

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Consider Refinements
to and Further Development of the Commission's
Resource Adequacy Requirements Program.

R.05-12-013
(Filed December 15, 2005)

**LOCAL RESOURCE ADEQUACY REQUIREMENT PROPOSAL
OF THE INDEPENDENT ENERGY PRODUCERS ASSOCIATION**

GOODIN, MACBRIDE, SQUERI,
RITCHIE & DAY, LLP
Brian T. Cragg
505 Sansome Street, Suite 900
San Francisco, CA 94111
Telephone: (415) 392-7900
Facsimile: (415) 398-4321
Email: bcragg@gmsr.com

Date: January 24, 2006

Attorneys for the Independent Energy Producers
Association

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On October 27, 2005, in Decision (“D.”) 05-10-042, the Commission’s Opinion on Resource Adequacy Requirements (“RAR”), the Commission directed investor-owned utilities and authorized other parties to file proposals for implementation of a local RAR within 75 days of the date of that decision. On December 14, 2005, Executive Director Steve Larson granted a two-week extension for the filing of the local RAR implementation proposals. Pursuant to the Commission’s authorization and the Executive Director’s extension, the Independent Energy Producers Association (“IEP”) submits its proposal for implementation of the local RAR.

IEP is not in a position to present a detailed proposal for local RAR implementation, but IEP offers some basic points that the Commission should bear in mind as it implements the local RAR.

I. THE COMMISSION MUST ADHERE TO ITS ANNOUNCED SCHEDULE AND IMPLEMENT THE LOCAL RAR AS PART OF THE 2007 RAR

As the Commission has recognized, local requirements are at the heart of resource adequacy. As stated in IEP’s comments on the draft decision that was eventually adopted as

D.05-10-042, IEP was concerned that the Commission's failure to adopt some form of a local RAR for 2006 might undermine the reliability of the grid. Time will tell if IEP's concerns for 2006 are justified,¹ but at this point it is essential for the Commission to carry out its stated intent to adopt a local RAR for 2007. To carry out the Commission's goal "that the local RAR component should be implemented for compliance year 2007," the local RAR requirement must be part of the Load-Serving Entities' ("LSEs") annual compliance filing that is due on October 2, 2006. To meet this deadline, the Commission must also meet its intended goal of adopting the local RAR program elements by June 2006.

These dates underscore the need for quick, focused action on the local RAR. Because of the various notice and comment requirements that must be met before the Commission can issue its decision on the local RAR, only a few months are available for development of the details of the local RAR. IEP strongly urges the Commission to take all steps necessary to stay on schedule.

II. THE ROLE OF THE CAISO

The California Independent System Operator Corporation ("CAISO") will necessarily be closely involved in the development, implementation, and administration of the local RAR. As the operator of the transmission grid for much of California, the CAISO will play a key role in identifying the areas of transmission congestion that define the local areas and quantifying the amount of local generation that is needed to maintain the reliability of the system.

Because of the CAISO's central role in implementation of the local RAR, the

¹ IEP's proposed Reliability Capacity Services Tariff, currently under consideration at the Federal Energy Regulatory Commission, would help ward off reliability problems if it is in effect by this summer.

CAISO should take a lead role, in close cooperation with the Commission, in the administration of the local RAR. If the Commission places the primary responsibility for administering the local RAR with the CAISO, one result would be the additional benefit that all participants in the CAISO, and not just the investor-owned utilities under the Commission's jurisdiction, can be part of the local RAR implementation. Reliability is a system-wide issue, and solutions like the local RAR should also be system-wide in scope.

III. OPERATIONAL REQUIREMENTS SHOULD DETERMINE LOCAL REQUIREMENTS

Although the Commission's creation of the RAR was intended to promote appropriate reliability planning, ensuring that the operational requirements of the grid are satisfied should drive the development of specific local requirements. It follows that planning guidelines used to analyze transmission and generation requirements must fully reflect the operational requirements of the grid. LSEs' compliance with prescribed planning criteria will be of little comfort or significance if operational requirements are not met and the reliability of the grid is jeopardized.

IEP notes that there was considerable confusion and controversy last year over the CAISO's preliminary evaluation of local area requirements, and uncertainty over the basis for the CAISO's estimates was given as a reason for the Commission to postpone implementation of the local RAR for one year. To avoid any further potential for confusion, it may be helpful for the CAISO to explain the basis for its evaluation and to clarify that the evaluation was based on *existing* resources and reliability levels.

IV. THE PROCESS TO DEVELOP LOCAL REQUIREMENTS SHOULD BE TRANSPARENT AND INCLUSIVE

Because the foundation for local requirements is the reliability and security of the bulk power grid, some parties may propose to work through the details of how to implement

these requirements in a controlled, non-public forum. However, as IEP has argued in the confidentiality proceeding (R.05-06-040), developing local requirements in a less-than-fully public setting, with the possibility of heavily redacted documents, closed hearings, and sealed transcripts, will produce suboptimal results.

Limiting participation in the development of the local RAR may lead to an overlooking of factors that should be placed in the balance to reach the best outcome. For example, installing load-dropping remedial action schemes (which may reduce the amount of local generation requirements) may at times seem more cost-effective than upgrading transmission or increasing local generation. But remedial action schemes expose more load to interruption and increase the risk of shedding load due to malfunction. Furthermore, remedial action schemes do not provide some of the ancillary benefits that local generation provides, such as voltage and inertia support. The process of weighing the costs and benefits of remedial action schemes against the costs and benefits of local generation cannot take place in a procedural setting that limits the ability of all affected parties, including representatives of the Commission, transmission owners, load, generation, the CAISO, ratepayers, and the general public, to provide their perspectives so that the Commission has all information necessary to develop the best answers to the crucial questions addressed in this proceeding.

V. ONLY PHYSICAL CAPACITY SHOULD BE ALLOWED TO COUNT FOR MEETING THE LOCAL RESOURCE ADEQUACY REQUIREMENT

In D.05-10-042, the Commission permitted non-unit specific (Firm LD) contracts to count toward the RAR for three years, including 2007. Because local areas are defined in large extent by transmission congestion that limits the deliverability of external generation to load within the local area, it does not make definitional or operational sense to count Firm LD contracts toward any the local RAR capacity requirements.

VI. CONCLUSION

IEP appreciates this opportunity to offer these basic points for the Commission's consideration, and IEP looks forward to participating in the process that will lead to the implementation of the local RAR in 2007.

Respectfully submitted this January 24, 2006 at San Francisco, California.

GOODIN, MACBRIDE, SQUERI,
RITCHIE & DAY, LLP
Brian T. Cragg
505 Sansome Street, Suite 900
San Francisco, California 94111
Telephone: (415) 392-7900
Facsimile: (415) 398-4321

By /s/ Brian T. Cragg
Brian T. Cragg

Attorneys for the Independent Energy
Producers Association

CERTIFICATE OF SERVICE

I, Jan Van Dusen, certify that I have on this 24th day of January 2006 caused a copy of the foregoing

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to be served on all known parties to R.05-12-013 via e-mail to those listed with e-mail on the attached service list, and via U.S. mail to those without e-mail service. I also caused courtesy copies to be hand-delivered as follows:

President Michael R. Peevey
California Public Utilities Commission
505 Van Ness Avenue, Room 5218
San Francisco, CA 94102

ALJ Mark S. Wetzell
California Public Utilities Commission
505 Van Ness Avenue, 5th Floor
San Francisco, CA 94102

I declare on penalty of perjury under California law that the foregoing is true.

Executed this 24th day of January 2006 at San Francisco, California.

/s/ Jan Van Dusen _____

Jan Van Dusen