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 PROPOSED DECISION

Sue Mara
RTOADVISORS, L.L.C.
164 Springdale Way
Redwood City, CA 94062
Telephone: (415) 902-4108
E-mail: sue.mara@rtoadvisors.com

Consultant to
ALLIANCE FOR RETAIL ENERGY MARKETS

June 24, 2013

TABLE OF CONTENTS

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 PROPOSED DECISION

The Alliance for Retail Energy Markets ("AReM")[1] submits this reply to comments filed June 17, 2012 on the Proposed Decision ("PD") entitled *Decision Adopting Local Procurement Obligations for 2014, a Flexible Capacity Framework, and Further Refining the Resource Adequacy Program,* which was issued by Administrative Law Judge David M. Gamson on May 28, 2013.

I. CLARIFY THE REPORTING REQUIREMENTS FOR 2014 AND POSTPONE A DECISION ON A MANDATE FOR 2015.

AReM supports the PD's proposal to require load-serving entities ("LSEs") to report their procurement of flexible capacity for the 2014 Resource Adequacy ("RA") compliance year for informational purposes. However, AReM agrees with the clarifications recommended by Noble Americas Energy Solutions LLC ("Noble").[2] First, Ordering Paragraph No. 6 of the PD should be revised to clarify that the reporting requirement for flexible RA capacity is a subset of the existing RA requirements and that the LSE would show the flexible capacity available in 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] Noble Comments, pp. 2-4.

Local and System RA units it has procured to meet its RA requirements. For System RA, the LSE would thus show the flexible capacity included in meeting 90% of its System RA requirements for the summer months of May to September. In short, AReM concurs with Noble that, for the 2014 informational reporting requirement, the existing RA process should continue with the simple addition of the requirement to report the flexible capacity contained in the units procured.

Noble also highlighted confusing language in the PD about *what* is to be reported, noting that the Commission reserved the right to penalize LSEs who fail to comply.[3] Southern California Edison Company[4] ("SCE") and San Diego Gas & Electric Company[5] ("SDG&E") raised similar concerns. Specifically, Ordering Paragraph Number 6 requires that "all" qualified flexible resources are to be reported, not just those used to demonstrate compliance with the LSE's flexible capacity target. AReM agrees that the PD should be clarified to state that LSEs are to report only the flexible RA capacity contained in the RA units procured to meet their System and Local RA requirements and that "enforcement" would only be considered if an LSE failed to comply with this reporting requirement for 2014.

In addition, AReM concurs with The Utility Reform Network ("TURN") that the Commission should reserve final judgment on whether a flexible procurement mandate is required for 2015.[6] As previously stated, AReM remains concerned that an LSE procurement mandate fails to address or appropriately mitigate the causes of the "duck curve" offered by the California Independent System Operator ("CAISO").[7] Integrating the flexible resource

[3] Noble Comments, pp. 2-3.
[4] SCE Comments, pp. 1-3;
[5] SDG&E Comments, pp. 2-3.
[6] TURN Comments, pp. 2-3.
[7] *Reply of the Alliance for Retail Energy Markets,* R.11-10-023, April 15, 2013, pp. 1-4.

requirements into the ancillary service markets needs to be more fully evaluated as well as market mechanisms employed in other organized markets. The Commission should only impose a flexible RA procurement "mandate" to the extent other efficient and cost-effective market mechanisms have been explored and found to be inadequate.

Moreover, AReM agrees with the California Large Energy Consumers Association ("CLECA")[8] that the Commission should explore to what extent dynamic load and shifting of that load through changes to retail rate structures can mitigate the "duck curve," thereby reducing flexibility needs. As AReM previously suggested, whether and how to use retail rates structures to meet the requirements of increasing intermittent resources is another area of ongoing activity that should be allowed to progress further before flexible RA procurement requirements are imposed.[9]

II. ALLOCATION OF FLEXIBILITY REQUIREMENTS MUST FOLLOW COST CAUSATION PRINCIPLES.

The PD specifies that the 2014 flexible RA procurement target be allocated to LSEs monthly based on the LSE's pro-rata share of the monthly coincident peak load.[10] This blunt allocation method does not follow cost causation principles, especially considering that the CAISO has clearly demonstrated that the highest flexibility needs occur in the shoulder months, well outside of the peak months in California. AReM supports the comments of the Concentrating Solar Power Alliance ("CSPA"), which recommends that the Commission coordinate with the CAISO to develop an allocation mechanism that better reflects an LSE's

---

[8] CLECA Comments, pp. 3-4.

[9] *Reply of the Alliance for Retail Energy Markets, loc. cit.*, p. 3.

[10] PD, Appendix A, p. 4.

contribution to net load ramps.[11] As CSPA points out, basing the allocation on peak load share provides the wrong economic incentives, which increases costs for California consumers.[12] AReM also notes that the CAISO's revised straw proposal issued June 13, 2013 proposes an allocation method that moves closer toward cost causation.[13] While the CAISO's approach is a good first step, more work is needed to ensure that allocation of flexible procurement requirements to LSEs follows cost causation and sends the proper price signals. Because only informational reporting of flexible resources is required for the 2014 compliance year, the PD's proposed load-ratio share allocation could apply as an interim method for that year. However, going forward, AReM urges the Commission to determine the optimal approach for proper cost causation and to adopt that approach for the long term.

III. THE COMMISSION MUST ENSURE THAT RA CAPACITY PROCURED BY UTILITIES THROUGH THE COST ALLOCATION MECHANISM IS TIMELY ALLOCATED TO LSES.

SCE requests that the Commission commit to calculating and allocating the flexible RA capacity available through utility procurement pursuant to the Cost Allocation Mechanism ("CAM"), so that non-utility LSEs are able to count those resources toward their 2014 reporting requirements.[14] Marin Energy Authority ("MEA") makes a similar request.[15] AReM concurs. Direct access customers are paying their proportional share of the CAM capacity costs and would find themselves paying twice for flexible capacity, if the CAM allocations are not timely provided to their electric service providers ("ESPs"). AReM recommends that the Commission

---

[11] CSPA Comments, p. 10.

[12] *Ibid.*

[13] *Flexible Resource Adequacy Criteria and Must-Offer Obligation*, CAISO, Revised Straw Proposal, June 13, 2013, pp. 12-15.

[14] SCE Comments, p. 7.

[15] MEA Comments, p. 4.

staff provide each LSE's share of the Effective Flexible Capacity of a CAM resource at the same time the staff provides the LSE's RA capacity credit for the CAM resource.

IV. THE COUNTING RULES FOR COMBINED CYCLE GAS TURBINES SHOULD BE ADDRESSED.

Calpine Corporation ("Calpine") reiterates its concern that the proposed rules for qualifying to provide flexible capacity may artificially limit the availability of combined cycle gas turbines ("CCGT").[16] Calpine requests that Finding of Fact Number 20 in the PD be modified to specify that the forthcoming workshops will include consideration of appropriate counting rules for CCGTs.[17] AReM supports this request. CCGTs are readily available to ESPs for procurement in the RA market and limitations on their use further shrinks that market, which will increase costs for consumers. Accordingly, the Commission should work with the CAISO to set forth reasonable counting rules for CCGTs that fully recognize their flexible capabilities.

Respectfully submitted,

Sue Mara

Sue Mara
RTOADVISORS, L.L.C.
164 Springdale Way
Redwood City, CA 94062
Telephone: (415) 902-4108
E-mail: sue.mara@rtoadvisors.com

Consultant to
ALLIANCE FOR RETAIL ENERGY MARKETS

June 24, 2013

[16] Calpine Comments, p. 2.
[17] Calpine Comments, p. 3.