

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans.

R.12-03-014
(Filed March 22, 2012)

**COMMENTS OF THE
ALLIANCE FOR RETAIL ENERGY MARKETS
AND DIRECT ACCESS CUSTOMER COALITION
REGARDING STRAW PROPOSAL ON
STANDARDIZED PLANNING ASSUMPTIONS**

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The Alliance for Retail Energy Markets (AReM)¹ and the Direct Access Customer Coalition (“DACC”) ² respectfully submit these comments regarding the Straw Proposal on Standardized Planning Assumptions issued by the Energy Division on May 10, 2012 in the Long-Term Procurement Plan (“LTTP”) proceeding. These comments are filed in accordance with the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* , issued May 17, 2012, which set this date for submission of comments. In addition, on May 23, 2012, the Energy Division requested by electronic mail that parties submit their comments using a template provided by Staff. The comments of AReM and DACC focus on one issue regarding demand-side assumptions and one regarding supply -side assumptions. Thus, only the relevant portions of the template are listed below. At this time, AReM and DACC have no comments relevant to the remainder of the template and do not replicate it here.

¹ AReM is a California non -profit mutual benefit corporation formed by electric service providers (ESPs) that are active in California's direct access (DA) market. The positions tak en in this filing represent the views of AReM but not necessarily those of individual members of AReM or the affiliates of its members with respect to the issues addressed herein.

² DACC is a regulatory alliance of educational, commercial, industrial and g overnmental customers who have opted for direct access to meet some or all of their electricity needs.

Demand-side Assumptions

11. Other comments on demand-side assumptions

The straw proposal contains no mention of direct access or community choice aggregation (“CCA”) load, or load migration. While on its face, this approach may seem appropriate when considering system needs, AReM and DACC believe that ignoring these subjects during the study period can lead to only one outcome -- the investor-owned utilities (“IOUs”) will continue to plan and build for load that they do not serve, thereby burdening the competitive market with undesirable and unwarranted non-bypassable charges. Moreover, failing to analyze the characteristics of the migrated load (both direct access and CCA) versus the characteristics of bundled utility load means that the Commission is unable to allocate costs to “benefiting customers” in accordance with cost causation principles. The Commission itself raised these concerns in previous LTPP proceedings, but has not yet resolved them. Now is the time to do so.

For background, the Commission first described these concerns in some detail in the 2007 LTPP decision, Decision (“D.”) 07-12-052.³ The issue originated in AReM’s testimony in Rulemaking (“R.”) 06-02-013, in which AReM testified that cost allocation of any “system resources” must be linked to cost causation.⁴ In D.07-12-052, the Commission cited directly from AReM’s testimony that “[i]f bundled customers’ load is exacerbating the peak or decreasing the load factor (as SCE suggested), then the bundled customers should pay for the resources necessary to meet that need.”⁵ At the same time, the Commission noted the “absence of a standard methodology or consistent practices for identifying system versus bundled resource

³ D.07-06-052, December 20, 2007, pp. 117-119.

⁴ D.07-06-052, p. 117.

⁵ *Ibid.*

needs” and the possible adverse effects that could result. ⁶ More recently, the Order Instituting Rulemaking (“OIR”) for the 2008 LTP P included within scope distinguishing load growth rates of bundled versus direct access load, stating: “In other words, energy service provider (ESP) load may grow at a different rate than bundled load and t **here should not be a cross -subsidy between the t wo**” (emphasis added). ⁷ However, as explained in the OIR for the 2010 LTPP proceeding, “[n]o activity was taken on Phase II” in R.08-02-007.⁸

Thus, the Commission has previously determined that data are needed to determine if “bundled customers’ load is exacerbating the peak or decreasing the load factor.” Track 2 is the only Track in which this data collection and analysis task logically belongs. Accordingly, AReM and DACC respectfully request that the demand -side analysis conducted for this proceeding address the following:

- Projections for direct access and CCA loads and ranges of load migration, assuming further expansion of direct access through new legislation and formation of new CCAs;
- Projections for peak load and rates of peak -load growth for bun dled, direct access and CCA customers; and
- Calculations for separating out loads of publicly -owned utilities in each utility’s service area.

The California Energy Commission (“CEC”) is actively involved in this proceeding and can assist in collecting and a nalyzing the necessary data. AReM and DACC are aware, for example, that the CEC evaluates peak loads with some level of granularity for direct access customers at present and would be able to assist in developing methods that would allow more

⁶ D.07-06-052, pp. 117-119.

⁷ OIR, R.08-02-007, February 14, 2008, Attachme nt A, Preliminary Scoping Memo. P. A -27.

⁸ OIR, R.010-05-006, May 10, 2010, p. 7.

accurate forecasts of each class of load, projected load-growth rates, the customer classes that are driving the peak -load growth, and the potential resource needs to address the specific type of peak-load growth occurring.

As the Commission has recognized since 2007 , data regarding the characteristics of bundled, direct access and CCA loads are required to ensure that cost allocation is properly linked to cost causation. Track 2 is the proper phase in which to accomplish this task.

Supply-side Assumptions

18. Event-Based Demand Response

AReM and DACC concur that most demand response should be included as supply -side resources. However, using the IOUs' Load Impact reports as the basis for the scenarios ⁹ is inadequate and ignores recent Commission direction. In D.12-04-045 approving the IOUs' demand response programs for 2012 -14, the Commission signaled that it intended to move beyond the utility-centric model of today and toward a more robust competitive demand response market provided through third parties and bid into CAISO markets.¹⁰

The next major policy question we must address is the extent to which we will embrace competitive procurement of DR and the timeline in which this transition will occur. Historically, California has employed a utility -centric model of DR procurement that allows only a limited role for third party aggregators. However, this model is changing. The CAISO's market upgrades and regulatory changes now underway at this Commission will soon make it possible for aggregators to play a much larger role in the procurement of DR at both the retail and wholesale levels. We think that third party aggregators can provide additional innovation and services to the market, yielding additional uncaptured potential benefits to DR in California. We intend to take up this question in a new DR policy guidance rulemaking to be opened later this year. As noted in the next section, we make several evaluation choices today in the context of this transition, in particular with the role of third party aggregators.¹¹

⁹ Straw Proposal, p. xvii.

¹⁰ See, for example, D. 12-04-045, pp. 14, 16, and 191.

¹¹ D. 12-04-045, p. 16.

Necessarily, many of these resources would be provided outside of the auspices of the IOUs and would not be “event-based” as that term is used in the Straw Proposal. This restructuring of the demand response market must be accounted for in the LTPP planning assumptions to reduce the risk of identifying need that will not materialize. Accordingly, AReM and DACC propose that the LTPP Planning Assumptions be revised to estimate the potential for third-party expansion of the wholesale demand response market during the LTPP study period.

Respectfully submitted,

/s/ Sue Mara

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