R.12-03-014
Alliance for Retail Energy Markets, Direct Access Customer Coalition and Marin Energy Authority
Interrogatory to The Utility Reform Network
September 14, 2012

Date for Objections: **September 18, 2012**

Response Due Date: **September 21, 2012**

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The following General Instructions apply to each interrogatory:

1. In response to each interrogatory, provide all relevant and responsive information reasonably available to TURN.

2. Each written response or objection should designate the specific interrogatory item under which it is being provided.

3. Identify each person who provided information used in answering each interrogatory.

4. Please include in your production all exhibits appended to or referenced in the requested analyses, testimony, discovery or presentation.

5. Please send all responses in electronic format to mef@mrwassoc.com sue.mara@rtoadvisors.com and douglass@energyattorney.com

6. Please note that all interrogatories refer to Exhibit TURN-2, the reply testimony of TURN witness Kevin Woodruff.

Thank you.

1) **At p. 3, lines 16-20, witness Woodruff states that all "share equally in the 'good' of grid reliability;" and that as there is no difference in service reliability, all should "expect to pay equally" for new generation. Please provide the relevant statute that applies this criterion to CAM procurement?**

   This expectation is implicit in Section 365.1(c)(2)(A) of the Public Utilities Code, added by Senate Bill 695, which directed the Commission to allocate to all benefitting customers the net capacity costs of "generation resources that the commission determines are needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation's distribution service territory".

2) **Does any new resource added to the grid improve grid reliability?**

   Any new resource added to the grid should improve grid reliability, although the benefits may be *de minimus* if resources sufficient to meet the Planning Reserve Margin already exist.

   a) **If a new resource improves reliability and all customers have the same service reliability, should all customers pay for the new resource?**

   Not all customers should necessarily pay for all new resources. But if a hypothetical new resource is necessary to meet reliability criteria, then all customers should expect to pay proportionately for the resource.

   b) **When the City of Palo Alto adds a resource, do all customers of PG&E pay for it?**

   Under most circumstances, TURN anticipates that PG&E customers would not pay for a resource added by the City of Palo Alto.

   c) **When the Marin Energy Authority adds a resource do all customers of PG&E pay for it?**

   Under most circumstances, TURN anticipates that PG&E customers would not pay for a resource added by the Marin Energy Authority.

d) Does TURN's statement regarding sharing in the "good" of grid reliability only apply when the IOUs add a resource?

No. All electricity customers generally share equally in the "good" of grid reliability regardless of which entity adds a resource.

e) Can you think of any new resource added to the grid that would <u>not</u> improve grid reliability?

It is possible that one or more resources added to the grid would improve reliability so trivially as to be virtually equal to zero. However, no new resource should diminish grid reliability.

3) **Do all LSEs, including the IOUs, have to meet RA requirements that include an obligation to provide RA capacity equal to at least 115% of their peak load?**

All CPUC jurisdictional Load-Serving Entities need to meet Resource Adequacy requirements equal to at least 115 percent of their monthly peak load.

4) **If an IOU has a Power Purchase Agreement (PPA) for capacity and energy used to serve its load and that PPA terminates, does the IOU need to obtain replacement capacity and energy to continue to serve its load and meet its RA requirements?**

If the IOU cannot meet its RA obligations without that PPA, then the IOU will need to replace at least part of the capacity provided by the PPA to meet its RA requirements. The IOU will also need to replace the energy provided by the PPA, but may do so by different means than it uses to replace its RA capacity.

a) Could the replacement PPA be from either new or existing generation?

Energy needs and RA requirements can be met by either new or existing generation.

b) Is it TURN's position that existing Direct Access (DA) and Community Choice Aggregation (CCA) customers should be required to pay a portion of the costs of the replacement PPA if the contract was for new generation?

TURN assumes AReM/DACC/MEA are asking about the hypothetical IOU PPA referenced in prior sub-parts of this question. If the replacement PPA is for new capacity the CPUC has determined is necessary to maintain reliability, then DA and CCA customers should pay a portion of the plant's net costs consistent with current Cost Allocation Methodology policy. Otherwise, No.

c) **Would DA and CCA customers be required to pay a portion of the costs even if this new contract would be replacing one that was needed solely to serve the bundled customer load?**

See answer to subpart b) above.

5) **At p. 3, lines 25-28 and p. 4, lines 24-26, witness Woodruff says that parties that pay more than their "proportionate share" of new resources will pay more than their proportionate share for grid reliability.**

a) **Do you conclude that the AReM/DACC/CCA proposals should be rejected because it would result in DA and CCA customers paying "less" than a "proportionate share" of the costs of maintaining reliable electric service?"**

Yes.

b) **Where is this concept of a requirement to pay for a "proportionate share of grid reliability" found in statute?**

See answer to Question 1 above.

c) **Does adding dispatchable Demand Response (DDR) add reliability?**

Adding dispatchable Demand Response should increase reliability, even if only by a *de minimus* amount, and should not hurt reliability.

d) **When Energy Service Providers (ESPs) or CCAs add generation or DDR, does that enhance grid reliability?**

ESP or CCA additions of generation or DDR should also enhance grid reliability, even if only by a *de minimus* amount, and should not hurt reliability.

e) **Would the IOUs or bundled customers pay any of the costs of this enhanced grid reliability?**

Generally, no.

f) **How would those additions by ESPs or CCAs that enhance grid reliability factor into your concept of "proportionate share of grid reliability"?**

By paying for ESP- or CCA-sponsored generation or DDR resources that contribute to grid reliability, ESPs and CCAs should be making a proportionate financial contribution toward grid reliability.

g) **Witness Woodruff states on pp. 4-5 that new resources are more costly than existing and that DA and CCA customers are attempting to escape these higher costs [for example, p. 4, lines 6-12].**

i. **Isn't it true that the relative costs of new versus existing resources change over time?**

Yes. But given the current surplus of generation capacity, TURN anticipates that new generation will continue to be more costly than existing generation.

ii. **Do you recall a period of time when the situation was reversed and existing resources were more costly than new resources?**

Not in recent years in California.

iii. **If that were the case, would you modify your position?**

If "existing resources were more costly than new resources" there would likely not be a need to allocate among customers the costs of new resources needed to maintain reliability.

6) **At p. 6, lines 17-19, witness Woodruff states that the proposed opt-out "virtually guarantees that DA and CCA customers would take no responsibility for new capacity needed to meet load reliably." Are you aware that the AReM/DACC/MEA opt-out proposal requires the LSE to meet the resource requirements specified by the CPUC, so if new generation is required by the**

CPUC, the LSE's opt-out procurement must also be "new?" (*See, AReM testimony p. 58, lines 7-9, p. 60, lines 6-8, and p. 62, lines 16-19.)*

The lines cited from the AReM/DACC/MEA testimony appear to be summarized correctly.

7) **At p. 7, lines 25-26, witness Woodruff states that the opt-out proposal "would apparently allow suppliers of DA and CCA customers to comply with local RA requirements by simply contracting for existing generation for a period of five years." Given the clarification provided in the prior question, do you now agree that this is not the case and that new generation must be provided to opt-out of new IOU procurement?**

   It appears that if the Commission specifies that specific reliability needs be met with new resources, the ESPs' and CCAs' opt-out procurement would need to share in that obligation as well. But TURN still questions whether the five-year requirement could result in the construction of new capacity.

8) **At p. 7, lines 1-3, witness Woodruff states that financiers will not support a contract of only five years in length. Do you agree that, if an ESP or CCA cannot find a project to meet the requirements of the opt-out, they simply won't apply for it?**

   TURN would like to believe that ESPs and CCAs would not apply to the Commission for an "opt out" based on a project for which they cannot obtain financing.

9) **Is it also true that the CPUC must approve the requested opt-out in the AReM/DACC/MEA proposal?**

   TURN believes that CPUC approval is part of the AReM/DACC/MEA proposal.

10) **Does the opt-out provide an incentive for ESPs and CCAs to enter into long-term contracts?**

    Possibly. But the five-year minimum term is not sufficient to gain financing for new resources. And TURN is generally skeptical the incentives provided will outweigh the disincentives ESPs and CCAs have against entering such contracts.

11) **Do you agree that to the extent the Commission approves any specific opt-out proposal it will <u>reduce</u> CAM procurement by the IOUs?**

Commission approval of an opt-out proposal might reduce IOU CAM procurement, depending on the design of the program and the amount of generation actually procured pursuant to such an opt-out.