

**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)

**REPLY OF THE ALLIANCE FOR RETAIL ENERGY MARKETS
TO COMMENTS ON PHASE 1 PROPOSED DECISION**

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ALLIANCE FOR RETAIL ENERGY MARKETS

June 18, 2012

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The Alliance for Retail Energy Markets (“AReM”)¹ submits this reply to comments filed June 11, 2012 on the Phase 1 Proposed Decision (“PD”) on Resource Adequacy (“RA”) issued by Administrative Law Judge David M. Gamson on May 22, 2012. AReM’s reply addresses comments submitted by Pacific Gas and Electric Company (“PG&E”) and Southern California Edison Company (“SCE”).

I. PG&E’s OBJECTIONS TO REVISING THE COINCIDENCE ADJUSTMENT FACTOR ARE SPECULATIVE AND UNSUPPORTED AND SHOULD BE IGNORED.

AReM strongly supports the PD’s adoption of revisions to the current method for calculating the coincidence adjustment factor, which will more accurately assign RA obligations to Load Serving Entities (“LSEs”), and reduce existing cross subsidies between bundled and direct access customers. Moreover, it will “harmonize” the existing processes of the California Energy Commission (“CEC”) used to forecast load with the allocation of RA obligations.² PG&E is the

¹ AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California’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.

only party that opposed its adoption.³ In doing so, PG&E relies on the unsubstantiated objections it raised in its comments on the RA workshop report – *i.e.*, the notion that including “flexibility” as part of RA procurement requirements may fundamentally change the way the Commission allocates RA requirements to LSEs to a system no longer based on peak requirements. PG&E therefore argues that any revisions to the coincidence adjustment factor are premature.⁴ PG&E ignores the fact that there have been no proposals or workshop discussions in this proceeding regarding potential modifications to the coincidence adjustment factor that might be required when and if RA requirements are modified to reflect flexible capacity attributes. Moreover, the CAISO’s very preliminary discussions about embedding flexible capacity attributes in RA requirements, if this occurs at all, has focused on allocating those requirements based on load -ratio share, which is a peak -based system. RA capacity requirements for LSEs have always been based on system peak and no party has proposed deviating from this. In short, the PD has gotten it right in rejecting PG&E’s concerns as “non-specific.”⁵

Accordingly, AReM urges the Commission to approve the revisions to the current method for calculating the coincidence adjustment factor as specified in the PD. All parties and the Commission have had ample opportunity to discuss the issue and debate the details both in Rulemaking 09-10-032 and in this proceeding. In addition, the CEC has endorsed the proposed revisions as noted in the PD.⁶ Now is the time to correct the current inequities and “improve cost allocation related to cost causation.”⁷

³ PG&E, June 11 Comments, p. 5.

⁴ *Post-Workshop Comments of Pacific Gas and Electric Company*, R.11-10-023, April 11, 2012, p. 6.

⁵ PD, p. 27.

⁶ PD, pp, 26-27.

⁷ PD, p. 27.

II. SCE's SUGGESTION TO MODIFY THE MAXIMUM CUMULATIVE CAPACITY BUCKETS FOR DEMAND RESPONSE SHOULD BE IGNORED.

SCE requests that the PD be modified to reject approval of the new demand response (“DR”) “bucket” proposed by Energy Division staff as part of the Maximum Cumulative Capacity (“MCC”) requirements for RA. In making its case, SCE argues that DR resources should count more in the MCC buckets for peakier loads than for flat loads.⁸ SCE’s approach would be a fundamental change in how MCC buckets are applied for RA purposes.

For background, the concept of a new DR bucket for the MCC was adopted in Decision 11-10-003 and deferred for implementation to this proceeding, as explained in the Scoping Memo.⁹ While RA proposals were due on January 13, 2012, SCE first suggested this concern and approach in its April 11, 2012 post-workshop comments.¹⁰ If SCE had this “new idea,” it should have presented it for parties to debate and evaluate during the course of this Phase 1 proceeding. It did not do so and consequently SCE’s suggestion should be ignored.

SCE further points out that its proposed approach is “like” the change being made for the coincidence adjustment factor. However, there is a critical distinction that SCE fails to mention. SCE’s approach ignores how DR program costs and the associated RA capacity are currently allocated. Costs are currently allocated through distribution rates to all customers. Energy Division staff then allocates the associated RA capacity benefits to electric service providers (“ESPs”) and Community Choice Aggregators (“CCAs”) based on load -ratio share – not based on “peakiness.” If SCE wants to propose that DR counts more for “peaky” loads than for flat loads, then DR program costs should be allocated the same way.

⁸ SCE’s June 11th Comments, pp. 5-6.

⁹ *Order Instituting Rulemaking*, R.11-10-023, issued October 27, 2012, Appendix A, item #3, p. 1.

¹⁰ *Southern California Edison Company’s Post -Workshop Comments*, R.11-10-023, April 11, 2012, pp. 10-11.

In summary, SCE has proposed an entirely new concept for the MCC buckets used for RA compliance purposes, which is inconsistent with current cost allocation practices for the IOUs' DR programs and has not been properly presented for consideration in the record of this proceeding. Therefore, AReM requests that the Commission ignore SCE's suggestion.

III. CONCLUSIONS.

AReM respectfully requests that the Commission:

- Approve the PD's revisions to the current method for calculating the coincidence adjustment factor in the RA program and reject PG&E's unsupported request for further delay; and
- Ignore SCE's request to fundamentally change the way MCC buckets are used for RA compliance purposes and acknowledge that, if DR were to count for RA based on "peakiness" of the load, the costs for utility DR programs would have to be allocated using the same approach.

Respectfully submitted,



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