

**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
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Rulemaking 11-10-023

**COMMENTS OF THE
COGENERATION ASSOCIATION OF CALIFORNIA ON
PHASE I ISSUES**

Pursuant to the procedural schedule set forth in the Scoping Ruling issued in this matter on December 27, 2011, the Cogeneration Association of California (CAC)¹ hereby comments on the Phase I issues to be addressed in this proceeding. The issues to be addressed must be expanded to explicitly include the CAC Petition for Modification filed in the predecessor resource adequacy (RA) docket, as required in the *Order Instituting Rulemaking (OIR)*, issued in this matter on October 27, 2011.²

In the predecessor docket to this one, R.09-10-032, CAC filed a Petition for Modification of Decision 10-06-036, which adopted local procurement obligations for 2011 and further refined the RA program. The Petition for Modification sought to clarify the definition of system peak demand to exclude weekend hours. Later, in the *Assigned Commissioner's Ruling Deferring Issues to Future Rulemaking*, consideration of that petition was deferred to the next RA proceeding.³ In the *OIR* instituting this proceeding,

¹ CAC represents the combined heat and power and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Mid-Set Cogeneration Company, Kern River Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company.

² *Order*, p. 4.

³ Entered September 7, 2011, R.09-10-032.

the Commission explicitly stated that this proceeding would include “[i]ssues deferred to this proceeding by a September 7, 2011 Ruling in R.09-10-032 ...”⁴ The resolution of that Petition for Modification, addressing the determination of Qualifying Capacity for a resource, properly belongs in this proceeding. The Commission’s *OIR* makes it clear that it should be addressed here. The Petition, however, was not included by the Scoping Ruling in this matter.

The issue raised by the Petition for Modification, which should be considered in Phase I of this proceeding, is a modification to the system peak demand definition to exclude weekends and holidays from the hours used to calculate the qualifying capacity of CHP resources. A copy of the Petition for Modification is attached hereto as Attachment 1 for a full description of the relief requested.

Respectfully submitted,



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⁴ *Id.*



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Rulemaking 09-10-032
(Filed October 29, 2009)

**PETITION FOR MODIFICATION OF D.10-06-036 BY
THE COGENERATION ASSOCIATION OF CALIFORNIA**

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June 21, 2011

**BEFORE THE PUBLIC UTILITIES COMMISSION
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Rulemaking 09-10-032
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**PETITION FOR MODIFICATION OF D.10-06-036 BY
THE COGENERATION ASSOCIATION OF CALIFORNIA**

**I. PROCEDURAL GROUNDS FOR PETITION AND REQUEST FOR
COMMISSION ACTION**

The Cogeneration Association of California (CAC)¹ brings this petition to modify D.10-06-036 pursuant to Rule 16.4 of the Commission's Rules of Practice and Procedure. Decision 10-06-036 inadvertently causes load-serving entities (LSEs) to use ratepayer funds to procure redundant and unneeded Resource Adequacy (RA) capacity. A faulty definition of "*system peak demand*" results in an undervaluation of the RA capacity from combined heat and power (CHP) facilities, which, in turn, causes this unnecessary and expensive procurement burden for ratepayers.

A modification to the system peak demand definition to exclude weekends and holidays from the hours used to calculate the qualifying capacity (QC) of

¹ CAC represents the power generation, power marketing and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Kern River Cogeneration Company, Mid-Set Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company.

CHP resources would remedy this problem. The revision will strike a better balance between reliability and cost, more closely aligning the Decision with the principles of the RA program outlined in §380 of the California Public Utilities Code. It will also maintain consistency between the definition of “*system peak demand*” in the QC counting methodology and the definition of peak hours used in federal and state settings, including the settlement among CHP generators and LSEs recently approved in D.10-12-035 (CHP Program Settlement).²

The Petition meets the requirements of Rule 16.4 since the Commission issued the decision within the past year on June 25, 2010. The Commission should modify the language of the first paragraph of Section 9 of the Qualifying Capacity Methodology Manual (Manual), attached to the decision as Appendix B, to effectuate the change as follows:

9. Non-Dispatchable Resources

Non-dispatchable generation resources not described in previous sections receive monthly QC values based on a three-year rolling average of production during certain hours, shown in ~~Table 2~~the table below:-

<u>Jan-Mar, Nov and Dec:</u>	<u>HE17 - HE21 (4:00 p.m. - 9:00 p.m.), excluding weekends and holidays.</u>
<u>Apr-Oct:</u>	<u>HE14 - HE18 (1:00 p.m. - 6:00 p.m.), excluding weekends and holidays.</u>

² D.10-12-035 at 2.

II. THE DECISION UNDERVALUES CHP CAPACITY BY USING OUTPUT FROM WEEKENDS AND HOLIDAYS IN THE CALCULATION OF QC

The Manual calculates the QC for non-dispatchable CHP resources using a three-year historical average of output, including output during weekdays and holidays.³ The methodology includes the same hours to calculate QC for CHP resources as it does to calculate QC for wind and solar generators, listed in the table below:⁴

<i>Jan-Mar, Nov and Dec:</i>	<i>HE17 - HE21 (4:00 p.m. - 9:00 p.m.)</i>
<i>Apr-Oct:</i>	<i>HE14 - HE18 (1:00 p.m. - 6:00 p.m.)</i>

The Manual describes these hours as “*based on the time of system peak demand*” despite the fact that the definition of “*system peak demand*” does not normally include weekends and holidays.⁵

The inclusion of weekend and holiday hours is inappropriate because it needlessly discounts the QC available from CHP resources. All four of the CHP Program Settlement contracts⁶ and some non-Settlement CHP contracts include

³ Qualifying Capacity Methodology Manual, adopted in D.10-06-036 as Appendix B, at 17 (Manual).

⁴ Manual at 13, 17.

⁵ Manual at 13. The fact that weekends and holidays are not normally included in the definition of peak hours is discussed extensively below.

⁶ The CHP Program Settlement includes standard contracts for “*transition*” CHP facilities, as-available CHP facilities, CHP facilities under 20 MW, and CHP facilities entering an RFO. D.10-12-035 at Appendix A. The CHP Program Settlement contracts can be found at the following links:

Transition: <http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/124885.PDF>

As-Available: <http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/124889.PDF>

Under 20 MW: <http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/124888.PDF>

RFO: <http://docs.cpuc.ca.gov/PUBLISHED/GRAPHICS/124886.PDF>

price signals that shape deliveries to follow IOU load.⁷ Cogenerators follow contractual price signals to reduce output during off-peak hours, to the extent feasible. The purpose of the QC counting conventions is to “*reflect the expected capacity value that will be available to the CAISO during periods of system peak demand.*”⁸ Reduced weekend or holiday output that follows contractual price signals should not be interpreted as a lack of capacity available to meet weekday peak demand. Revising the methodology to exclude weekends and holidays will better represent the capacity available from CHP resources during those hours.

CAC did not raise this issue previously because it is not apparent from the table above that the calculation includes weekends and holidays. The inclusion of such hours is only established in an appendix to D.09-06-028, which creates an exceedance counting methodology for wind and solar resources.⁹ That appendix does not expressly define “*system peak demand*” but states that the hours used to calculate the historical output of wind and solar resources will include “*450 data points (5 peak hours * 30 days per month * 3 years of data).*”¹⁰ The inclusion of 30 days per month in the calculation implicitly includes weekends and holidays in the definition of “*system peak demand.*” Solving this

⁷ The Capacity Payment Allocation Factors in Exhibit D and the Time of Use Factors in Exhibit S of the CHP Program Settlement contracts reduce payments for CHP generators during off-peak periods. These reduced payments are a disincentive for generators to operate during weekends and holidays.

⁸ California Public Utilities Commission 2006 Resource Adequacy Report at 31 (March 16, 2007).

⁹ Manual at 13.

¹⁰ D.09-06-028, Appendix B at 1.

puzzle is the only way to determine which hours are included in the QC calculation for CHP resources.

III. MODIFICATION OF THE DECISION WILL HARMONIZE THE METHODOLOGY'S DEFINITION OF PEAK HOURS WITH ESTABLISHED CAISO, CPUC AND CHP-SPECIFIC DEFINITIONS

Including weekends and holidays creates an inconsistency between the definition of peak hours used to establish QC at the Commission and the hours used in CAISO's RA Standard Capacity Product. CAISO's availability assessment hours establish a definition of peak demand within the RA program that excludes weekends and holidays. CAISO ensures that the five-hour availability assessment range reflects the time of "the peak load for each month" for subsequent RA compliance years.¹¹ The hours, therefore, represent CAISO's view of when peak demand will occur. The 2010 availability assessment hours are shown below:¹²

Availability Assessment Hours Starting in Compliance Year 2010

Month	Hour Ending	Exclusions
<i>January – March November – December</i>	<i>HE 17 - 21</i>	<i>Saturday, Sunday and federal holidays</i>
<i>April – October</i>	<i>HE 14 - 18</i>	

CAISO has stated in previous RA comments that:

¹¹ California Independent System Operator Business Practice Manual for Reliability Requirements, Version 6 §8.3 (Dec. 28, 2010).

¹² *Id.*

*the RA program is designed around meeting peak load conditions and, thus, a methodology that accounts for contributions during non-peak (sic) load conditions is fundamentally inconsistent with the RA program.*¹³

Decision 10-06-036's definition of peak hours is thus "inconsistent" with CAISO's definition within the same RA program.

Modification will also better align D.10-06-036 with Commission-established definitions of peak demand. CPUC-approved tariffs for SCE, SDG&E and PG&E consistently define on-peak hours for residential and industrial customers as excluding weekends and holidays.¹⁴

Eliminating weekends and holidays will make D.10-06-036 more consistent with the definition of "peak" and "on-peak" in the CPUC's QF Standard Offer 1 Contract and all four of the CHP Program Settlement contracts. All of those contracts exclude weekends and holidays from the definition of peak delivery periods.¹⁵

¹³ Comments of the California Independent System Operator on Phase II issues in R.08-01-025 at 33-34 (Feb. 17, 2009).

¹⁴ See, e.g., SCE Schedule TOU-D-1: Time-of-Use Domestic Tariff at Sheet 45629-E (available online at: <http://www.sce.com/NR/sc3/tm2/pdf/ce84-12.pdf>); SCE Schedule TOU-8: Time-of-Use – General Service – Large Tariff at Sheet 45731-E; (available online at: <http://www.sce.com/NR/sc3/tm2/pdf/ce54-12.pdf>); PG&E Electric Schedule E-6: Time-of-Use Residential Services at Sheet 27783-E (available online at http://www.pge.com/tariffs/tm2/pdf/ELEC_SCHEDS_E-6.pdf); PG&E Electric Schedule E-20: Service to Customers With Maximum Demands of 1000 Kilowatts or More at Sheet 26958-E (available online at: http://www.pge.com/tariffs/tm2/pdf/ELEC_SCHEDS_E-20.pdf); SDG&E Schedule DR-TOU: Residential Time-of-Use Service at Sheet 21535-E (available online at http://sdge.com/regulatory/elec_residential.shtml); and SDG&E Schedule AL-TOU: Industrial General Service – Time Metered at Sheet 20507-E (available online at http://sdge.com/regulatory/elec_residential.shtml).

¹⁵ See, e.g., Southern California Edison QF Uniform Standard Offer 1 Contract, Appendix A (Effective August 1, 1988) (available here: http://www.cpuc.ca.gov/PUC/energy/Retail+Electric+Markets+and+Finance/Electric+Markets/QF+Issues/qf_contracts.htm). Exhibit D in all four of the CHP Program Settlement

IV. GRANTING CAC'S PETITION WILL BETTER ALIGN THE DECISION WITH THE PURPOSE OF THE RA PROGRAM UNDER PUBLIC UTILITIES CODE §380

Section 380 of the Cal PU Code, *“the blueprint”* for the RA program, aims to achieve reliability at low cost.¹⁶ It balances its requirement that LSEs maintain adequate generating capacity to meet peak demand with a mandate that requires *“economic”* procurement.¹⁷ Decision 09-06-028 establishes that the focus of the RA program is to ensure *“dependable physical resource availability to the CAISO at peak demand periods”* but states that *“[t]he goal of resource adequacy is to achieve reliability at least cost....”*¹⁸ The Commission has repeatedly emphasized that procurement guidelines for IOUs, both in and out of the RA program, *“unambiguously”* establish the need to balance reliability and least cost.¹⁹

Discounting CHP capacity requires over-procurement of other resources to compensate for the discount, which increases costs to ratepayers. This over-procurement fails to increase reliability because of its redundancy with RA-quality CHP capacity already available during peak demand. It may even reduce

contracts excludes weekends and holidays from the definition of peak time of delivery periods for PG&E, SCE and SDG&E.

¹⁶ D.09-06-028 at 50.

¹⁷ Cal PU Code §380(b)(1) and (c).

¹⁸ D.09-06-028 at Finding of Fact 15 and pages 50 and 52.

¹⁹ D.04-07-028 at 9, quoting D.02-10-062; See D.04-10-035 at 2 (stating that the purpose of the RA program *“is to ensure that consumers of electricity within the service territories of California’s three largest investor-owned electric utilities (IOUs) receive service that is as reliable as reasonably possible, consistent with current technology and economic constraints”*).

reliability by replacing CHP generation, frequently located within load centers, with generation located outside of load centers. Increased costs from over-procurement are especially high during peak demand, when RA capacity is most expensive. Accordingly, modification of D.10-06-036 to eliminate weekends and holidays from the QC calculation will benefit ratepayers by increasing the RA value of capacity already procured and reducing the cost of on-peak reliability.

V. CONCLUSION

Excluding weekends and holidays from the counting methodology for non-dispatchable CHP resources will maintain reliability while relieving ratepayers from the costs of over-procurement. The Commission should revise the Manual consistent with this Petition to achieve these ends.

Respectfully submitted,



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