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 20, 2011)

COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS ON PHASE 1 PROPOSED DECISION FOR RESOURCE ADEQUACY

Sue Mara
RTOADVISORS, L.L.C.
164 Springdale Way
Redwood City, CA 94062
Telephone: (415) 902-4108
E-mail: sue.mara@rtoadvisors.com

Consultant to
ALLIANCE FOR RETAIL ENERGY MARKETS

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The Alliance for Retail Energy Markets ("AReM") [1] submits these comments on the Phase 1 Proposed Decision ("PD") issued by Administrative Law Judge David M. Gamson on May 22, 2012 regarding Resource Adequacy ("RA") and entitled *Decision Adopting Local Procurement Obligations for 2013 and Further Refining the Resource Adequacy Program.* AReM strongly supports the PD's adoption of proposed refinements to the coincidence adjustment factor as discussed below. AReM has no comments on and does not oppose the remainder of the PD, which adopts the 2013 local procurement obligations and other RA refinements.

I. THE PD PROPERLY APPROVES REVISIONS TO THE COINCIDENCE ADJUSTMENT FACTOR TO REDUCE CROSS SUBSIDIES AND HARMONIZE EXISTING PROCESSES.

AReM strongly supports the PD's approval of the proposed revisions to the current method for calculating the coincidence adjustment factor.[2] The PD correctly acknowledges that the existing approach, which uses a single, system average factor, does not appropriately reflect

[1] AReM is a California non -profit mutual benefit corporation formed by electric service providers that are active in the Califor nia's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

[2] PD, pp. 22-27.

the "peakiness" of the loads served by each load-serving entity ("LSE").[3] The PD further cites Decision 11-06-022, which found that the current method "serves as a cross subsidy from industrial and commercial customers to residential customers."[4] In addition, the PD describes that the current approach is inconsistent with the methods used by the California Energy Commission ("CEC") to forecast bundled customer load for the long-term procurement proceeding and determine RA requirements for non-Commission jurisdictional LSEs.[5] Therefore, the PD concludes that the proposed revisions should be adopted because they would "harmonize" the long-term procurement and RA processes and "improve cost allocation related to cost causation."[6] The PD further finds that the record is "sufficient" to adopt the proposed revisions and that the few parties registering objections were "non-specific."[7] AReM strongly concurs.

As AReM has repeatedly explained and the PD acknowledges, the current approach for calculating the coincidence adjustment factor is inconsistent with cost causation and basic fairness. Specifically, the load shapes of the electric service providers ("ESPs"), due to the type of customers they serve, are non-coincident with the system peak. Thus, applying the single, system average coincidence adjustment factor based on the load profile of the investor-owned utilities ("IOUs"), as is done today, shifts costs from bundled utility to direct access customers. As a consequence, direct access customers have been bearing a disproportionate share of RA requirements since 2005, an outcome that directly conflicts with cost causation principles. The

[3] PD, p. 24.
[4] PD, pp. 24-25.
[5] PD, pp. 26-27.
[6] PD, p. 27.
[7] PD, p. 27.

PD, if adopted, will remedy this inequitable situation.

Accordingly, AReM urges the Commission to approve the revisions to the current method for calculating the coincidence adjustment factor as specified in the PD of ALJ Gamson. The existing cross subsidies have been in place since 2005, disadvantaging direct access customers. While the differences may be small to the IOUs, they represent real and significant costs to the much smaller ESPs and their direct access customers. Parties and the Commission have had ample opportunity to discuss the issue and debate the details in Rulemaking 09-10-032 and in this proceeding. Moreover, the CEC has endorsed the proposed revisions and finds them necessary to address cross subsidies and ensure consistency.

II. CONCLUSION.

AReM respectfully requests that the Commission approve the PD's revisions to the current method for calculating the coincident adjustment factor in the RA program and thereby end the current cross subsidies in RA procurement obligations.

Respectfully submitted,

Sue Mara

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RTOADVISORS, L.L.C.
164 Springdale Way
Redwood City, CA 94062
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