

**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 ENERGY DIVISION'S PROPOSALS**

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

March 3, 2014

TABLE OF CONTENTS

I. PARTIES OVERWHELMINGLY AGREE THAT RESOURCES PROCURED OUT-OF-AREA WITH COSTS RECOVERED THROUGH THE COST ALLOCATION MECHANISM (“CAM”) MUST HAVE THEIR RESOURCE ADEQUACY (“RA”) VALUE ALLOCATED TO LOAD-SERVING ENTITIES (“LSES”).	1
II. PARTIES’ COMMENTS INDICATE DISCONNECTS BETWEEN CAISO AND CPUC PROPOSALS.	3
III. PARTIES SUPPORT A TRUE-UP FOR FLEXIBLE CAPACITY RA BENEFITS FROM CAM RESOURCES AND RECOMMEND ADDITIONAL CLARIFICATIONS.	4
IV. NO JUSTIFICATION FOR NEW MCC BUCKETS.	5
V. CONCLUSION.	6

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 ENERGY DIVISION’S PROPOSALS**

The Alliance for Retail Energy Markets (“AReM”)¹ submits this reply in accordance with the direction in the *Phase 3 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (“Phase 3 Scoping Memo”), issued August 2, 2013, which set this date for filing reply to comments filed February 18, 2014 on proposals issued by Energy Division staff (“Staff Proposals”) on January 16, 2014 and on workshops held in December 2013 and January 2014.

I. PARTIES OVERWHELMINGLY AGREE THAT RESOURCES PROCURED OUT-OF-AREA WITH COSTS RECOVERED THROUGH THE COST ALLOCATION MECHANISM (“CAM”) MUST HAVE THEIR RESOURCE ADEQUACY (“RA”) VALUE ALLOCATED TO LOAD-SERVING ENTITIES (“LSES”).

Nearly all parties,² including AReM, oppose the Staff’s Proposal to eliminate the RA benefits provided to LSEs when CAM resources are procured outside of the service territory of

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 In addition to AReM, the parties recommending rejection are: California Cogeneration Council, Cogeneration Association of California, Calpine, NRG Energy, Inc. (“NRG”), Office of Ratepayer

the utility procuring the resources.³ Several parties propose solutions to the out-of-area procurement, such as using the Path 26 allocations to “move” the RA value to the procuring utilities’ service area, as proposed by AReM and others,⁴ or “netting” the out-of-area procurement, as proposed by Southern California Edison (“SCE”).⁵ AReM supports these alternatives, each of which would allow customers to receive the associated RA value for their customers’ CAM payments and ensure compliance with statutory requirements and Commission directives.

In particular, AReM agrees with SCE that netting the out-of-area CAM resources is a logical first step. Any remaining MWs of CAM resources that could not be netted should be allocated to the appropriate LSEs, who can then use their Path 26 allocations as needed to “move” the RA value. However, AReM reiterates that it does not support SCE’s proposal for taking any unnetted RA value of these CAM resources “off the top” of the Path 26 allocation. SCE’s approach would disadvantage LSEs with load in multiple utility service areas by unilaterally reducing their Path 26 allocations and thereby limiting their flexibility and options for managing their RA portfolio. Further, because this netting proposal has been introduced through filed comments, AReM requests that, if it is adopted, Energy Division host a workshop or provide templates or calculations detailing how netting will be implemented to ensure all parties understand the process and competitive neutrality is maintained.

Advocates, Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Edison Company, and The Utility Reform Network. The only party supporting the Staff’s CAM proposal is the California Independent System Operator.

³ RA Implementation Proposal, p. 4.

⁴ Other parties mentioning the Path 26 option include NRG, ORA, and PG&E.

⁵ SCE, p. 14. SCE states on p. 15 that the netting proposal would “reduce each LSE’s share of the CAM benefits,” but this statement was in error. Conversations with SCE’s technical staff indicate that SCE agrees that the netting proposal would allow each LSE to receive full RA value for the CAM resource.

II. PARTIES' COMMENTS INDICATE DISCONNECTS BETWEEN CAISO AND CPUC PROPOSALS.

A number of parties noted differences between the Staff Proposals and the proposals of the California Independent System Operator (“CAISO”) in its Flexible Resource Adequacy Capacity—Must Offer Obligation (“FRACMOO”) stakeholder efforts.⁶ These differences were underscored by the CAISO, which requested in one instance that the Energy Division replace its Effective Flexible Capacity (“EFC”) calculation method for energy storage with the CAISO’s method,⁷ and, in another instance, proposed a process for handling disparities between the EFC values calculated by the CAISO and the FC values calculated by the CPUC.⁸ As AReM noted in its February 24th comments on Energy Division’s Flexible Capacity proposals, disparities that exist between the two organizations’ proposals create uncertainty for market participants regarding protocols and compliance requirements and, until they are resolved, will hamper procurement efforts, leading to inefficiencies, unnecessary procurement costs, increased risk of non-compliance, and further diminution of the competitive markets and customer choice that both organizations profess to support.⁹ Accordingly, AReM reiterates the critical need for the two organizations to work together to resolve these disparities and present a unified set of proposals to market participants.

⁶ See, for example, the comments on counting rules for energy storage of the Joint LDES Companies, CESA, and Sierra Club/Vote Solar.

⁷ CAISO, pp. 13-14.

⁸ CAISO, p. 12.

⁹ *Comments of the Alliance for Retail Energy Markets on Energy Division’s Flexible Capacity Proposals Dated February 10, 2014*, R.11-10-023, February 24, 2014, p. 2.

III. PARTIES SUPPORT A TRUE-UP FOR FLEXIBLE CAPACITY RA BENEFITS FROM CAM RESOURCES AND RECOMMEND ADDITIONAL CLARIFICATIONS.

In addition to AReM, SCE¹⁰ and San Diego Gas & Electric Company (“SDG&E”) requested that the Staff modify its proposal to provide a true-up for the Flexible RA benefits from CAM resources, after Staff issues the final year-ahead allocation in September.¹¹ In fact, AReM¹² and SDG&E¹³ both proposed that the Staff provide quarterly updates and AReM urges Staff to accept this modification.

SDG&E also proposed additional clarifications that AReM supports. First, SDG&E requested that Staff specify the associated EFC Categories for each LSE’s Flexible CAM allocations.¹⁴ AReM concurs that this information is critical to ensure proper compliance and minimize over-procurement by LSEs. Second, SDG&E recommends clarifying the requirement that the utilities provide a complete list of all “committed” flexible CAM resources by requiring that all contracted or procured CAM resources be reported by the utilities before the July RA credit allocations.¹⁵ AReM concurs with these common sense proposals and urges their adoption.

On the other hand, Pacific Gas and Electric Company (“PG&E”) requests clarifying Staff’s reference to “committed” flexible CAM resources by requiring “that only flexible capacity committed in RA plans would have allocated benefits.”¹⁶ AReM opposes this “clarification.” As AReM has previously explained, ALL CAM procurement by the utilities carries with it an obligation

¹⁰ SCE, p. 18.

¹¹ RA Implementation Proposal, p. 7.

¹² AReM, p. 7.

¹³ SDG&E, p. 10.

¹⁴ SDG&E, p. 9.

¹⁵ SDG&E, pp. 9-10.

¹⁶ PG&E, p. 14.

that the associated RA benefits must be allocated to the customers paying for the CAM resource for their LSEs to use in meeting their RA requirements.¹⁷ PG&E's proposed clarification would limit Flex RA benefits only to those CAM resources the utilities decide to include in their RA plans. Thus, if a utility was long on RA, PG&E's apparent position is that it could choose to exclude the CAM resource from its RA plan, and then no RA value would flow to the customers paying for the resource. Clearly, the applicable statute provides utilities no such option. While PG&E can choose whether to include a specific CAM resource in its RA plans, it cannot choose whether the RA value of a CAM resource is allocated. If CAM is authorized, the customers paying the CAM charge must receive the associated RA benefits and the utility has no ability to pick and choose when the RA benefits apply. Accordingly, PG&E's clarification should be rejected and the Staff proposal should be clarified to ensure that all CAM resources provide the associated RA benefits to the customers' LSEs at all times.

IV. NO JUSTIFICATION FOR NEW MCC BUCKETS.

SCE proposes adding a new MCC "bucket" with a 2-hour limit that would apply for energy storage and supply-side demand response ("DR") resources.¹⁸ In fact, MCC buckets are unrelated to the real issue -- defining reasonable minimum requirements by which energy storage and DR resources qualify to provide Flexible RA Capacity. As explained in the Staff Proposals, the EFC categories proposed by both the CPUC and CAISO (although with differences on how they are defined) are intended to address use limitations of RA resources and identify the minimum Flex Capacity requirements for resources. Moreover, Staff has proposed eliminating

¹⁷ Public Utilities Code Section 365.1(c)(2)(B): "The resource adequacy benefits of generation resources acquired by an electrical corporation pursuant to subparagraph (A) **shall be allocated** to all customers who pay their net capacity costs." (emphasis added)

¹⁸ SCE, pp. 11-12.

MCC buckets in a separate proposal. ¹⁹ SCE's proposal would impose additional compliance requirements on LSEs without any consideration of whether there are benefits sufficient to outweigh the costs.. AReM requests that SCE's proposal either be rejected or included in an overall re-evaluation of the MCC buckets if the Commission elects to delay a decision on their elimination.

V. CONCLUSION.

AReM appreciates the opportunity to provide reply to comments filed by parties regarding Staff Proposals.

Respectfully submitted,



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

March 3, 2014

¹⁹ *Staff Proposals on the Implementation of Flexible Capacity Procurement Framework*, issued by Energy Division staff on February 10, 2014, p. 16.