

Docket No.: R.12-03-014

Exhibit No.: \_\_\_\_\_

Date: August 8, 2012

Witnesses: Sue Mara and Mark Fulmer

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

1 **Q. Is the Commission’s review of CAM confined to modifications made by SB 695 and**  
2 **SB 790?**

3 A. No. The Commission previously recognized that it is necessary to conduct a full review  
4 of the CAM as implemented in D.06 -07-029. Specifically, in D.10 -06-018 (Track 2 R A  
5 Decision), the Commission promised to take a “comprehensive look” at the CAM,  
6 including identifying protocols by which retail choice LSEs could opt-out of  
7 responsibility for utility procurement.<sup>24</sup> Notably, this decision, which was approved nine  
8 months *after* passage of SB 695, committed to a broader review of the CAM,  
9 acknowledging that changes to the CAM involved more than SB 695 alone.<sup>25</sup>

10 **IV. CRITERIA AND PROCESS TO DETERMINE WHEN CAM IS**  
11 **APPLICABLE**

12 **Witness: Sue Mara**

13 **A. Key Considerations**

14 **Q. What are the key considerations in determining when CAM procurement should be**  
15 **authorized?**

16 A. Essentially, CAM procurement should be the exception, not the rule. Moreover, the  
17 Legislature has imposed guidelines the Commission must follow in imposing CAM  
18 charges on all customers. As noted above, CAM procurement must meet the conditions  
19 specified in P.U. Code Sections 365.1 (c) (2) (A), (B) and (C),<sup>26</sup> but also comply with the  
20 Commission objectives for the RA program set forth in P.U. Code Section 380 (b). ~~In~~  
21 ~~accordance with P.U. Code Section 366.2 (g), the Commission cannot authorize CAM~~  
22 ~~payments unless the associated benefits of the CAM project have been fairly and~~

---

<sup>24</sup> D.10-06-018, pp. 73-74.

<sup>25</sup> See, for example, D.10-06-018, Conclusion of Law Number 5, p. 80.

<sup>26</sup> As amended by SB 790.

1 | ~~equitably allocated to CCA customers.~~ In addition, as a condition precedent, the  
2 Commission must enforce the provisions of P.U. Code 454.5 that were established in AB  
3 57<sup>27</sup> and set the requirements the IOUs must meet to serve their bundled customer load.  
4 Moreover, the Commission must consider and apply its long-standing policy regarding  
5 cost causation<sup>28</sup> to ensure that the CAM procurement and associated allocation of benefits  
6 are properly designed and implemented. Finally, the Commission must fulfill its  
7 commitment to “competition and customer choice.”<sup>29</sup> This requires that the Commission  
8 make every effort to minimize CAM procurement, while continuing to ensure that  
9 reliability requirements are met.

10 ***1. Cost Causation Principles***

11 **Q. You have discussed the referenced P.U. Code sections in some detail above, but**  
12 **please explain how cost causation principles apply to CAM procurement?**

13 A. Using the principle of cost causation, the customers causing the particular need for the  
14 resource should pay for it. If the load of the bundled utility customers is driving the peak  
15 or decreasing the system load factor, then bundled customers should pay for the resources  
16 necessary to meet that need. In determining whether to apply CAM, the Commission  
17 should only do so when the need creating the costs can be attributed to *all* customers.

18 A recent Decision in the current RA proceeding, R.11-10-023, made a similar  
19 determination regarding cost causation and IOU bundled load in determining that  
20 revisions were required to the factor used in assigning RA requirements to LSEs. The

---

<sup>27</sup> Stats 2002, Ch 835.

<sup>28</sup> In its newly-approved OIR (R.12-06-013) to examine the IOUs’ residential rate structure, the Commission stated that “[d]eveloping equitable rates based on the principle of cost causation is one of the underlying goals of the Commission’s ratemaking process.” (p. 13, from Draft OIR, issued June 11, 2012)

<sup>29</sup> See, for example, D.06-07-029, p2, Conclusion of Law No. 11, p. 61; D.11-12-018, p. 4. Conclusion of Law No. 2, p. 108.

1 Applying this approach, if an IOU had a contract with a 500-megawatt (“MW”) steam  
2 plant, which was used primarily to serve bundled load and planned to retire or shut down  
3 within 5 years, the IOU would be required to include that 500 MW in its “unmet needs”  
4 as part of its AB 57 Bundled Procurement Plan. If the IOU later filed for Commission  
5 approval for CAM procurement to replace the 500-MW unit, the Commission would be  
6 required to reject the application. This Commission action is justified, even though a  
7 replacement unit is “needed to meet system or local area reliability needs for the benefit  
8 of all customers in the electrical corporation’s distribution service territory.”<sup>30</sup>

9 Specifically, the P.U. Code requires first that the IOUs’ bundled customers’ “unmet  
10 need” be met before any CAM procurement is considered or authorized. As indicated,  
11 the IOU’s proposed replacement unit is, in fact, needed to meet its bundled customer  
12 load. While incidental reliability “benefits” would likely accrue to “all” customers,  
13 bundled customers would benefit disproportionately more, because the customers of  
14 other LSEs would subsidize their “unmet needs.” At a minimum, authorizing CAM  
15 procurement for such replacement units would seem to run afoul of P.U. Code Sections  
16 366.2 (a) (4) and ~~366.3 (g)~~ 380 (b) (2), which prohibit cost shifting and paying for  
17 ~~benefits not received relative to CCAs.~~

18 Taking real-world examples, the Commission must enforce P.U. Code Section 454.5 and  
19 require the IOUs to procure to replace any unmet needs created by the closing of Once-  
20 Through Cooling (“OTC”) units used to serve bundled load. While true that closing  
21 these plants impairs reliability and replacing them “meets a reliability need,” P.U. Code

---

<sup>30</sup> PU Code, §365.1(c)(2)(A).

1           5. The Commission determines that the project identified in the Application benefits  
2           all customers within the IOU's service territory, including DA and CCA  
3           customers, by the way in which it meets the reliability needs specified by the  
4           CAISO, as required by P.U. Code Section 365.1 (c) (2) (B).

5           6. Local RA projects in an IOU's Local RA Area provide comparable reliability  
6           benefits, as specified by the CAISO, to all customers located in the entire IOU's  
7           service area, as required by P.U. Code Sections 365.1 (c) (2) (A); and 365.1 (c)  
8           (2) (B); ~~and 366.2 (g)~~. Projects that provide the specified reliability benefits  
9           primarily to customers located within the Local RA Area where the project will  
10          be developed must be rejected as inconsistent with the P.U. Code Sections noted.

11 **Q. How would the Commission determine that the IOU's Application has met the**  
12 **criteria?**

13 A. This is essentially a "check list" to be reviewed and assessed by the Commission for each  
14 CAM application submitted by the IOUs. The Commission would assess each criterion  
15 and determine if it has been met through consideration of the IOU's Application and  
16 accompanying testimony, evidence provided by parties, and the outcome of hearings if  
17 necessary. If the Commission's answer to each is "yes," then the Commission may  
18 authorize the CAM procurement. If any of the criteria is not met (*i.e.*, a "no" answer), the  
19 Commission must reject CAM as the applicable cost allocation treatment for the  
20 Application.

21 **Q. Your criteria do not specifically address cost causation. How is that concept**  
22 **incorporated?**

1 **Q: How should the energy auction terms approved in D.07-09-044 be modified?**

2 A: D.07-09-044 requires that the back-to-back toll product available for auction be limited to  
3 a term not to exceed five years.<sup>59</sup> This provision should be modified to restrict the  
4 auction products to a minimum of five-years, not a maximum. Longer term tolling  
5 products would more accurately reflect the incremental hedging value of the PPA.

6 **Q: How should the Joint Parties' Proposal be modified?**

7 A: The Joint Parties' Proposal should be modified to ensure that the full value of energy and  
8 other products is netted from the contract price. This includes full accounting for the  
9 value of all potential ancillary services the plant could provide, flexible capacity  
10 attributes, renewable integration costs and the options value associated with a long-term  
11 tolling contract. In particular, the calculation of the value of products and services that the  
12 plant may provide must include expected revenues from all applicable ancillary services  
13 products in CAISO markets, the imputed value derived from the use of the plant for self-  
14 provision of ancillary services by the IOU (if applicable and then at the value of the  
15 CAISO products), and the revenues expected from any additional products that become  
16 available. For example, the CAISO is currently developing a flexible ramping product to  
17 assist with integration of renewables, ~~which is currently scheduled for Board approval in~~  
18 ~~September.~~<sup>60</sup> The CAISO has also developed a black start and system restoration service  
19 to be approved at the July 2012 Board meeting. A plant able to provide this service will  
20 meet CAISO requirements but be paid by the transmission owners for the service.<sup>61</sup> This

---

<sup>59</sup> D.07-09-044, Appendix A, p. 5.

<sup>60</sup> <http://www.caiso.com/informed/Pages/StakeholderProcesses/FlexibleRampingProduct.aspx>

<sup>61</sup> [http://www.caiso.com/informed/Pages/StakeholderProcesses/Blackstart\\_SystemRestoration.aspx](http://www.caiso.com/informed/Pages/StakeholderProcesses/Blackstart_SystemRestoration.aspx)

1 Fifth, D.10-06-018 did not address how Senate Bill (“SB”) 695 modified the CAM,  
2 which I address ~~below~~ above.<sup>93</sup> The decision itself notes that SB 695 modified the CAM,  
3 but any necessary changes would be considered in a future proceeding.<sup>94</sup> Moreover, as  
4 discussed above, LSE Opt-Out is necessary to comply with SB 790, which requires the  
5 Commission to ensure CCAs are able to “maximize” use of generation resources of their  
6 own choosing to serve load.

7 **Q. Did SB 695 address the Commission’s concern in D.10-06-018?**

8 A. Yes. In D.10-06-018, the Commission stated a concern that prohibiting IOUs from  
9 opting-out of the CAM would “create a disincentive for IOUs to commit to new  
10 resources.”<sup>95</sup> However, the Commission determined in D.11-05-005 that SB 695  
11 eliminated the IOUs’ ability to elect the CAM.<sup>96</sup> In short, there should be no more  
12 concern about eligibility rules creating a disincentive for the IOUs to procure new  
13 resources.

14 In fact, the IOUs do not seem to be concerned about assuming an obligation to procure  
15 resources on behalf “all benefiting customers.” They proposed to expand CAM treatment  
16 to procurement of combined heat and power (“CHP”) facilities in a joint settlement,  
17 which the Commission approved in D.10-12-035.<sup>97</sup> If the IOUs, or the Commission for  
18 that matter, were significantly concerned that the IOUs would desire or require an opt-out  
19 from the CAM, the joint settlement and resulting Commission decision should clearly

---

<sup>93</sup> Specifically, the provisions of SB 695 embodied in PU Code § 356.1 (c) (2) (A).

<sup>94</sup> D.10-06-018, p. 75.

<sup>95</sup> D.10-06-018, p. 74.

<sup>96</sup> D.11-05-005, pp. 6-7; and Ordering Paragraphs 1 and 2, p. 19.

<sup>97</sup> D.10.12-035, pp. 11-12 and Ordering Paragraph No. 5, pp. 68 -69.