

Docket No.: R.12-03-014

Exhibit No.: _____

Date: July 23, 2012

Witnesses: Sue Mara and Mark Fulmer

**REPLY TESTIMONY ON BEHALF OF THE
ALLIANCE FOR RETAIL ENERGY MARKETS,
DIRECT ACCESS CUSTOMER COALITION,
AND MARIN ENERGY AUTHORITY**

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ATTACHMENT: CAM PROCUREMENT APPROVED BY THE COMMISSION AS OF
JULY 5, 2012

1 **I. IDENTIFICATION OF REPLY WITNESSES AND SUMMARY**

2 **Witness: Sue Mara**

3

4 **Q. Please state your name.**

5 A. My name is Sue Mara.

6 **Q. Are you the same person who provided testimony in this proceeding on June 25, 2012 on**
7 **behalf of the Alliance for Retail Energy Market (“AReM”), the Direct Access Customer**
8 **Coalition (“DACC”), and the Marin Energy Authority (“MEA”)?**

9 A. Yes.

10 **Q. What is the purpose of your reply testimony?**

11 A. I reply to the testimony of Southern California Edison (“SCE”), San Diego Gas & Electric
12 Company (“SDG&E”), and The Utility Reform Network (“TURN”), regarding the application of
13 the cost allocation mechanism (“CAM”) to direct access (“DA”) and community choice
14 aggregation (“CCA”) customers and the ability of non-utility load-serving entities (“LSEs”),
15 including Electric Service Providers (“ESPs”) and CCA suppliers to opt-out of the CAM.

16 **Witness: Mark Fulmer**

17 **Q. Please state your name.**

18 A. My name is Mark Fulmer.

19 **Q. Are you the same person who provided testimony in this proceeding on June 25, 2012 on**
20 **behalf of AReM, DACC, and MEA?**

21 A. Yes.

22 **Q. What is the purpose of your reply testimony?**

23 A. I respond to SDG&E’s testimony on the calculation of CAM.

24

1 **Witness: Sue Mara**

2 **Q. What are the summary conclusions of AReM, DACC and MEA in reply to SCE, SDG&E**
3 **and TURN on CAM and LSE Opt-Out?**

4 A. AReM, DACC and MEA conclude the following:

- 5 • The Commission has already approved more than 7,000 megawatts of CAM procurement by
6 the investor-owned utilities (“IOUs”) and must now take the appropriate and necessary time
7 to consider and adopt a comprehensive process and reasonable criteria to ensure compliance
8 with applicable statutes and Commission policies.
- 9 • The testimony on behalf of AReM, DACC, and MEA provides such a proposed process and
10 criteria and a mechanism by which non-utility LSEs may opt out of any CAM-authorized
11 projects, reducing the need for CAM procurement and providing market incentives for ESPs
12 and CCAs to procure Resource Adequacy (“RA”) capacity on a multi-year basis.
- 13 • SCE, SDG&E and TURN’s contention that CAM should be applied to any and all new
14 generation authorized in Track 1 is unjustified, unsupported by statute, and inconsistent with
15 Commission policies, including its policies to promote retail choice, which require that CAM
16 procurement is the exception, not the rule.
- 17 • The Commission has adequate time: (1) to adopt and implement the CAM-related proposals
18 of AReM, DACC and MEA and still ensure that any designated local reliability needs are
19 met; and (2) for needed coordination with the RA proceeding, which is addressing flexible
20 capacity requirements and a multi-year forward RA procurement obligation for LSEs.
- 21 • The Commission’s consideration of a multi-year forward RA procurement obligation for
22 LSEs should adhere to principles that minimize CAM procurement, facilitate wholesale and
23 retail markets and promote retail choice.

1 **II. APPLICATION OF CAM AND LSE OPT-OUT**

2 **Witness: Sue Mara**

3 **Q. Do any parties acknowledge that the Commission is required to establish defined criteria in**
4 **order to authorize CAM procurement pursuant to Senate Bill 695, Senate Bill 790 and**
5 **Decision (“D.”)11-05-005?**

6 A. Yes. SDG&E acknowledges that such criteria are required¹ and asks the Commission to
7 “expeditiously address these remaining issues in order to avoid the delay and administrative
8 burden inherent in litigating them in each future individual case of application of theCAM.”²
9 SDG&E also “supports development of general policies and procedures related to application of
10 the CAM to future needs.”³

11 **Q. Do any parties propose criteria by which the Commission may authorize CAM**
12 **procurement in accordance with the applicable statutes and D.11-05-005?**

13 A. No. While CAM procurement was addressed to some extent in the testimonies of SCE, SDG&E
14 and TURN, none of their witnesses proposed any such criteria. Therefore, the testimony
15 submitted by AReM, DACC and MEA is the only evidence in the record thus far setting forth
16 criteria by which the Commission may authorize CAM procurement and a proposed process for
17 the Commission to follow in making that determination.⁴

18 **Q. Do parties propose applying the CAM to local reliability needs identified in this Track 1**
19 **proceeding?**

20 A. Yes. SCE, SDG&E and TURN all recommend that the IOUs be required to procure to meet any
21 local reliability needs designated by the Commission in this proceeding and that all customers,
22 including DA and CCA customers, be required to pay for that procurement through the

¹ SDG&E Testimony, p. 10, lines 16 -22

² SDG&E Testimony, p. 11, lines 3 -5.

³ SDG&E Testimony, p. 11, lines 11 -12.

⁴ See, AReM/DACC/MEA Testimony, pp. 20 -34.

1 application of the CAM. SDG&E argues that CAM procurement is the “only practical and
2 feasible approach.”⁵ SCE requests that the Commission authorize SCE to procure up to 3,741
3 megawatts in the LA Basin⁶ with all such megawatts receiving CAM treatment.⁷ SCE also states
4 that alternative market mechanisms cannot be implemented in time before “at least some” of the
5 identified local procurement needs must be addressed, without defining whether “some” is a
6 subset of the 3,741 megawatts it requests authority to procure.⁸ For its part, TURN states that
7 CAM procurement is the “only realistic alternative” for providing replacement capacity for
8 Once-Through Cooling (“OTC”) units.⁹

9 **Q. Do you agree with their positions?**

10 A. No. The positions of SCE, SDG&E, and TURN are tantamount to a notion that “all IOU
11 procurement is CAM procurement,” is not supported by statute and directly conflicts with
12 Commission policy to promote wholesale competition and retail choice. As detailed in my
13 testimony,¹⁰ Commission-ordered CAM procurement has anti-competitive effects on the
14 competitive retail market and, thus, should be the exception, not the rule. Significantly,
15 continued and expansive CAM procurement undermines retail choice by limiting the options of
16 ESPs and CCAs to control costs in their own portfolios or assemble an RA portfolio of their own
17 design in order to meet the specific preferences of their customers.¹¹ Moreover, CAM
18 procurement puts control of a portion of RA procurement for the ESPs and CCAs under the
19 control of their IOU competitors. The anti-competitive effects of CAM could not be more clear.

20 By contrast, the testimony of AReM, DACC and MEA proposes an equitable, reasonable
21 and critical *alternative* to a blanket order by the Commission that all IOU-authorized investments

⁵ SDG&E Testimony, p. 8, line 15.

⁶ SCE Testimony, p. 2, lines 17 -18.

⁷ SCE Testimony, p. 2, lines 8 -9.

⁸ SCE Testimony, p. 2, lines 1 -2.

⁹ TURN Testimony, p. 22, lines 3 -5.

¹⁰ See, AReM/DACC/MEA Testimony, pp. 18, 20-29, and 52-53.

¹¹ See, AReM/DACC/MEA Testimony, p. 52.

1 in this Track 1 should be CAM procurement. In summary, the proposals specify: (1) a process
2 for the Commission to follow in making a determination whether CAM procurement is
3 warranted, including an essential step in which the Commission determines the megawatts
4 required to meet IOU load, load growth and requirements, which is not subject to CAM
5 procurement; and (2) defined criteria for the Commission to apply in determining whether a
6 particular project proposed for CAM treatment by an IOU may be authorized in compliance with
7 statutory requirements and Commission policy. The adoption of this proposed process and these
8 criteria would comply with the requirements of the applicable statutes and ensure that CAM
9 procurement is minimized and used only when absolutely required to meet reliability needs.

10 **Q. Is there any statutory support for the concept that “all IOU procurement is CAM**
11 **procurement?”**

12 A. No. I addressed statutory requirements extensively in my testimony and the applicable statutes
13 do not support a conclusion that everything the IOUs procure to meet system or local reliability
14 needs must be CAM procurement.¹² In addition, as discussed therein and noted above, the
15 applicable statutes and Commission’s policies supporting retail choice require that the
16 Commission make every reasonable effort to minimize CAM.¹³ As provided in the Attachment
17 to this reply testimony, the Commission has already authorized **more than 7,000 megawatts of**
18 **CAM** procurement by the IOUs. Thus, it is reasonable and, indeed, necessary that the
19 Commission take the appropriate and reasonable time required to adopt and implement a
20 comprehensive process and reasonable criteria by which it will authorize CAM procurement
21 going forward.

22 **Q. Do any parties other than AReM, DACC and MEA propose a process by which the**

¹² AReM/DACC/MEA Testimony, pp. 8 -20 and pp. 24-29.

¹³ AReM/DACC/MEA Testimony, pp. 20 -12.

1 **Commission would establish the megawatts subject to CAM procurement or LSE opt-out?**

2 A. No. As mentioned above, a critical step in the process proposed by AReM, DACC and MEA is a
3 determination of the forecast reliability need attributed to the IOUs' bundled customer load.
4 This aspect was not addressed directly by any other party. However, SDG&E noted that CAM is
5 only applicable when the benefits of a given resource "extend beyond the IOU's bundled
6 customers."¹⁴ Stated another way, if the proposed project or megawatts of forecast reliability
7 need is required to meet bundled customer load, load growth or requirements, then the associated
8 IOU procurement to meet that need is for the benefit of its bundled customers and thus does not
9 qualify for CAM procurement. I describe the bundled load issue, as well as how replacement of
10 OTC units should be addressed, on pages 24 to 29 of my testimony.

11 **Q. The parties arguing for CAM treatment for all procurement that results from Track 1**
12 **argue that the Commission must authorize procurement quickly. Do you agree?**

13 A. No. A more reasonable assessment of the situation is that the timing of the local reliability need
14 appears to be uncertain.¹⁵ As SCE points out, the California Independent System Operator
15 ("CAISO") seems to be taking a worse-case view of local reliability needs and the potential for
16 closing of OTC units. Specifically, SCE notes that the CAISO has assumed the retirement of
17 6,900 megawatts of OTC units in 2018, which is two years earlier than the OTC compliance
18 deadline.¹⁶ SCE concludes that "accurately identifying a specific date when need occurs is not
19 possible."¹⁷ SCE also argues that the Commission should defer determination of a local
20 reliability need for Big Creek/Ventura until the 2014 Long-Term Procurement Plan ("LTPP"),
21 because "barriers to construction" of new generation in that local area "are not as challenging."¹⁸

22 _____
¹⁴ SDG&E Testimony, p. 12, line 2.

¹⁵ The potential closing of San Onofre Nuclear Generating Station (SONGS) adds to the uncertainty. The CAISO's testimony stated that it is studying the long-term reliability effects of closing SONGS in its 2012 -13 Transmission Planning process. (See, CAISO Testimony of Robert Sparks, May 23, 2012, p. 15).

¹⁶ SCE Testimony, p. 9, lines 18-21.

¹⁷ SCE Testimony, p. 10, line 8.

¹⁸ SCE Testimony, pp. 10-11.

1 **Q. What do you conclude?**

2 A. Given the considerable uncertainty and unnecessary conservatism surrounding the timing of the
3 need in the local areas, (LA Basin and Big Creek/Ventura), I conclude that there is adequate time
4 for the Commission to adopt and implement the proposals of AReM, DACC and MEA for
5 applying defined criteria and following an established process when authorizing CAM
6 procurement. With the Commission's support, these proposals could be decided and
7 implemented by the end of 2013, thereby minimizing CAM procurement, meeting essential
8 reliability needs, and ensuring compliance with statutory requirements and Commission policy.

9 **Q. Does this time frame allow improved coordination with the Resource Adequacy**
10 **proceeding?**

11 A. Yes. This time frame – *i.e.*, adopting and implementing the CAM proposals of AReM, DACC
12 and MEA by the end of 2013 – fits well with schedule in the RA proceeding (Rulemaking 11-10-
13 023). The RA proceeding will soon begin considering whether LSEs should be obligated to
14 procure RA capacity with flexible capacity characteristics and, potentially, whether this
15 obligation should be on a multi-year forward basis. It makes no sense for the Commission to
16 impose a multi-year forward obligation on all LSEs in the RA proceeding at the same time it is
17 directing *IOU procurement of RA on behalf of all LSEs* in the LTPP proceeding. A more logical
18 and reasonable approach would be for the Commission to complete the RA assessment and adopt
19 and implement the CAM proposals of AReM, DACC and MEA by the end of 2013. A
20 coordinated effort of this nature would minimize the need for CAM and ensure reliability
21 requirements are met. Both SCE¹⁹ and SDG&E²⁰ agree that a multi-year forward obligation for
22 LSEs is properly addressed in the RA proceeding.

23

¹⁹ SCE Testimony, p. 18, lines 1 -2.

²⁰ SDG&E Testimony, p. 12, lines 5 -12.

1 **Q. Did you review the July 13, 2012 ruling of Commissioner Florio, which set forth questions**
2 **to address in reply testimony and were any relevant to the positions of AReM, DACC and**
3 **MEA?**

4 A. Yes. The ruling included the following question:

5 1. To the extent that the Commission determines that Southern California Edison
6 Company (SCE) and/or other Load-Serving Entities in the Los Angeles basin
7 and the Big Creek/Ventura local area must procure capacity to meet long-term
8 local capacity needs, how should the Commission direct these entities to meet
9 that need on behalf of the system?²¹

10 This question addresses the possibility that the Commission would impose a multi-year forward
11 RA procurement obligation on non-IOU LSEs in this proceeding. As explained above, and as
12 supported by SCE and SDG&E testimonies, the issue of a multi-year forward procurement
13 obligation for LSEs is logically addressed in the RA proceeding, where the Commission has
14 traditionally determined the scope of the RA requirements that apply to all LSEs. LTPP
15 proceedings have traditionally addressed IOU procurement obligations. Moreover, as is also
16 explained above, there is adequate time for: (1) a decision in the RA proceeding; and (2) for the
17 Commission to adopt and implement in this LTPP proceeding the process it should follow and
18 criteria is should apply in determining whether CAM procurement by the IOUs is warranted.

19 **Q. If the Commission moves forward with consideration of a multi-year forward RA**
20 **obligation for LSEs in either the RA or LTPP proceedings, do AReM, DACC and MEA**
21 **have any guidelines to offer?**

22 A. Yes. AReM, DACC and MEA believe that the significant issues regarding a multi-year forward
23 RA procurement obligation for LSEs must be carefully considered by the Commission and
24 propose the following principles to apply in that consideration:

25 • The multi-year forward RA procurement obligation must be clearly defined and

²¹ *Assigned Commissioner's Ruling*, R.12-03-014, July 13, 2012, p. 1.

1 apportioned to all LSEs in a fair and equitable manner.

- 2 • There must be a well-designed market structure that facilitates price transparency, market
3 liquidity and transactional ease so that all LSEs, especially smaller LSEs such as a ESPs
4 and CCAs, can manage their forward obligations as load migrates among LSEs.
- 5 • Capacity attributes needed for managing renewable integration should be addressed
6 through energy market ancillary services and should not be incorporated into RA
7 requirements.

8 Adherence to these basic principles will ensure that the RA program design will support the
9 ongoing development of competitive wholesale and retail markets, and will ensure that the
10 reliability needs of the system are met without a need for (i) out-of-market backstop procurement
11 by the CAISO or (ii) IOU procurement on behalf of all LSEs.

12 **Q. Finally did any party other than AReM, DACC and MEA provide a proposal by which**
13 **LSEs could opt-out of CAM procurement?**

14 A. No. AReM, DACC and MEA submitted the only proposal on the record for LSE Opt-Out.²²
15 SCE and SDG&E were the only parties to address LSE Opt-Out in testimony and both
16 unequivocally oppose the concept. SCE provides a cryptic one-line comment with no
17 justification for its position.²³ SDG&E states its opposition to LSE opt-out,²⁴ asserting that such
18 an opt-out would provide the LSE with a “‘free ride’ on utility ratepayer expense.”²⁵ Of course,
19 SDG&E had not had the opportunity to review the proposal of AReM, DACC and MEA before
20 submitting its own testimony in this proceeding. As explained on pages 54 to 56 of my
21 testimony, LSEs would only be able to opt-out of megawatts designated for potential CAM
22 treatment *before* the IOU had entered into any CAM procurement contract. As AReM, DACC

²² See, AReM/DACC/MEA Testimony, pp. 50 -66.

²³ SCE Testimony, p. 2, lines 11 -12.

²⁴ SDG&E Testimony, p. 11, line 19.

²⁵ SDG&E Testimony, p. 12, line 4.

1 and MEA have testified, the proposed LSE Opt-Out *reduces* megawatts subject to CAM,
2 provides market incentives for ESPs and CCAs to enter into multi-year contracts for RA
3 capacity, and certainly does not provide any LSE with a “free ride at utility ratepayer expense.”

4 III. CALCULATION OF CAM

5 **Witness: Mark Fulmer**

6 **Q. SDG&E notes that it has “serious concerns regarding the administrative burden and delay**
7 **inherent in energy auctions” and suggests that a better alternative for determining CAM**
8 **costs would be one that “relies on public data to calculate how the relevant resource would**
9 **have operated had it been made available to the CAISO markets.”²⁶ It further called for**
10 **workshops to “explore this or other methods that could potentially be used to establish net**
11 **capacity costs.”²⁷ Is this consistent with your recommendations?**

12 A. Despite SDG&E’s reticence to fully embrace the energy auctions, I believe they should continue
13 to be available for determining net capacity costs of resources that are afforded CAM treatment.
14 However, as auctions are not mandatory, it is necessary for the Commission to adopt an
15 alternative mechanism for establishing net capacity value. In that regard, I note that the general
16 approach that SDG&E is advocating is consistent with the proposal by AReM, DACC and MEA
17 on pages 38 to 43 of my testimony. If the Commission finds this framework to be appropriate,
18 then I agree that workshops addressing the details of how to include all relevant inputs, including
19 those that might be outside of CAISO markets, may be needed.

20 **Q. Does this conclude your testimony?**

21 A. Yes.
22

²⁶ SDG&E Testimony, page 10, lines 6 -10.

²⁷ SDG&E Testimony, page 10, lines 11 -13.

ATTACHMENT

CAM PROCUREMENT APPROVED BY THE COMMISSION AS OF JULY 5, 2012

IOU Procurement with Costs Allocated to CCA/DA Customers

I. Cost Allocation Mechanism (CAM) Applicable Resources 1/

DA/CCA customers: 1) pay their share of the net costs (i.e. total costs less value of energy and ancillary services)and, 2) receive RA capacity benefits

	Commission					(Columns Added By Witness)	
	Decision	Type	Auction	Period	Utility	MWs	Source of MW number
Long Beach Generation, LLC	D.07-01-041	PPA	Yes	8/1/07 - 7/31/17	SCE	260	D.07-01-041, page 1
CPV Sentinel, LLC	D.08-04-011/ D.08-09-041	PPA	Yes	8/1/13 - 7/31/23	SCE	273	D.08-09-041, p 3
Blythe Energy, LLC	D.08-05-028	PPA	Yes	8/1/10 - 7/31/20	SCE	490	D.08-05-028, page 1
Wellhead Power Delano	D.08-09-041	PPA	Yes	6/1/12 - 5/31/22	SCE	48.5	D.08-09-041, p 3
Walnut Creek Energy, LLC	D.08-09-041	PPA	Yes	6/1/13 - 5/31/23	SCE	479	D.08-09-041, p 3
El Segundo Energy Center, LLC	D.08-09-041	PPA	Yes	8/1/13 - 7/31/23	SCE	500	D.08-09-041, p 3
Peakers	D.09-03-031	UOG	No	8/1/09 - 7/31/19	SCE	196	D.09-03-031, p 2
Marsh Landing Generation Station	D.10-07-045	PPA	No	5/1/13- 4/30/23	PGE	719	D.10-07-045 p 1
Westside Project PPAs	D.11-03-010	PPA	No	12/1/11 - 12/31/16	PGE	194	D.11-03-010, p 1
Competitive Asset Management Services	D.11-03-011	PPA	No	12/1/11 - 11/30/20	PGE	144	D.11-03-011, p 1

Calpine Energy Services, LP (Sutter Energy Center)	Resolution E-4471	PPA	No	7/1/12 - 12/31/12	PGE, SCE, SDGE	525	Resolution E-4471, p 1
Agnews (Calpine)	<i>Pending</i>	PPA	No	9/1/12 - 4/18/21	PGE	28	PG&E Advice Letter 4010-E, p 1
Los Medanos (Calpine)	<i>Pending</i>	PPA	No	1/1/13-12/31/17	PGE	555	CEC
Combined Heat and Power 2/:	D.10-12-035	Various	NA	Various	PGE, SCE, SDGE		4000 MW "target" per CARB Scoping Plan; quoted in D.10-12-035, p. 8
AB 1613 CHP Feed in Tariff (CHP up to and including 20 MW)							
Qualifying Facility PURPA Contract (all QFs up to and including 20 MW)						4,411.5	TOTAL APPROVED CAM MW, not including CHP
CHP RFO Contract (including RPS Eligible, Renewable CHP)							
Optional As-Available Contract (CHP)							
Transition Contract							
Bilaterally negotiated CHP PPAs							
IOU-owned CHP 3/							

Notes to CAM Table Provided by Energy Division:¹

1/ As a result of SB 695, the Commission issued D.11-05-005 modifying the new generation and long-term contract CAM previously adopted in D.06-07-029. D.11-05-005 eliminates the CAM "election" process and provides for the Commission to allow CAM if the new resource meets system or local reliability needs. In addition, D.11-05-005 changes the duration of CAM treatment from a 10-year period to match the duration of the underlying PPA, and allows CAM treatment for UOG. SDG&E's Product 2 Application, A.11-05-023, addressing SDG&E's cost allocation mechanism is pending before the Commission.

2/ Per the QF Settlement approved in D.10-12-035, the 3 IOUs are taking on GHG procurement and an increased GHG reduction target related to CHP for DA/CCA, therefore, GHG reductions are not allocated to DA/CCA customers.

3/ Term Sheet Section 4.7.1 notes that IOU-owned CHP counts towards the IOUs' GHG target for the Second Program Period, but not for the 3,000 MW target in the First Program Period. Section 4.9 notes that New "Behind the Meter" CHP systems, including SGIP, that do not export to the grid are part of the procurement options under the Settlement.

¹ Energy Division Staff provided the basic table to AReM and MEA on July 5, 2012. AReM, DACC and MEA witnesses added the MW amounts to the table as shown.