

November 2, 2012 L. Jan Reid

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans.

Rulemaking 12-03-014
(Filed March 22, 2012)

COMMENTS OF L. JAN REID ON PROCUREMENT RULES

November 2, 2012

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I. Introduction

Pursuant to the October 4, 2012 ruling (Ruling) of Administrative Law Judge (ALJ) David Gamson, I submit these comments on procurement rules in the Long Term Procurement Plan (LTPP) proceeding.

II. Summary and Recommendations

I have relied on state law and past Commission rulings in developing recommendations concerning the standardized planning scenarios. I recommend the following:¹

1. The Commission should defer acting on flexible resource procurement policies until the Commission determines the need and value of flexible resources. (p. 2)
2. The Commission should order the IOUs to evaluate RA products in exactly the same way that they evaluate other capacity contracts, such as fossil fuel tolling contracts. (pp. 2-3)

III. Proposed Findings

My recommendations are based on the following proposed findings:

1. IOU ratepayers are not indifferent to the dispatch costs associated with RA contracts. (pp. 2-3)
2. The Commission has an obligation under Public Utilities Code Section (PUC §) 451 to protect ratepayers and ensure that rates are just and reasonable. (pp. 2-3)

¹ Citations for these recommendations and proposed findings are given in parentheses at the end of each recommendation and finding.

IV. Flexible Resources

It is premature to adopt policies for the procurement of flexible resources. The Commission has not yet established an exact need nor a value for flexible resources. Until the Commission establishes such a value, the investor-owned utilities (IOUs) should not attempt to account for the value of flexible resources in their procurement activities. Therefore, I recommend that the issue of flexible resource procurement policies be deferred until the Commission determines the need and value of flexible resources.

V. Resource Adequacy

The Commission has implied that it wishes to preserve competition in the Resource Adequacy (RA) market.² Suppliers of RA products should be able to compete on a total estimated cost basis, and not on price alone. For example, a plant with a low heat rate is more valuable than a plant with a high rate and that value will be reflected in the plant's RA bid.

The IOUs should evaluate RA products in exactly the same way that they evaluate other capacity contracts. For example, the IOUs should evaluate an RA bid based on factors such as heat rate, startup costs, expected natural gas prices, and estimated greenhouse gas costs.

The dispatch of RA contracts is controlled by the California Independent System Operator (CAISO) and not by the IOUs. However, this does not mean that IOU ratepayers are indifferent to the total costs associated with RA contracts. If the CAISO dispatches a RA contract, the contract costs will be incorporated into the CAISO's grid charge. The grid charge will be paid by all

² Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (Scope), May 17, 2012, p. 12, Item 2.

participants in the CAISO market on a pro-rata basis, including the IOUs. I note that the bulk of the CAISO grid charges will be paid by IOU ratepayers since the IOUs are responsible for most of the load in the CAISO's service territory.

IOU ratepayers have an economic interest in the total cost of RA products, and not just in the initial capacity costs paid by the IOUs. The Commission has an obligation under Public Utilities Code Section (PUC §) 451 to protect ratepayers and to ensure that rates are just and reasonable. Consistent with PUC § 451, the Commission must protect ratepayers from potentially unreasonable resource costs associated with price-only evaluation of RA bids.

Therefore, I recommend that the Commission order the IOUs to evaluate RA products in exactly the same way that they evaluate other capacity contracts, such as fossil fuel tolling contracts.

VI. Conclusion

The Commission should adopt Reid's recommendations for the reasons given herein.

* * *

Dated November 2, 2012, at Santa Cruz, California.

/s/ _____

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