

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 Procurement Obligations.

Rulemaking 11-10-023
(Filed October 27, 2011)

**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON
ORDER INSTITUTING RULEMAKING**

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As provided for in the Commission's Order Instituting Rulemaking (OIR), the Division of Ratepayer Advocates (DRA) submits these initial comments on Resource Adequacy (RA) issues identified in the Preliminary Scoping Memo.

A. Categorization, Need for Hearing, and Schedule

DRA agrees with the initial categorization of this proceeding as ratesetting, and that most matters may be resolved through the workshop process. DRA has no revisions to the preliminary Phase 1 schedule.

B. Preliminary Scoping Memo.

DRA agrees with the list of Candidate Issues and Topics Identified by the Energy Division in Appendix A-Candidate Issues and Topics Identified by the Energy Division to the OIR. As part of these topics, DRA recommends the following issues be explored in Phase 1 of this proceeding.

Issue 1: Local Capacity Requirements (LCR) – Seasonal LCR for the San Diego Area

Candidate Issue 1 is the determination of the LCR obligations for Load Serving Entities (LSEs). The RA program includes local transmission-constrained areas. Each year, the CAISO conducts a study to determine capacity requirements which become the basis for the Commission to establish local RA procurement obligations. The LCR is an

annual obligation and requires the load serving entity (LSE) to maintain the same level of local capacity availability to the CAISO for every day of the year.

DRA recommends this issue also address whether there should be a seasonal LCR for the San Diego area. In the San Diego Area, a unique situation exists where the available installed generation capacity very closely approximates the LCR obligation for this area. With such little excess capacity available, difficulties are experienced in scheduling down time for maintenance of the generators located in the San Diego Area. One way to resolve the problem of scheduling maintenance is to consider varying the LCR obligation between summer and non-summer months in this local area. The seasonal study would result in SDG&E being required to meet two different capacity levels for the LCR obligation instead of the one current annual obligation. The non-summer LCR would be lower, and would therefore provide opportunities for scheduling maintenance of the local generation in these off-peak months. This proposal may also decrease the overall costs for satisfying SDG&E's LCR obligation since less capacity would need to be procured in non-summer months which will lead to ratepayer savings.

In the previous RA proceedings, SDG&E has suggested the monthly or seasonal analysis of LCR for the San Diego Local Area, and DRA has expressed support for this concept. The CAISO has opposed seasonal LCR for San Diego, stating that additional time consuming analysis would be required to determine monthly LCR.

DRA acknowledges that the requirement of a monthly LCR analysis for all Local Areas in the state would add significantly to the CAISO's work load; however, performing a two-season analysis for only the San Diego Local Area should not significantly increase the CAISO's work load. DRA recommends that the discussion of a two-season analysis for the San Diego Area be included in the workshop discussions. DRA notes that the issue of Seasonal LCR is included as an agenda item for a November 10, 2011 Stakeholder meeting on the LCR study. DRA supports a CAISO analysis that can provide results on seasonal LCR in the 2013 LCR study and inform the Commission's decision to establish the LCR obligations.

Issue 3: Maximum Cumulative Capacity for Demand Response

In D.11-10-003, a new Maximum Cumulative Capacity (MCC) bucket was created specifically for the DR Program. The implementation details for this new bucket were left for this new proceeding. The MCC “bucket” is a concept created in the RA program to account for differing hours of production by generators, and to establish limits for these different types of production. Four buckets for RA resources were originally created to account for varying production times. To meet their RA capacity obligations, LSEs are required to keep procurement within the assigned bucket limits. Demand Response (DR) programs provide RA capacity reductions for LSEs, reducing their total load obligation.

DRA recommends that the calculation methodology for the new DR MCC bucket be included in the scope of upcoming workshops to ensure that increased and unnecessary levels of planning reserves are not created along with associated increased procurement costs. Currently, to determine system RA requirements, the DR amount is subtracted from the LSE’s load to determine a net load. A Planning Reserve Margin (PRM) of 15-17% is then added to the net load to calculate the monthly LSE System RA requirements. The new MCC bucket for DR programs should not alter the current methodology by adding a planning reserve to DR programs. The amount of DR in the new MCC bucket should be subtracted from the maximum load prior to adding the PRM for System RA requirements.

Issue 5: Non-Generic Capacity Procurement

Candidate Issue 5 is the CAISO’s proposal for a non-generic capacity product. In last year’s RA workshops, the CAISO gave a presentation introducing its proposal for the procurement of non-generic capacity to meet ancillary service needs. These needs included operational characteristics such as ramping, regulation, and load following capabilities. The CAISO asserts that procurement of non-generic capacity will be required as the amount of energy produced from intermittent renewable resources increases to meet the state’s renewable resource goals. At the time, the proposal by the CAISO was not well-defined. DRA and other parties expressed concern that the creation

of non-generic RA capacity could significantly damage the market for the FERC approved Standard Capacity Product.

At a subsequent workshop, the CAISO made a second presentation to state its objective for the creation and implementation of the non-generic RA capacity. The proposal was not well received. The CAISO's proposal was not included in the 2011 RA decisions, but is now included as an issue in Appendix A. While DRA does not object to the inclusion of this issue, it is not clear why the CAISO cannot use its established ancillary services market to solve any problems created by intermittent renewable response. Moreover, the need for new additional capacity for ancillary services will be determined in the Long Term Procurement Planning (LTTP) proceeding, and should not be established in the annual RA proceedings. In fact, the CAISO is currently evaluating such a need through its RPS Integration study as part of the LTTP.

If this issue is to be further explored in the Commission's RA workshops, the CAISO should explain the following topics in a detailed proposal prior to the workshop discussion so that parties have ample time to review the CAISO's proposal:

- What is the purpose of the new non-generic capacity?
- Who will procure the non-generic capacity, the CAISO or the LSEs?
- If the CAISO is procuring the non-generic capacity, what type of procurement mechanism will be used?
- What will be the impact on the existing Standard Capacity Product market?

Issue 8: Qualifying Capacity Rules and Deliverability Guidelines

Candidate Issue 8 covers potential modifications to the qualifying capacity rules and deliverability guidelines. Distributed generation has been addressed in several recent proceedings at the Commission. In R.11-09-011, streamlined rules for distribution level interconnection will address distribution generation. DRA has specific concerns regarding Feed-in Tariffs (or FiT) related to Combined Heat and Power (CHP) and implementation of Senate Bill (SB) 32.

a) CHP Feed-in Tariff

The RA program has established specific deliverability standards for generators that receive RA credit for capacity. Recently, RA deliverability requirements for CHP were addressed in Resolution E-4424. In Resolution E-4424, CHP units were granted RA credit, by the Commission, but these units may not qualify for RA credit under the Commission's existing RA program guidelines. With potentially conflicting language in the RA and CHP proceedings, the IOUs may be forced to procure additional RA capacity for CHP units that don't meet deliverability standards. This should be addressed Phase 1 of this OIR so that any needed modifications can be made.

b) SB 32 Feed-in Tariffs

Pursuant to SB 32, RA credit for small generators is currently being discussed as part of the Renewable Portfolio Standard (RPS) proceeding (R.11-05-005) for the purpose of establishing a Feed-in Tariff for renewables. The Commission is evaluating the implementation of PU Code §399.20 (i) which requires the physical generating capacity of renewable electric generation facilities to count toward an IOUs' RA obligation. This may require the Commission to revisit RA counting requirements.

DRA is concerned that if the distributed generation SB 32/FiT systems receive RA credit, yet do not meet RA standards for reliability, additional capacity that meets those standards may be necessary under existing RA requirements. To credit the SB 32/FiT systems for RA, these systems should be required to meet current RA deliverability standards. Otherwise, these SB 32 systems would obtain RA credit without having to meet the same standards. Similar to the concerns raised for the CHP Feed-in Tariff, DRA recommends that the issue of RA full deliverability under SB 32/FiT be addressed in Phase 1 of this RA proceeding to establish a standardized solution for this issue. The results from the RA proceeding should inform and guide this issue in the SB 32/FiT program.

Respectfully submitted,

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