopts multi-year local RA requirements for the applicable compliance years as part of its June decision.
- **No Later Than Early July:** CPE receives total jurisdictional share of multi-year local RA requirements for the applicable compliance years.
- **July:**
 - For the SCE and PG&E TAC areas, LSEs receive initial RA allocations, including Cost Allocation Mechanism (CAM) credits from CPE-procured system and flexible capacity from the prior year and any bilateral contracts.
 - For the San Diego Gas and Electric Company (SDG&E) TAC area, LSEs receive initial RA allocations (system, flexible, local requirements) and CAM credits.
- **Mid-August:** CPE makes local RA showing to the Commission.

- **End of August:** LSEs in the SCE and PG&E TAC areas receive updated CAM credits for multi-year system/flexible capacity that was procured by the CPE as a result of the CPE's multi-year local RA showing to the Commission in Mid-August.
- **September:**
 - For PG&E and SCE's TAC areas, LSEs are allocated final year-ahead system and flexible RA allocations, including CAM credits from CPE-procured system and flexible RA capacity based on revised year-ahead load forecast load ratios.
 - For the SDG&E TAC area, LSEs receive final RA allocations (system, flexible, local requirements) and CAM credits.
- **End of October:**
 - LSEs in the SDG&E TAC make system, flexible, and three-year local RA showing.
 - LSEs in PG&E and SCE TACs make year-ahead system and flexible showings, and provide justification statements, if applicable, for local resources not self-shown or bid to the CPE.
 - The CPEs and LSEs that committed to self-show make year-ahead showing to CAISO.

14. For 2023 year-ahead Resource Adequacy compliance only, Energy Division will not send deficiency notices to load-serving entities serving load in the Pacific Gas and Electric Company transmission access charge area earlier than January 1 following the year-ahead showing deadline.

15. Ordering Paragraph 3 of Decision 20-12-006 is modified as follows:

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

- Use the weighted average price from the last four quarters of the Energy Division Power Charge Indifference Adjustment responses for system and local Resource Adequacy (RA); subtract system RA price from local RA price.

16. The levelized fixed cost requirement adopted in Ordering Paragraph 11 of Decision 20-06-002 is eliminated. Investor-owned utilities are permitted to bid their resources into the central procurement entity's solicitation at competitive market prices.

17. Each central procurement entity's (CPE) Annual Compliance Report shall include the following information:

- a. Total local Resource Adequacy (RA) allocation for the CPE from the Commission;
- b. Total local demand response (DR) resources allocated for the CPE by the Commission;
- c. Total local Cost Allocation Mechanism resources (non-DR) applied towards CPE requirements;
- d. Total local resources procured by the CPE;
- e. Total load-serving entity self-shown local resources;
- f. Net total position associated with the CPE;
- g. Total capacity of preferred resources that were bid or shown to the CPE;
- h. Total capacity of preferred resources selected and not selected by the CPE; and
- i. Total capacity of MW procured by the CPE from generation facilities located in Disadvantaged Communities.

The new data requirements for the Annual Compliance Report shall be effective for the 2023 Annual Compliance Report.

18. The confidentiality matrix attached as Appendix A is adopted to apply to the central procurement entity (CPE) framework. The CPEs shall track whether information previously designated as confidential becomes public and provide such tracking to Energy Division Staff upon request.

19. Central procurement entity (CPE) procurement costs shall be forecasted and implemented in rates through the annual Energy Resource Recovery Account (ERRA) forecast proceeding. The CPE procurement costs shall be handled in a separate confidential chapter in ERRA forecast testimony, whereby the confidential contents shall only be viewable to the CPE's personnel and support personnel, including staff such as contract management, law and regulatory compliance staff. Only CPE transactions that include Local Capacity Requirement Reduction Compensation Mechanism compensation or sale of system Resource Adequacy attributes to the CPE shall be required for inclusion in supporting workpapers or other testimony.

20. The following requirements are adopted:

- a. An investor-owned utility (IOU) load-serving entity (LSE) transaction with the central procurement entity (CPE) shall be presented as it would if the transaction was with an LSE.
- b. Existing principles on how attributes are sold between entities and presented for cost recovery shall be maintained.
- c. Only attributes identified in a CPE agreement as sold to the CPE shall be recovered as volumes and costs with cost allocation mechanism (CAM).
- d. Self-shown IOU resources with no transaction shall not be recorded as a Resource Adequacy (RA) purchase by the CPE within CAM or the underlying cost recovery mechanism. Self-shown IOU resources that receive a Local Capacity Requirement Reduction Compensation

Mechanism credit shall be modeled as revenue only transactions, but no system RA volumes shall be presented as being sold from one cost recovery mechanism to CAM.

- e. Power Charge Indifference Adjustment-eligible resources with system RA within a local area shall continue to be valued based on the local RA price benchmark if it is retained for IOU compliance. The underlying position for PCIA-eligible resources self-shown or unsold will continue to be retained based on the local RA benchmark in the Energy Resource Recovery Account forecast proceeding.

21. Energy Division is authorized to prepare a report assessing the effectiveness of the central procurement entity framework by 2024. This replaces the authorization in Ordering Paragraph 29 of Decision 20-06-002 to submit this report in 2025.

- 22. Rulemaking 21-10-002 remains open.

This order is effective today.

Dated March 17, 2022, at San Francisco, California.

ALICE REYNOLDS
President
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
DARCIE HOUCK
JOHN R.D. REYNOLDS
Commissioners

APPENDIX A

Confidential Treatment of Central Procurement Entity Information

| Category | Item | Public / Confidential Treatment | Time Period for Data To Be Kept Confidential | Justification for Confidentiality |
|-------------------------------|--|---------------------------------|--|---|
| Contract Terms and Conditions | Contracts and power purchase agreements | Confidential | 3-years from contract execution date | Disclosure of the contract terms and conditions of CPE executed contracts could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured. |
| Portfolio | RA Requirements/ Allocations megawatt ("MW") - Aggregate | Public | N/A | N/A |
| Portfolio | RA Requirements/ Allocations (MW) -Local Area | Public | N/A | N/A |
| Portfolio | Total Capacity Procured (Purchased or Self-Shown) - Aggregate | Public | N/A | N/A |
| Portfolio | Total Capacity Procured (Purchased or Self-Shown) - Local Area | Confidential | Front 3 years | Disclosure of the capacity that was procured in each local area could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' |

| | | | | |
|-----------|---|--------------|---------------|---|
| Portfolio | Total Capacity Procured (Purchased) - Aggregate | Public | N/A | future bidding behavior for capacity that has not yet been procured. |
| Portfolio | Total Capacity Procured (Purchased) - Local Area | Confidential | Front 3 years | Disclosure of the capacity that was procured in each local area could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured. |
| Portfolio | Total Capacity Procured (Self-Shown) - Aggregate | Public | N/A | |
| Portfolio | Total Capacity Procured (Self-Shown) - Local Area | Confidential | Front 3 years | Disclosure of the capacity that was procured in each local area could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured. |
| Portfolio | Net Open Position Capacity (MW) - Aggregate | Public | N/A | |
| Portfolio | Net Open Position Capacity (MW) - Local Area | Confidential | Front 3 years | Disclosure of the capacity that was procured in each local area could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' |

| | | | | |
|----------|---------------------------------------|--------------|---------------|--|
| Forecast | Forecasted Wholesale Market Purchases | Confidential | Front 3 years | <p>future bidding behavior for capacity that has not yet been procured.</p> <p>Disclosure of the capacity that is forecasted to be procured in each local area could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured.</p> |
| Forecast | Forecasted Wholesale Market Sales | Confidential | Front 3 years | <p>Disclosure of the capacity that is forecasted to be sold in each local area could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured.</p> |
| Forecast | Forecasted Contract Costs | Confidential | Front 3 years | <p>Disclosure of the contract costs that are forecasted to be incurred by the CPE could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured by allowing market participants to determine the prices of CPE transactions.</p> |

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|--------------------------------------|---------------------------------------|--------------|--|---|
| Competitive Solicitation Information | Score sheets, analysis and evaluation | Confidential | 3 years after conclusion of solicitation | Disclosure of the score sheets, analysis and evaluation for CPE procurement could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured. |
| Competitive Solicitation Information | Bid/Offer data | Confidential | 3 years after conclusion of solicitation | Disclosure of the bid/offer data received during CPE procurement could potentially have an adverse effect on the market, put the CPE at a competitive disadvantage with regard to other market participants, and impact participants' future bidding behavior for capacity that has not yet been procured. |

(End of Appendix A)