<u>Proposed Temporary Fix for Local RA Obligations Upon DA Reopening</u>

The reopening of Direct Access (DA) in April of 2010 comes in the middle of the Resource Adequacy (RA) program compliance year, which is administered on a calendar year basis. While "System" RA obligations are adjusted on a monthly basis to reflect migration of customers between Load Serving Entities (LSEs), no similar adjustment exists for Local RA. The issue has been discussed for several years in the RA proceeding, and proposals to adopt a formal Local RA load migration adjustment are under consideration currently for compliance year 2011, but no decision in that proceeding – R.09-10-032 -- is likely to be issued until June of 2010 at the earliest, and would not take effect until at least 2011.

The lack of an adjustment to Local RA obligations to reflect load migration has not been that pressing of an issue during the DA suspension, since such migration has been fairly limited. However, with the enactment of SB 695, a more significant amount of load migration can be expected to occur, beginning as soon as April of 2010. LSEs that are gaining new customer load as a result of this migration are currently under no obligation to procure Local RA capacity until the next compliance year, and LSEs that are losing load will have excess Local RA capacity that they no longer need but cannot dispose of to another LSE. Since Local RA capacity tends to be more expensive (due to limited supply) than System RA, this situation may cause cost-shifting and create an undue competitive advantage for new LSEs or those gaining significant load without any corresponding obligation to obtain Local RA. This proposal is designed to provide a fix for this problem that is *explicitly temporary and interim* in nature, and that will be as simple as possible from an administrative and commercial standpoint.

The first step in the proposal is to determine what the size of the Local RA obligation associated with a migrating customer actually is. This figure can be derived, at least on an approximate basis, from data that should be readily available to Energy Division and the various LSEs. The following calculation is suggested:

Calculate a "Local to Peak Ratio" (LPR) for each IOU service territory. This ratio would be determined by taking the total Local RA obligation in the service area in MW, as adopted by the CPUC decision that established Local RA obligations for 2010, and dividing that number by the coincident peak load in MW of that same IOU service territory (Service Area CPD) at the time of the annual 2009 CAISO coincident system peak. This LPR would be expresseed as a percentage, and would be calculated by each of the IOUs and submitted to and verified by Energy Division and/or the CAISO, and provided to all LSEs operating in that service territory.

When a customer seeks to migrate between LSEs after the date of DA reopening, a Customer Local (RA) Obligation (CLO) would be established for that customer, based on the customer's actual recorded 2009 Coincident Peak Demand (CPD) at the time of the CAISO 2009 coincident

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system peak, multiplied by the LPR for the service territory in which the customer is located. The resulting figure would be the Local RA obligation of that customer in MW, the CLO. The LSE losing the load and the LSE receiving the load would stipulate to this figure, which would require only the data establishing the customer's 2009 CPD at the time of the CAISO system peak.

In mathematical terms:

LPR = Total 2010 Service Area LCR in MW / Service Area recorded 2009 CPD.

CLO = LPR ***x*** Customer 2009 CPD.

In order to simplify the process for this temporary and interim solution, no actual commercial sale of physical capacity would need to occur between the two LSEs. Rather, the LSE gaining the load would make a payment to the LSE losing the load, equal to the customer's CLO times an administratively determined price in dollars per kilowatt-year (kW-yr) or kilowatt-month (kW-mo). This payment would satisfy the acquiring LSE's Local RA obligation for the remainder of the 2010 compliance year. No changes to the current RA compliance process would be required, except that the acquiring LSE would report the amount of MW obtained in this manner in its next monthly System RA compliance filing, and the LSE losing the load would show the transferred MW as a subtraction from its total available capacity in its next monthly System RA compliance filing. In this way, the acquiring LSE would be able to count the acquired MW not only for Local RA compliance but for System RA compliance as well.

This proposal would provide an administrative price for the Local RA transfers of $40 per kW-year, an amount equal to the Local RA "waiver trigger" value adopted by the CPUC. The payment would be pro-rated for the months remaining in the 2010 calendar year. Rather than a flat $3.33 per kW-month, the monthly prices would be "shaped" to reflect the fact that RA capacity is most valuable during the peak summer months. This shaping would spread the $40 over the months of the year based on, as a straw proposal, the same factors used to allocate Qualifying Facility (QF) firm capacity payments across the 12 months of the year. In mathematical terms, the transfer payment would be determined as follows:

CLO ***x*** $40/kW-yr ***x*** Shaping Factor for remaining months of 2010.

This temporary and interim solution would apply ***only*** for calendar year 2010, and would be replaced by whatever solution (if any) is adopted in R.09-10-032 for the 2011 RA compliance year. To facilitate a smoother synchronization between the phased reopening of DA and the annual RA schedule, the next phase-in step would occur on January 1, 2011 rather than April 11, 2011. The use of the January date would allow LSEs' year-ahead Local RA showings for 2011 to reflect any load migration that is expected to occur at the start of the next step of the DA reopening phase-in.

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