

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Rulemaking Regarding Whether, or Subject to
What Conditions, the Suspension of Direct
Access May Be Lifted Consistent with
Assembly Bill 1X and Decision 01-09-060.

Rulemaking 07-05-025
(Filed May 24, 2007)

**REPLY COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES
ON PROPOSED DECISION ADOPTING DIRECT ACCESS REFORMS**

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I. INTRODUCTION AND SUMMARY

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the Division of Ratepayer Advocates (DRA) offers these reply comments on the August 23, 2011 Proposed Decision (PD) of Administrative Law Judge (ALJ) Thomas R. Pulsifer.

DRA responds in particular to the opening comments of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), the Joint Parties,¹ and the California Large Energy Consumers Association and the Large Manufacturers and Technology Association (CLECA-CMTA) regarding the methodology for calculating the departing load cost responsibility surcharge (CRS). Parties generally support the PD's overall approach to include a renewable portfolio standard (RPS) adder in the market price benchmark (MPB) to account for the value of renewable resources in the total portfolio, but differ with respect to their suggested modifications to the PD's RPS adder methodology.

PG&E offers three alternatives for modifying the PD's RPS adder: (1) use a publicly available, robust renewable energy credit (REC) index for the California market to determine RPS adder, (2) only use Department of Energy (DOE) data to determine the RPS adder, and (3) modify the PD's RPS adder to correct deficiencies in the Joint Parties' proposal.² SCE

¹ The Joint Parties consist of the Alliance For Retail Energy Markets, City and County of San Francisco, Direct Access Customer Coalition, and Marin Energy Authority.

² Opening Comments of Pacific Gas and Electric Company on Proposed Decision (PG&E Opening Comments), September 12, 2011, p. 2.

recommends modifying the PD to use data from investor-owned utility (IOU) transactions for RPS-compliant resources *entered into* during the current and previous years, rather than data from IOU resources that *began* delivery during those years.³ The Joint Parties and CLECA-CMTA recommend excluding all non-IOU renewable volumes from the calculations of the RPS adder.⁴ After reviewing these comments, DRA's position in its opening comments is unchanged; however, DRA makes the following recommendations regarding the opening comments of other parties:

- PG&E's proposal to use a REC index is reasonable and could be an acceptable alternative to DRA's recommendation offered in opening comments.
- SCE's proposal to use recent transaction data is reasonable but lacking in certain respects, and should not be adopted.
- Any RPS adder adopted should be based on the value of *all* (IOU and non-IOU) California renewable volumes.

II. DISCUSSION

Parties generally agree with the PD's finding that all of the conflicting proposals suffer from various deficiencies, so none of are entirely acceptable. They also agree that the PD's RPS adder should be modified to (1) account for value of long term resources, (2) account for lag time between contract signing and actual delivery, (3) prevent double counting of the capacity value of renewable resources, and (4) address the applicability of the 68-32 weighing ratio. The disagreement is over the best way to correct these deficiencies. DRA discusses the parties' recommendations in detail below.

A. PG&E's proposals to use renewable energy credit index is reasonable and should be considered.

PG&E agrees that an RPS adder should be included in the MPB calculation, but disagrees with the PD's RPS adder methodology which is based on the Joint Parties' (flawed) proposal.⁵ Instead, PG&E recommends using a publicly available, robust REC index for the California

³ Opening Comments of Southern California Edison Company to the Proposed Decision of ALJ Pulsifer Adopting Direct Access Reforms R.07-05-025 (SCE Opening Comments), September 12, 2011, pp. 2, 6.

⁴ Opening Comments of Joint Parties on Proposed Decision of Administrative Law Judge Pulsifer on Direct Access Reforms (Joint Parties Opening Comments), September 12, 2011, p. 4, and Comments of the California Large Energy Consumers Association and the California Manufacturers and Technology Association on the Proposed Decision of ALJ Pulsifer (CLECA-CMTA Opening Comments), September 12, 2011, pp. 3-6.

market.⁶ DRA agrees with PG&E that the REC price is a good proxy for the short-term value of renewable attributes.⁷ In addition, REC indices do not have the deficiencies associated with the Joint Parties' proposal, since REC prices reflect current prices for short term transactions, and do not include capacity values or a weighing factor. DRA believes using a publicly available, transparent REC index is one way to correct the deficiencies with the PD's RPS adder, and urges the Commission to consider PG&E's proposal as an alternative to DRA's recommendation.

Alternatively, PG&E recommends several modifications to the PD's RPS adder to correct the acknowledged flaws in the Joint Parties' proposal.⁸ For starters, PG&E recommends using levelized costs to correctly value utility-owned generation (UOG) resources, and removing the capacity value of renewable resources to prevent double counting the capacity value. PG&E also recommends only using DOE data to account for the lag time between contract signing and actual delivery, and to properly apply the 68-32 weighing ratio.⁹ PG&E's proposed modifications are similar to those proposed by DRA in its opening comments. DRA prefers that the Commission adopt DRA's proposed modifications to improve the RPS adder; however, DRA believes PG&E's modifications are reasonable and will also correct the identified deficiencies.

B. SCE's proposal to use data from recent transactions is reasonable but inadequate.

SCE agrees with the PD's finding that the MPB should reflect prices paid by buyers and sellers in recent transactions for delivery of RPS-compliant resources.¹⁰ However, SCE disagrees with the use of price data from IOU RPS-compliant resources that began delivery in the current and previous year because these resources have been contracted for years earlier, at prices that may not reflect current market prices for RPS-compliant resources.¹¹ Instead, SCE recommends that the PD be modified to use data from IOU transactions for RPS-compliant

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⁵ PG&E Opening Comments, p. 2.

⁶ PG&E Opening Comments, pp. 2, 4-7.

⁷ PG&E Opening Comments, p. 5.

⁸ PG&E Opening Comments, pp. 10-11.

⁹ PG&E Opening Comments, pp. 7-9.

¹⁰ SCE Opening Comments, p. 2.

¹¹ SCE Opening Comments, pp. 2, 4-7.

resources *entered into* during the current and previous years rather than data from IOU resources that *began* delivery during those years.¹² Although SCE's proposal accounts for the lag time between contract signing and actual delivery, it does not address the applicability of the 68-32 weighing ratio. As discussed in DRA's opening comments, the IOUs' total load may represent 68% of total California load subject to the RPS requirement. However, the IOUs' total renewable transactions for a particular year may deviate significantly from 68% so the 68-32 weighing ratio may require annual adjustments.¹³ Therefore, SCE's proposal may be insufficient to address all the deficiencies with the PD's RPS adder.

C. The RPS adder should include the value of all California renewable volumes.

The Joint Parties argue that the PD incorrectly included non-IOU renewable volumes in the calculations of the RPS adder because the IOUs can bank the excess RPS-eligible renewable resources from one year for credit in a future year as load departs, thereby avoiding the need for subsequent procurement.¹⁴ The Joint Parties argue that the cost of subsequent renewable purchases by the IOUs would be the avoided cost. This argument is nonsensical, given the fact that the IOUs only represent 68% of the total load in California and the Joint Parties' deficient proposal relies on old transactions which may not be reflective of current market prices for renewable resources. In addition, the Joint Parties acknowledge that publicly owned utilities (POUs) are now subject to the same RPS requirement as other retail sellers. With approximately 32% of total load represented by non-IOU providers (including load served by Community Choice Aggregators, Electric Service Providers, and the POU), their participation in the renewables market is likely to impact market prices.¹⁵ Therefore, non-IOU information must be included.

This argument also ignores the potential rate impact on bundled customers that would result if the IOUs were to bank excess RPS-eligible renewable resources when load departs. Bundled customers will be responsible for a larger portion of renewable resources based on the

¹² SCE Opening Comments, p. 2 and p. 6.

¹³ DRA Opening Comments, p. 8.

¹⁴ Joint Parties Opening Comments, p. 4.

¹⁵ Joint Parties Opening Comments, p. 5.

total portfolio, so their prices will increase due to the higher cost of renewable resources. This price increase on bundled customers will be worse as load departs. Therefore, the Joint Parties' argument should be rejected, as it would not help to maintain bundled customer indifference.

CLECA-CMTA also claims that non-IOU renewable volumes should be excluded from the RPS adder because it does not reflect what the IOUs actually paid for RPS-compliant resources.¹⁶ CLECA-CMTA did not provide any justification for why IOU costs represents the market price of renewable resources in California. It is also important to note that the CLECA-CMTA recommends using costs from all RPS-compliant resources used to serve customers during the year, not just RPS-compliant resources that just began delivery.¹⁷ There is no information in the record suggesting non-IOU information should be excluded. Therefore, DRA recommends the Commission disregard the arguments of CLECA-CMTA and the Joint Parties.

III. CONCLUSION

DRA urges the Commission to ensure that bundled customers remain indifferent, i.e. are no better off or worse off, when load departs. DRA's proposed revisions are designed to capture the parties' consensus, and strike a fair balance between the varied interests in this proceeding. Therefore, the Commission should adopt the proposed revisions in DRA's opening comments in the final decision.

Respectfully submitted,

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¹⁶ CLECA-CMTA Opening Comments, pp. 3-6.

¹⁷ Exhibit 800, pp. 11-12.