



**FILED**

09-30-10  
02:28 PM

**Attachment A**

**2011 Local True-up Method**  
**White Paper**

R.09-10-032

Prepared by CPUC and CEC staff

**Table of Contents**

**I. Introduction ..... 1**

**II. Background ..... 1**

**III. Key objectives of Local RA true-up process and criteria for decision ..... 2**

**1. Equitable and transparent cost allocation according to cost responsibility ..... 3**

**2. Verifiability ..... 4**

**3. Administrative Simplicity ..... 5**

**4. Timeliness and Clarity of Compliance Obligation and Decreased Potential  
    for disputes ..... 5**

**IV. Description of alternative approaches – Local RA True-up vs. Reallocation ..... 6**

**1. Local RA True-up Approach ..... 6**

**2. Reallocation Approach as proposed in R.09-10-032 ..... 7**

**3. Transfer Payment ..... 8**

**V. Staff Analysis ..... 8**

**1. Local true-up method-Lessons Learned ..... 8**

**2. Reallocation method ..... 11**

**3. Transfer Payment ..... 13**

**VI. Staff Recommendation ..... 15**

**1. Timeline and due dates: ..... 16**

**2. Showing a local resource and procedures for resource outages ..... 21**

**3. Template details ..... 22**

**4. Load forecasts for Local RA Reallocation and dispute resolution ..... 23**

**5. RA compliance process for new LSEs currently without load ..... 24**

**6. RA Penalty Structure ..... 26**

**7. Local Waiver and Dispute Resolution ..... 26**

## **I. Introduction**

The California Public Utilities Commission (CPUC) Energy Division and California Energy Commission staff (CEC) presents this paper to provide guidance on the Local true-up process and its implementation. The paper outlines key criteria for evaluating how well alternative Local true-up mechanisms support Resource Adequacy (RA) objectives. These criteria are used to analyze the current mechanism in place for the remainder of 2010 and the proposed 2011 mechanisms from the R.09-10-032 proceeding. Decision (D.)10-06-036 states, “We accept TURN and AReM’s suggestion to re-evaluate the 2010 Local true-up during a decision phase later this year, once there is sufficient experience gathered with the Local RA true-up mechanism adopted in the DA proceeding. However, in light of our plans to revisit this issue later in 2010, once experience has been gathered with the true-up mechanism adopted by D.10-03-022, we encourage parties to give serious consideration to the Reallocation Method.”<sup>1</sup> This paper informs parties about implementation obstacles experienced in implementing the Local RA True-up process in 2010 and also provides guidance for selecting a process to implement for 2011.

## **II. Background**

The method of determining each Load Serving Entity’s (LSE’s) Local Capacity Requirements (LCRs) was established in D.06-06-064. The CPUC uses an annual Local Capacity Study, executed by the California Independent Systems Operator (CAISO), to determine total resource need in each local area. The total resource need is then combined with the LSE’s load ratio share. The load ratio share is the LSE’s annual forecasted coincident peak load, as adjusted by the CEC, divided by the total forecasted coincident peak load in the LSE’s utility service territory. Each LSE’s load ratio share is multiplied by the local area capacity requirement value generated by the CAISO’s LCR study and adopted by the CPUC to calculate each LSE’s year ahead Local RA obligation.

Under the CPUC rules used prior to 2010, the local RA program required LSEs to make one local RA showing in late October with their system showing. This method required an LSE to procure the same amount of local RA capacity for every month of the forecast year, based on the peak month (August) local requirement. After LSEs made their annual local RA showing they were not required to make another Local true-up through out the year. Therefore, when a LSE lost a customer to another LSE during the compliance year it was burdened with the local RA costs of that customer while the LSE that gained the customer

---

<sup>1</sup> D.10-06-036 at pg.17

had no local RA obligation for that customer. Some parties argued that this could also provide an unfair competitive advantage for new LSE entrants.

Pursuant to SB 695 the CPUC implemented a limited reopening of Direct Access (DA) in D.10-03-022. With the reopening of Direct Access, load migration between LSEs was expected to increase, increasing the potential cost allocation inequities associated with the lack of a Local RA true-up. Therefore D.10-03-022 adopted a mechanism for Local RA true-ups for 2010, detailed in Appendix 3. The Local true-up process adopted in the DA decision is similar to Local true-up method proposed in the R.09-10-032 proceeding.

Parties in R.09-10-032 submitted two main true-up proposals that would apply to compliance year 2011: the Local true-up method and the Reallocation method. Additionally, parties also proposed to study the lessons learned from the 2010 Local RA true-up method adopted in D.10-03-022 as it is implemented in 2010 in order to make an informed decision for 2011 compliance year. D.10-06-036 deferred the adoption of a Local true-up methodology for 2011 until experience was gained from the mechanism being employed for the remainder of 2010 and encouraged parties to seriously reconsider the reallocation method. D.10-06-036 provisionally continued the Local RA True-up process adopted in D.10-03-022 through 2011, unless superseded by a different method.<sup>2</sup>

### **III. Key objectives of Local RA true-up process and criteria for decision**

In order to achieve the broad goals of the RA program and to implement the CPUC's intent, staff identified the following key criteria:

1. Equitable and transparent cost allocation according to cost responsibility – are capacity obligations and their associated costs allocated to LSEs consistent with their expected load?
2. Verifiability –can LSE's reported or forecasted estimates of load migration be verified and confirmed?
3. Administrative simplicity–can the process be done efficiently for LSEs and agency staff so that there is a minimized administrative burden?

---

<sup>2</sup> [http://docs.cpuc.ca.gov/word\\_pdf/FINAL\\_DECISION/119856.pdf](http://docs.cpuc.ca.gov/word_pdf/FINAL_DECISION/119856.pdf) section 3.2.2

4. Timeliness and clarity of compliance obligation and decreased potential for disputes –can the process be streamlined to minimize possibilities for inconsistent information between LSEs, and can LSEs determine their compliance obligation quickly?

### **1. Equitable and transparent cost allocation according to cost responsibility**

The RA program relies on contracts between LSEs and generators to make requisite amounts and types of generating resources available to the CAISO for operating the system reliably. For that reason, the cost of maintaining reliability is equal to the price that generators charge for making themselves available as capacity resources. To equitably allocate costs in accordance with principles of cost causality, D.04-10-035 directed all LSEs to prepare load forecasts on the basis of their best estimate of future customers and their loads. LSEs are to fulfill RA obligations set proportionately to the quantity of customer load the LSE is expected to serve during the applicable compliance period.

A process that attempts to equitably allocate cost to LSEs is the monthly system RA requirements; load forecasts are adjusted monthly as customers migrate between LSEs. LSEs submit revised monthly load forecasts for the forthcoming compliance month to account for expected changes in load associated with customer migration. The system RA obligation is adjusted monthly based on this forecast. Alternatively, the local RA obligation is based on the year-ahead August peak load forecast which determines each LSEs August load share and uses it to allocate one local requirements for all 12 months of the coming year.

Procurement sufficient to meet the local RA obligations for all 12 months must be demonstrated in October of each year with no subsequent adjustment for load migration or monthly adjustments for differing monthly load shares. This means that prior to D.10-03-022, load migration away from an LSE and LSE maintenance of local RA resources sufficient to meet a Local RA obligation for all 12 months of the year could have led to stranded costs for LSEs that lasted until the next RA compliance year. The 2007 RA report shows that in 2007, migration adjustments led to a net increase in total RA obligations of two percent over the peak (August) Year Ahead load forecasts; this increased load was not distributed prior to allocation, thus the load shares used to allocate Local RA obligations were less accurate by the actual compliance month, and some amount of Local

RA obligation was not matched by actual load at the time of compliance<sup>3</sup>. It is important to ensure that any adopted Local RA true-up process provide for sufficient and equitable opportunity to adjust procurement obligations.

## **2. Verifiability**

In order to equitably and transparently allocate costs according to cost responsibility, a Local true-up process must have a way of being verified accurately by energy agency staff and to enforce compliance and cost payment based on that verification. An approved Local RA true-up mechanism must require a means for validating the accuracy of Local true-up filings, so as to verify the local capacity obligations associated with migrating loads.

For validation of system forecasts, CEC staff has in the past relied primarily on evaluation of aggregate forecasts, trends from DASR reports, and ex-post evaluations. However, in the system forecast process a change in the forecast of one LSE does not impose costs on another; the total year ahead demand forecasts may differ from the CEC's forecast by one percent<sup>4</sup>, there is no required analysis to ensure that control totals remain the same, and in the month-ahead forecasts this deviation continues and fluctuates somewhat. For the local obligation, however, the reliability requirement must be allocated exactly, and therefore the adjustments to one LSE's local obligation must be offset by adjustments to the obligations of others.

For this reason, a Local RA True-up mechanism must allow for much stricter tracking of load as it migrates from one LSE to another, and allow for sufficient information and CPUC authority to enforce procurement obligations related to those transfers. A transfer payment mechanism likewise is made more difficult by any lack of transparency and verifiability, as matching information between LSEs related to billing can inform a CPUC enforcement action.

---

<sup>3</sup> Please see page 10 of 2007 RA Report linked here – [http://docs.cpuc.ca.gov/word\\_pdf/REPORT/81717.pdf](http://docs.cpuc.ca.gov/word_pdf/REPORT/81717.pdf)

<sup>4</sup> D 05-10-042

### **3. Administrative Simplicity**

A Local true-up process should aim to be as simple as possible to administer; expending staff and LSE resources on unnecessary administrative work should be avoided. The current process used to adjust monthly system RA obligations for example requires LSEs to submit a revised forecast template 60 days before each compliance month. This revised forecast updates each LSE's load which leads to reallocation of RMR and CAM allocations and becomes the basis for their MA RA obligations. Information required is available to LSEs when needed, and is submitted using a template developed by staff. Each LSE files a load forecast adjustment and a RA compliance showing each month of the year, in addition to other filing requirements. Similar processes will likely be required to implement a Local RA True-up process, but the CPUC would not wish to significantly add to the burden of the existing program.

### **4. Timeliness and Clarity of Compliance Obligation and Decreased Potential for disputes**

An optimal Local true-up methodology must provide parties with clear and timely direction so LSEs know as precisely as possible how to comply with the RA obligations. Mechanisms that require extensive coordination between LSEs, or between LSEs and customers, would add levels of potential dispute and delay to the process. The current monthly load forecast process, for example, requires only that LSEs file with Staff and Staff would dialogue with the LSEs directly. The adopted 2010 true-up process requires LSEs to notify each other of transfer payments so invoicing and billing can occur, seek information regarding historic loads from particular customers, and resolve disputes with other LSEs in a coordinated filing. LSEs may be required to complete additional levels of verification before being certain of their obligations and compliance status, which may delay filings and potentially require Staff to arbitrate disputes. The methodology should seek to decrease the potential for disputes between parties, and Staff enforcement of RA program obligations in the event of a dispute. LSEs should know their obligations with sufficient time to procure and with limited need for staff discretion or administrative determinations. LSEs also need to be sure as to the rules of the program. For this reason, similarities between an adopted approach and current system practices would promote clarity for LSEs and mitigate confusion as to compliance practices.

#### **IV. Description of alternative approaches - Local RA True-up vs. Reallocation**

##### **1. Local RA True-up Approach**

Two examples of the Local True-up approach received attention in 2010. One was the approach adopted in D.10-03-022 being used for the remainder of the 2010 compliance year, and the other was the Sempra Energy Services (SES)/ The Utility Reform Network (TURN) proposal in R.09-10-032 for 2011 compliance year. They are functionally similar, so a short description of the general approach follows.

In this proposal each LSE files a list of customers that have migrated to and from the LSE, along with the coincident peak load of that customer and the transacting LSE. The peak load amount for each customer is based on recorded data, where interval meter data is available, or if interval data is not available it is calculated via use of a load profile. The LSE losing the customer would submit files listing the ID of the customer and the peak load of the customer, and the LSE gaining the customer makes a filing listing the ID and peak load of the customer. These filings are currently made twice in 2010, once to prepare for the summer peak months (Filings submitted for August and September at the end of May) and once to prepare for the months after summer peak (Filings submitted to cover October through December at the end of July). Ideally the filings would be coordinated to ensure that the information for each customer matched between the losing LSE and the gaining LSE. Ensuring this match would require staff to independently verify all customer migration, as well as actual billing for each customer. The coincident peak is multiplied by the ratio of total CPUC-jurisdictional local obligation to the forecasted peak (LPR) to determine the Customer Local Obligation associated with each migrating customer. Subject to confirmation by the CEC or CPUC, the Customer Local Obligation would form the basis for adjusted LCR.

There are a few large differences between the 2010 True-up approach adopted in D.10-03-022 and the SES/TURN approach from R.09-10-032. First the 2010 True-up approach uses a transfer payment option (see transfer payment discussion below), while the SES/TURN approach only proposes a transfer payment option for the San Diego area because of local area constraints. Secondly the 2010 True-up approach provides for two cycles in 2010, whereas the SES/TURN approach only proposes one cycle starting in early February for all of 2011. Thirdly, the SES/TURN proposal creates a de minimum threshold under which no true-up would be required. LSEs losing or gaining load under 5 MW would not need to participate in the True-up process if they chose not to. LSEs that gained or lost load over 5 MW would be required to account for

that migration via the True-up process. . The adopted 2010 True-up approach does not provide this de minimus level. Lastly the SES/TURN approach proposes requiring IOUs to sell excess local capacity via a Request for Offer process, while the 2010 approach makes no such requirement although there is the option of a transfer payment price of \$24/kw.

## **2. Reallocation Approach as proposed in R.09-10-032**

The reallocation proposal presented to stakeholders during the 2011 RA proceeding proposed two opportunities for LSEs to adjust their Local RA obligations pursuant to load migration. The first cycle required the filing of a revised August load forecast around April 1<sup>st</sup>. This forecast would be the basis for a reallocation of Local RA obligations by May 2<sup>nd</sup>, and LSEs would then have 30 days to purchase or sell any needed or extra local RA capacity. By May 2<sup>nd</sup>, all LSEs would make a filing along with their July System RA Compliance Filing that would indicate the fulfillment of their new local obligation. The second cycle would require a similar process, with LSEs filing revised August forecasts on August 1, CPUC reallocation of Local RA obligations on August 31, and LSE filings to demonstrate additional Local RA procurement on September 30 for the November RA Filing month. LSE that do not incur an increase would not be subject to making these showings<sup>5</sup>.

The Reallocation Method is based on reallocating the local RA obligation to LSEs using the LSE's updated August coincident peak load forecast. The process is essentially a repeat of the Year-Ahead only done in the 2<sup>nd</sup> quarter and 4<sup>th</sup> quarter of the compliance year. The process is similar to existing processes done by Energy Division, such as the current Month Ahead RA system process and the RMR/CAM Resource Allocations being used to adjust RA obligations or RA credit on a monthly basis.

The CEC will review load migration assumptions in the submitted forecasts and compare to estimates of migrating load the CEC and CPUC receive monthly from the IOUs. As is the current practice for review of forecasts, staff may request additional information if needed, and CEC may provide LSEs with a revised forecast based on their review of available data. The sum of the updated forecasts is used to recalculate each LSE's load ratio share. Each LSE's new local obligation can be calculated by multiplying their updated load ratio share for each service area by the aggregate local RA obligations for each local RA area in that service territory.

---

<sup>5</sup> <http://www.cpuc.ca.gov/NR/rdonlyres/720BF1E9-EF1D-4308-A2C4-CAE209BB7F1E/0/SemiAnnualLocalRAReallocationtoAccountforLoadMigration.doc>

### **3. Transfer Payment**

Prior to D.10-03-022, the CPUC had decided against the adoption of the transfer payment approach in D.06-06-064 on the grounds that LSEs would be required to procure capacity to meet their RA obligations, and that a transfer payment in essence creates a Local RA product and a System RA product, each independently provided by the same RA capacity. The CPUC decided against creating this second product. Due to changed conditions and the reopening of DA in SB695, D.10-03-022 adopted a transfer payment mechanism.

The transfer payment mechanism is an optional payment that can alleviate the Local RA obligation for an LSE that receives migrating customers to purchase Local RA capacity. In short, the gaining LSE can contact the losing LSE and pay an administratively determined transfer payment (D.10-03-022 set it at \$24 per kw/year) instead of contracting with additional Local RA capacity and making it available to the CAISO. The transfer payment mechanism is based on the idea that an LSE that loses load may not be able to sell their capacity to the LSE gaining the load, and due to difficulties in transacting that sale in time the gaining LSE might choose to simply make a payment. This means that the "Local RA" credit is then transferred to the gaining LSE to meet their Local RA obligation. Staff would monitor and enforce payment of these transfer payments as a means of enforcing compliance with the RA program.

## **V. Staff Analysis**

### **1. Local true-up method-Lessons Learned**

CEC and Energy Division staff implemented a version of the True-up approach starting in June of 2010. Generally, the True-up approach was successful although several issues arose for staff. Implementation required repeated interactions between LSEs regarding verification of customer migration and the transfer payment mechanism, with the potential for confusion, miscommunication, and disputes. However, it did not appear that discrepancies arose from intentional efforts to avoid legitimate cost responsibility. In fact, often LSEs who were gaining customers reported higher estimates of load migration than the losing LSE. Staff observed the following specific areas of concern:

1. LSEs sometimes found it difficult to get timely, complete information from customers or IOUs regarding approved DASRs or customer usage information.

2. Documentation in compliance templates in some cases required substantial data entry due to the requirement to report customer specific information,
3. Attempts to resolve discrepancies required extensive efforts between LSEs and between agency staff and LSEs
4. Even good-faith communication between LSEs was in some cases insufficient to identify the source of discrepancies, although the remaining discrepancies tended to be small.
5. Market participants encountered difficulty in transferring confidential information between each other.
6. Special cases, such as customers with little or no historic data or that were not required to provide all necessary information required additional effort by LSEs.
7. LSEs did not always know the transacting LSE so they could not communicate transfer payment information or properly track migration of Local RA obligations.
8. The need to confirm and match information between LSEs required extensive time spent on resolving discrepancies by CEC or CPUC staff.
9. Where discrepancies were not eliminated, staff had to make an administrative determination as to what each LSE's local obligation should be.
10. Staff found it difficult to verify how much each LSE owed to another LSE in transfer payments due to differences in calculated Customer Local Obligations between the losing and gaining LSEs and to verify that transfer payment amounts were in fact paid
11. Delayed information related to DASR approval or customer migration made difficult efforts by both LSEs and agency staff to effectively verify customer migration amounts and total RA obligations for each LSE. Timelines related to DASR approval and timelines related to RA compliance were not always well coordinated.

Several specific lessons were learned as to how to create a process that meets the basic criteria outlined by staff in this report. Among other process improvements, in order to allow timely forecast validation, staff directed the IOUs to begin monthly reports of the estimated coincident peak associated with migrating load associated with DASR activity. These reports will show the net MW migrating between each pair of LSEs in the IOU's service territory, and greatly improve CEC staff's ability to validate load forecasts and/or Local true-up submittals.

Overall, staff found the Local true-up process very time consuming for all parties.

#### Examining the true-up method across the four objectives

**Equity of Cost Allocation:** The True-up method is not likely to be consistent with a best-estimates demand forecast for a given customer. The true-up method relies on actual historic customer usage date without adjustment for temperature effects or changes in customer operations, for example reflecting changed economic conditions. This conflict made it difficult to ensure that the correct LSE would be procuring RA on behalf of the correct customers, or that individual customers were correctly attributed the correct local RA obligations for their size.

**Verifiability:** Although precise verification of individual customer load estimates is difficult and time consuming, timelier IOU reports on load migration to the CEC will allow overall validation of net load migration to each LSE. Once information is provided, staff could verify each customer's historical peak load and track customer migration by linking approved DASRs to LSEs, but this verification would be quite time consuming.

**Administrative simplicity:** The true-up method creates two new load migration filings for LSEs to submit and staff to review. In addition, the True-up method requires staff to adjudicate possible disputes between LSEs related to the particular calculated CLO of each individual customer and the resulting Local RA obligations. A transfer payment mechanism exacerbates this monitoring requirement. The Local RA true-up process requires LSEs to report individual customer load migration values, the associated customer local obligation, and the method used to transfer the local RA obligation (transfer payment or local RA procurement). Once these values have been reported to the CEC and CPUC, they must then be verified using DASR and CCASR reports that are submitted by the IOUs. Each LSE has to report all of their losing or gaining migrating

customer load obligations which then have to be matched up with the corresponding LSE's reporting customers losing or gaining load obligations. Additionally the transfer payments have to be accounted for so that the appropriate amount of local RA obligation can be allocated to the associated LSE. This is a significant new burden, and staff resources are needed to adjust to this new burden.

**Timeliness and Clarity of Compliance:** The 2010 True-up method adopted by D.10-03-022 lacks clarity regarding compliance. Staff was required to clarify rules in the Local RA True-up process by creating rules and templates to interpret the CPUC decision. Staff created rules that carried out the intent of the CPUC but were not well developed in the decision or during RA workshops. For this reason, additional clarity may need to be provided for in future CPUC decisions.

Additionally the method provides a significant amount of room for local RA obligation disputes to arise between parties. Due to data issues, there were mismatches and uncertainty in LSE Local RA True-up filings that could not be reconciled in the time provided. Although staff directed greater communication between LSEs to reconcile numbers before filing, that communication was insufficient to resolve discrepancies. Consequently, staff was required to make judgments based on the available data and allocate local RA obligations to LSEs that in some instances disagreed with what individual LSEs filed. Because of this, LSEs had to wait for an administrative determination by staff as to their final compliance obligation, and this delay made difficult their ability to procure cost effective capacity and demonstrate compliance efficiently.

## **2. Reallocation method**

The core of the Reallocation proposal is that it builds directly on the current processes used by CPUC and CEC. These processes include the allocation of the Year-Ahead local RA capacity obligation, the process of approving monthly adjustments to LSEs' load forecasts for month-ahead System RA compliance and the monthly recalculation of CAM and RMR allocations. Consequently, it has some of the strengths and weaknesses of those processes.

### Examining the reallocation method across the four objectives

**Cost Allocation Equity:** The reallocation method provides an allocation based on each LSE's August peak load share which changes as load increases or decreases. The allocation would be made on the same expected load forecast as the system RA obligations, conforming to the forecast methodology directed by D.04-10-035.

This revised load share will be applied during the 2<sup>nd</sup> and 4<sup>th</sup> quarters of the 2011 and local RA obligations would be reallocated accordingly. This is consistent with the current annual allocation of LCR which also uses load shares to allocate Local RA obligations. Although load migration is ongoing, staff believes that twice a year will capture sufficient load migration that the stranded costs are mostly alleviated.

**Verifiability:** A concern raised about the reallocation process was whether the forecasts could be validated. Additional data such as monthly DASR/CCASR reports referenced earlier on page 10 can help verify load forecasts from LSEs in a timely manner. Although the effect of migration in a forecast can differ somewhat from migration estimates based on raw historic data, staff has found that summary reports on the coincident peak amount of load migration based on DASR activity, as provided in the local true-up filings, are very useful in validating forecast adjustments. Staff believes load forecasts produced by LSEs to be more accurate measure of expected load than the True-up method however as the true up method limits the basis of the LCR reallocation to historical usage information. For purposes of administrative simplicity, and due to the need to coordinate between LSEs, certain simplifying assumptions were made such as reliance on approved DASRs and information exchange between LSEs and between customer and LSE. These simplifications made it difficult for LSEs to use all the information they had, such as knowledge of customer accounts in the interim when DASRs were being processed. The reallocation method allows LSEs to forecast their load for all accounts as an aggregate, including all customers that they can reasonably expect to retain or attract, and allows the CEC to make adjustments on a summary basis instead of needing to adjust individual customer load values.

**Administrative simplicity:** This process does not require communication or data transfers between LSEs beyond what normally occurs as part of the direct access transfer process. The reallocation method does not require LSEs to make any additional forecast submittals; in their March 1 month ahead forecast filing for May, they simply complete the template through August. They would submit two Local RA Filings in addition to the annual local RA filing they already file in October.

With the implementation of D.10-03-022 the RA template was adjusted to have a place for LSE to submit their reallocated local capacity obligations. These obligations were calculated by the CEC and CPUC and sent to LSE's with their

CAM and RMR reallocations. Energy Division foresees implementation of the reallocation process building off the current 2010 process of reallocating the LCRs.

Timeliness and clarity of compliance and decreased potential for disputes: LSEs will know their exact Local RA capacity true-up obligations as soon as the CEC and Energy Division have calculated and sent LSEs their allocations. Staff can calculate the updated load shares and allocate local RA obligations by May 15 and August 15, allowing 45 days to comply. Because it is based on a load ratio share approach, where the load forecasts are reviewed and approved by staff, the opportunity for disputes between LSEs is reduced and their would be reduced need to engage LSEs in dispute resolution. Additionally, staff is able to more clearly make adjustments and show those adjustments to LSEs in an aggregate fashion and including all customers, not just creating forecasts for individual customers one at a time.

### **3. Transfer Payment**

As an added mechanism to either the True up method or the reallocation method, the transfer payment mechanism has strengths and weaknesses individual to transfer payments.

#### Examining the Transfer Payment method across the four objectives:

Cost Allocation Equity: Staff does not believe transfer payments improve or harm Cost Allocation Equity; LSEs still are responsible for ensuring compliance by purchasing RA capacity. The transfer payment may blunt cost incentives, as all payments would amount to the same value per kW/year. Unless it is provided that transfer payments would differ by location or month, then LSEs would lose the incentive to purchase cheaper or more effective capacity and just pay what is likely a price unreflective of market conditions. Staff does not consider this criterion important with regards the Transfer Payment mechanism.

Verifiability: While it is relatively straightforward to verify whether and when payments between LSEs have occurred, it is no more straightforward how much the payments ought to be than either of the other methods without transfer payments. The transfer payments do not improve verifiability as to the underlying load migration, but it is relatively verifiable whether payments have been made. It is possible that the need to make payments would compel LSEs to settle differences and increase their level of communication and transparency, but agency staff would still need to verify any agreement between LSEs with regards load migration amounts. Staff does not consider the transfer payment

mechanism to provide differing levels of verifiability than either of the other two methods without transfer payments.

**Administrative simplicity:** The transfer payment mechanism creates a new set of monitoring obligations for LSEs and for Staff. LSEs need to coordinate reporting with other LSEs to ensure that other LSEs are aware of how much load is to be covered by transfer payments, and when payments are to be submitted. LSEs have notified Staff that LSEs are required to create reporting and tracking mechanisms to deal with the resulting invoices, due dates, and processing of payments received. Once payments are processed, LSEs need to notify Staff and Staff needs to track payments, as well as potentially inform LSEs of non-compliance related to missing transfer payments. Staff currently does not have a mechanism to track and enforce transfer payment compliance. A party disputing a staff determination could be adjudicated through the CPUC's process, but administrative procedures specific to transfer payments would need to be established. The cost of tracking and adjudicating transfer payments could be significant.

**Timeliness and clarity of compliance and decreased potential for disputes:** Staff sees this as a cumbersome reporting process for both LSEs and Staff, and a process that significantly increases potential for disputes. LSEs would not be sure of compliance or obligations for some time, as a new level of tracking and coordination would be required. Since transfer payments are a means of compliance and transfer payments are agreed to between LSEs, it is very important that disputes are resolved and that figures are precise. Before LSEs could be sure of their obligations, LSEs would be under the obligation to demonstrate agreement regarding Local RA obligations that transfer between LSEs, whether transfer payments are to be submitted, and whether payments arrive on time or according to billing timelines. That means up to several months after a filing, it is possible LSEs could be found to be non-compliant. This is all new reporting for both LSEs and Staff.

### **Comparison of LCR values with the two methods for 2010**

Several parties requested a comparison of the incremental Local RA obligations in aggregate for 2010 under the two approaches. Because of the particular timing and rules of the 2010 true-up process, such a comparison is not straightforward. First, the 2010 true up did not account for load that migrated prior to direct access reopening. Second, the August forecasts were submitted on June 1, a point at which LSEs had incomplete information on expected load migration. To enable a reasonable comparison, staff used the forecast adjustments filed for

September and October, net of adjustments made earlier in the year, to construct an August forecast resembling what the LSE would have filed if they had submitted a forecast at the same time as the second local true up filing. However, this is only an approximation since staff could not always discern what portion of their load migration adjustment was in addition to the pre-reopening migration. Nevertheless, the comparison indicates that on balance the methods produce similar results. The table below shows the range of difference between the methods (within an IOU service area) to LSE’s LCR, grouped by IOU and size of ESP. A positive number means a higher total allocation in the reallocation approach than the true up approach and a negative number means the opposite.

<b>Statistics on Approximate Difference in Total LCR under Reallocation Method vs. 2010 Local True Up (MW)</b>			
	<b>Minimum</b>	<b>Median</b>	<b>Maximum</b>
IOUS	(12)	(1)	1
Large ESPs	(11)	(1)	7
Medium ESPs	(1)	-	9
Small ESPs	-	-	1

Source: CEC staff analysis of the Local RA True up filings

**VI. Staff Recommendation**

Staff recommends that the CPUC adopt the reallocation method as the Local true-up mechanism for 2011. This mechanism is superior due to simpler and more consistent administration, consistency with load forecast methodologies, and the absence of a new filing requirement. The reallocation approach also does not force LSEs to engage one another to match filings, nor does it require LSEs to transfer potentially confidential information between LSEs and customers, and between LSEs.

Staff recommends that there be no transfer payment mechanism adopted for 2011, as this mechanism creates several potential disputes and reporting/verification requirements both for LSEs and agency staff. Due to the absence of transfer payments, LSEs would be required to procure sufficient RA

capacity to meet Local RA obligations without the ability to pay the losing LSE instead of actually purchasing capacity.

Due to general party support for the reallocation approach in the September 8 comments, Energy Division staff believes it appropriate to provide more implementation detail to round out Energy Division's proposal. This section is meant to explain supplemental RA rules that would go into effect upon adoption of this proposal. These are incremental to existing RA rules, and this section is not intended to restate parts of the current RA program that are retained.

The reallocation proposal proposed in Energy Division's original White Paper and revised in this Revised White Paper differs from the original reallocation proposal in R.09-10-032 in four important ways:

- 1.) Due to party comments and workshop discussion, Energy Division has added one additional filing cycle; there are three cycles instead of two- the first cycle which has the true up process beginning earlier in the 2011 year so as to shorten the time that stranded costs are left.
- 2.) It does not require an additional filing made alongside the Month Ahead RA Filings, but instead uses the same compliance template and is delivered at the same time.
- 3.) The revised reallocation proposal gives LSEs different amount of time to procure Local RA between reallocation of Local RA obligations and submission of Local RA Filings.
- 4.) The revised staff proposal does not include a transfer payment mechanism or the aggregation of Local Areas adopted in D.10-03-022.

Below is a proposed calendar of due dates, clarifications on the RA compliance template, discussion of rules regarding the listing of resources for Local RA, clarification of load forecasting procedures, and clarification of how new ESPs that do not currently serve load are to comply with RA obligations and begin to participate in the filing process.

***1. Timeline and due dates:***

The 2011 Local RA Schedule follows the 2011 RA Filing schedule included in the 2011 RA Filing Guide. Events added to accommodate the 2011 Local RA Filing Schedule are highlighted below and color coded. Modifications made to the RA Guide and Compliance Templates to implement whatever process adopted by the Commission will be carefully explained.

### Alternate Timelines for the Reallocation Approach

Two timelines are being proposed here. The first timeline gives ESPs a 15 day procurement window but provides for a true up RA Filing as early as April 1, 2010 covering the full second quarter of 2011 (April through June). The second timeline gives ESPs 45 days to procure, however LSEs will file their adjusted RA Compliance Filings one month later, and it will cover only May and June 2011. Months are color coded to reflect which months are covered by which Local RA reallocations.

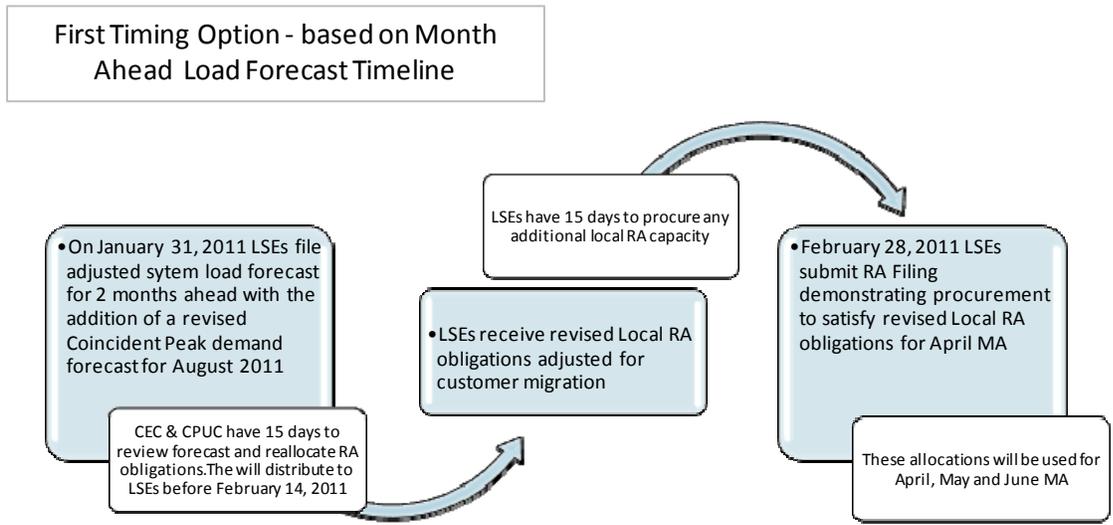
#### First timeline consistent with the 30 day Month Ahead Load forecast process:

RA filing month	Load Forecast month	Due Date
2011 Preliminary Local	N/A	Sep 17, 2010
2011 Final Year Ahead	N/A	Nov 1, 2010
January	February	Nov 30, 2010
February	March	Dec 31, 2010
March	<b>April (with first 2011 Local RA August revised forecast)</b>	January 31
April (1 <sup>st</sup> cycle )	May	February 28
May (1 <sup>st</sup> cycle )	June	April 1
June (1 <sup>st</sup> cycle)	<b>July (with second 2011 Local RA August revised forecast)</b>	May 2
July (second cycle)	August	June 1
August (second cycle)	September	June 30
September (second cycle)	<b>October (with third 2011 Local RA August revised forecast)</b>	August 1
October (third cycle)	November	August 31
November (third cycle)	December	September 30
December (third cycle)	January 2012	October 31

LSEs will file load forecasts for each month from the current 2011 compliance month through at least August 2011 and submit those forecasts on January 31, 2011. LSEs will have approximately 5 days to make any corrections to their load forecasts. CEC and Energy Division staff will reallocate Local RA obligations and send to LSEs by February 14<sup>th</sup>, 2011 with May CAM/RMR reallocations. The Local RA obligations reallocated by staff shall be used for April, May, and June 2011 Month Ahead RA filings. They must be inserted into the LSE Allocations tab of the RA Compliance Template. The month-ahead summary tab will calculate any needed or extra local capacity for the month-ahead RAR. Staff will use those forecasts to reallocate Local RA obligations for April, May, and June 2011. This gives all LSEs at least 15 days to buy or sell any local capacity for April which must be committed as RA in a filing by February 28, 2011.

The second Local RA migration cycle requires LSEs to submit another load forecast to the CEC on May 2, 2011 for the July RA compliance month. This will include forecasts for each month from July to August 2011. LSEs will have approximately 5 days to make any corrections to their load forecasts. Staff will use those forecasts to reallocate Local RA obligations for July, August, and September 2011. This gives all LSEs at least 15 days to buy or sell any local capacity for July which must be committed as RA in a filing by June 1, 2011.

The third true up cycle requires LSEs to file load forecasts again on August 1, 2011 including each month from August to December 2011. The forecast for August should incorporate any load migration projected to occur through December. Thus, the August forecast is a hypothetical estimate of what the LSE's load would be if all customers expected to be served in October were served in August. It is understood that this forecast of August load will differ from what was used in the RA showing for August. LSEs will have approximately 5 days to make any corrections to their load forecasts. Staff will use those forecasts to reallocate Local RA obligations for October, November, and December 2011. This gives all LSEs at least 15 days to buy or sell any local capacity for October which must be committed as RA in a filing by August 31, 2011.



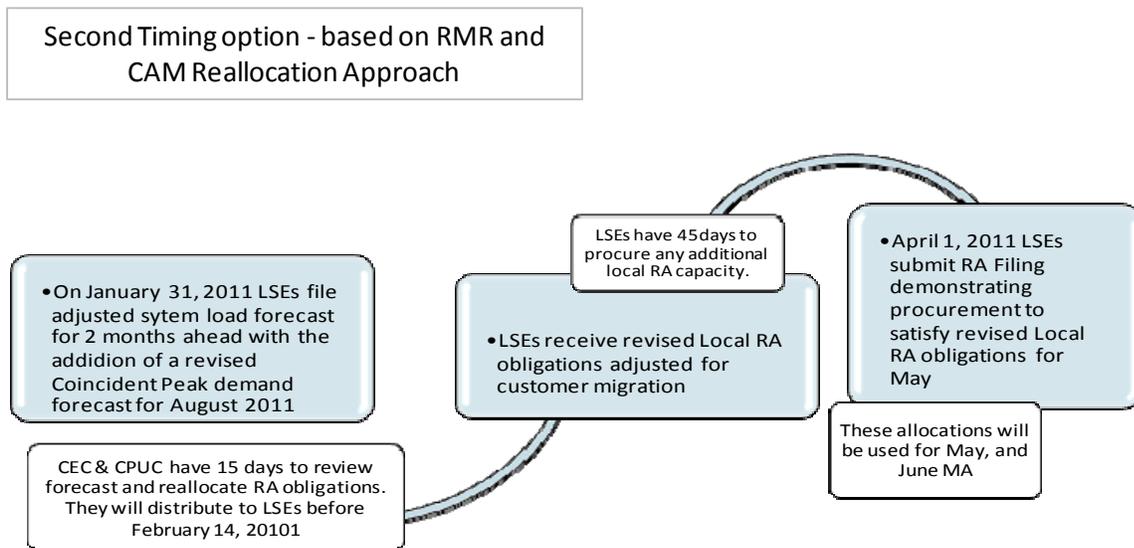
**Second timeline consistent with the RMR-CAM allocations**

RA filing month	Load Forecast month	Due Date
2011 Preliminary Local	N/A	Sep 17, 2010
2011 Final Year Ahead	N/A	Nov 1, 2010
January	February	Nov 30, 2010
February	March	Dec 31, 2010
March	<b>April (with first 2011 Local RA August revised forecast)</b>	<b>January 31</b>
April	May	February 28
May (1 <sup>st</sup> cycle )	<b>June (with second 2011 Local RA August revised forecast)</b>	<b>April 1</b>
June (1 <sup>st</sup> cycle)	July	May 2
July (second cycle)	August	June 1
August (second cycle)	<b>September (with third 2011 Local RA August revised forecast)</b>	<b>June 30</b>
September (second cycle)	October	August 1
October (third cycle)	November	August 31
November (third cycle)	December	Sept 30
December (third cycle)	January 2012	October 31

LSEs will file load forecasts for each month from January to August 2011 compliance months and submit those forecasts on January 31, 2011. LSEs will have approximately 5 days to make any corrections to their load forecasts. CEC and Energy Division staff will reallocate Local RA obligations and send to LSEs by February 14<sup>th</sup>, 2011 with May CAM/RMR reallocations. The Local RA obligations reallocated by staff shall be used for May and June Month Ahead RA filings. They must be inserted into the LSE Allocations tab of the RA Compliance Template. The month-ahead summary tab will calculate any needed or extra local capacity for the month-ahead RAR. Staff will use those forecasts to reallocate Local RA obligations for May and June 2011. This gives all LSEs at least 45 days to buy or sell any local capacity for May which must be committed as RA in a filing by April 1, 2011.

The second Local RA migration cycle requires LSEs to submit another load forecast to the CEC on April 1, 2011 for the June RA compliance month. This will include forecasts for each month from June to August 2011. LSEs will have approximately 5 days to make any corrections to their load forecasts. Staff will use those forecasts to reallocate Local RA obligations for July, August, and September 2011. This gives all LSEs at least 45 days to buy or sell any local capacity for July which must be committed as RA in a filing by June 1, 2011.

The third true up cycle requires LSEs to file load forecasts again on June 30<sup>th</sup>, 2011 for August through December 2011. The forecast for August should incorporate any load migration projected to occur through December. Thus, the August forecast is a hypothetical estimate of what the LSE's load would be if all customers expected to be served in October were served in August. It is understood that this forecast of August load will differ from what was used in the RA showing for August. LSEs will have approximately 5 days to make any corrections to their load forecasts. Staff will use those forecasts to reallocate Local RA obligations for October, November, and December 2011. This gives all LSEs at least 45 days to buy or sell any local capacity for October, which must be committed as RA in a filing by August 31, 2011.



**2. Showing a local resource and procedures for resource outages**

There are important differences between Energy Division’s revised proposal presented here and both the proposal entered into R.09-10-032 and the mechanism adopted in D.10-03-022. Parties are encouraged to read this section carefully.

Energy Division’s proposal requires LSEs to procure and commit via RA Filings capacity sufficient to meet their Local RA obligations. Energy Division will reallocate Local RA obligations, and LSEs will be required to procure and commit via RA Filings sufficient Local RA capacity in each Local Area to meet their Local RA obligations. Importantly, the staff proposal does not include a provision enabling aggregation of Local Areas within a TAC area such as was adopted for 2010 in D.10-03-022 for incremental Local RA obligations created by DA load migration. There is also no provision of a transfer payment mechanism, and all LSEs are to satisfy their Local RA obligations by procuring capacity and committing it to CAISO via RA Filings.

To report a contract with a unit located within a Local Area on the Local Template, LSEs select the correct Scheduling ID from a drop down list in Column C of the Reporting Template, and upon selection, the Local Area designation is filled in automatically.

During 2011 compliance year, LSEs are to make RA compliance filings demonstrating compliance with the Local RA obligations as adjusted by the Local RA migration filings. To accomplish this use a new column entered into the Physical Resource worksheet to allow LSEs to demonstrate monthly Local

RA compliance on the same template as System RA compliance. Since only unit specific Physical Resources count towards meeting the LSE's Local RA obligation, there are no corresponding columns created on other resource tabs.

The Physical Resource tab will have a new column called "Local RA MW" (Column N) where the LSE is to enter the amount in MW that is meant to satisfy Local RA obligations from that unit. This amount is to be the same MW amount the LSE has listed in their Year Ahead Local RA filing for the appropriate month, which means that this value may be different from the System RA MW for that month for two reasons. First, the values will be different in the event that the resource is affected by scheduled outage for that month, and thus listed at lower MW than the Local RA MW amounts unaffected by outages. Second, this value will be different from the System RA MW for the appropriate month in the event that the resource has a monthly NQC, which differs by month. In that event, the LSE would list the correct applicable month's NQC in as a System MW in an appropriate bucket, but list the August NQC value in the Local RA MW column. Suppliers would then confirm both values for the LSE each month during the monthly RA validation process. In the event of outages on resources listed in the year ahead Local RA filings that subsequently go on outage during the compliance year, the LSE is to list replacement capacity in a line under the Local RA resource. Both lines would have the same contract identifier, to indicate the connection. The original Local RA unit would have the Local RA MW column N amount entered as a MW value but a "0" in the System RA MW entered in columns J-M. The replacement capacity would have system RA MW entered in Columns J-M but a "0" in the Local RA MW column N.

Generators would submit supply plans confirming this arrangement, with the replacement capacity clearly linked to the original Local RA resource so the CAISO can validate the resource.

### ***3. Template details***

The reallocation approach will require the use of the two existing templates, the 2011 load migration forecast template and the 2011 System RA compliance template. Modifications made to these templates will be carefully explained in the instruction page.

In addition to the regular RA program schedule, all LSEs planning to serve load will have to submit monthly forecasts through at least August each month of 2011. Some LSEs already include a revised forecast for months past the compliance month, but the reallocation proposal requires all LSEs to do so.

Additionally, LSEs will procure to meet reallocated Local RA obligations and demonstrate the added Local RA capacity in their Month Ahead System RA Filings each month of 2011. To do this, LSEs must insert reallocated Local RA allocations into the System Month Ahead RA Filing in the LSE Allocations Tab. The template will draw the allocations entered by LSEs into the Summary Tab and calculate any needed or extra local capacity for the MA-RA showing. The allocations will be distributed 3 times in 2011 following the submission of LSEs revised August forecasts. The incremental local allocation shall be used according to the schedule detailed below.

***4. Load forecasts for Local RA Reallocation and dispute resolution***

LSEs submit load forecasts each month of the RA compliance year in accordance with the process laid out in each year's RA Guide. The timelines discussed above will now include dates for submission of Local RA forecasts that will be used for Local RA reallocation. In each and every month, LSEs will run and submit load forecasts for the customers included in any given month from the current month until August, or in the event that the month is past August, all months since August of each year. This gives a picture of the overall load shape for the LSE given the customers the LSE is serving at any individual month compared to the forecasts for those same customers as of the peak month of the year. Three times each year, CEC and Energy Division staff will take a snapshot as of the dates specified in the RA compliance schedule and use that information to reallocate Local RA obligations. The information provided by LSEs in other months, including forecasts out to August, will allow staff to verify trends and reported migration in every month of the RA compliance year, although only three times in the year will LSEs receive adjusted Local RA allocations.

LSEs are to continue using the "best estimate" approach, which requires LSEs to make a forecast of anticipated customer retention as well as new customers coming to the LSE as a result of the next open window cycle of NOIs filed with the IOUs in January 2011. As the "best estimate" approach requires LSEs to forecast load migration in advance of final DASR/CCASR approval, the CEC will expect LSEs to be as accurate and complete as possible and may adjust or correct load migration filings before reallocating Local RA obligations.

LSEs are to forecast customer migration including all customers they serve. This means that small residential customers would be included in the load forecasts such as is currently done in the monthly forecasts, as opposed to the current True up Approach which excludes residential customers. Since LSEs are performing forecasts, and not listing individual customers, LSEs are able to perform

integrated forecasts for their entire estimated peak load. Upon notification from the CEC or upon location of an error in the load forecast submitted to the CEC by the LSE, the LSE will have 5 days after submission of the load forecast to correct the error<sup>6</sup>.

Based on LSE's updated forecasts for the current month until or since the peak forecast month (August), the CEC will compute LSE specific adjusted proportionate shares of TAC area peak for use in reallocating the Local RA obligations. Depending on which timeline is adopted, Energy Division will send LSEs updated Local RA obligations within 15 days of receipt of load forecasts, which are to be used in future RA compliance filings just like year ahead Local RA obligations. LSEs will then insert those allocations into the LSE allocations tab of the RA compliance filing.

LSEs may request allocations inserted into the template, or LSEs can insert the allocations themselves.

CEC and Energy Division staff will verify load forecasts against data submitted by IOUs pursuant to a monthly DASR/CCASR data request. These data requests will verify the amount of load moving from one ESP to another as measured by actual customer usage at time of peak.

#### *5. RA compliance process for new LSEs currently without load*

##### **Month Ahead RA obligations:**

Registered ESPs and CCAs that plan on serving load within 60 days of becoming a registered ESP or approved CCA must file a load forecast with the CEC immediately upon registration and a Month Ahead (30 day-ahead) RA compliance filing associated with the load they plan on serving according to the schedule below for the month in which they plan to serve load. Upon notification of registration Energy Division will contact new LSEs and inform them of RA requirements, as well as post materials on the DA and CCA sections of the CPUC website linking to RA compliance materials.

---

<sup>6</sup> Decision (D.)10-06-036 OP 6E, "Load-serving entities may, at the discretion of the California Energy Commission staff, file changes to their load forecasts up to 25 days before the due date of the month-ahead compliance filings."

Registered ESPs or approved CCAs that do not plan on serving load within 60 days of becoming registered or approved are encouraged to contact the CEC and the CPUC to familiarize themselves with the Resource Adequacy Program and its requirements.

LSEs that begin serving load that do not file a 60 day ahead forecast or a Month-ahead RA showing will be subject to the same RA penalties that other LSEs are subject to for late filings and deficient RA showings. During the course of ESP registration or CCA approval, it is also required of LSEs to become respondents to the RA proceeding. The current RA proceeding is R.09-10-032, and LSEs are to ensure that they are on the service list for this proceeding.<sup>7</sup>

### **Year Ahead RA obligations**

All LSEs (including those that do not currently serve load) are required to submit Year Ahead load forecasts and receive Year Ahead RA obligations for purposes of complying with the Year Ahead RA obligations. Failure to do so will constitute a violation of the RA program. This forecast will be binding and create a year ahead RA Filing obligation. If the LSE is not projected to serve any load during the following compliance year, the LSE will receive no RA obligation from the CPUC and will not be required to file Year Ahead RA Filings. 90 days before the start of the month in which the LSE is projected to begin serving load the LSE will be required to file load forecasts that will result in the LSE receiving reallocated Local RA allocations as well as adjusted RMR, CAM, and DR allocations during the compliance year and will be required to procure Local RA capacity in accordance with the process laid out in this proposal.

If an LSE is not registered or approved at the time of the year ahead load forecasts the LSE is required to file a year ahead load forecast within 60 days of being registered or approved as LSEs. If the LSE is not projected to serve any load during the following compliance year, the LSE will receive no RA obligation from the CPUC and will not be required to file Year Ahead RA Filings. If the LSE is projected to serve load during the following compliance year but was not registered or approved at the time of the year ahead load forecast process, the

---

<sup>7</sup> Service list here:

[http://docs.cpuc.ca.gov/published/service\\_lists/R0910032\\_78657.htm](http://docs.cpuc.ca.gov/published/service_lists/R0910032_78657.htm)

To be added to the service list, contact process office at [processoffice@cpuc.ca.gov](mailto:processoffice@cpuc.ca.gov)

LSE will receive System RA obligations (but not Local RA obligations or RMR/CAM/DR allocations, as those values require adjustments for other LSEs also) from the CPUC and file a year ahead System RA Filing. 90 days before the start of the month in which the LSE is projected to begin serving load the LSE will be required to file load forecasts that will result in the LSE receiving reallocated Local RA allocations as well as adjusted RMR, CAM, and DR allocations during the compliance year and will be required to procure Local RA capacity in accordance with the process laid out in this proposal.

**6. RA Penalty Structure**

The same penalty structure that the RA program uses will apply to local true ups and their associated revised load forecasts. This penalty structure was adopted in D.10-06-036.

	Small Procurement Deficiency	System Procurement Deficiency	Local Procurement Deficiency
Replaced within five business days of the date of notification	\$1,500 first incident in calendar year; \$3,000 for each incident thereafter in a calendar year	\$3.33/kW-month	\$3.33/kW-month
Replaced after five business days from the date of notification or not replaced	LSE pays the applicable System or Local RA penalty for the deficiency.	\$6.66/kW-month	\$3.33/kW-month

Additionally, the citation program adopted in Resolution E-4195 will also apply to all applicable aspects of the local true up process. The citation program provides that LSEs may be fined specified amounts for failure to make timely filings in the manner required, and for small procurement deficiencies.

**7. Local Waiver and Dispute Resolution**

D.05-01-042 adopted an informal dispute resolution process that applies in the event of disputes in load forecasts<sup>8</sup>. As specified in D.05-10-042 the process is to be informal, beginning with the LSE contacting CEC staff and attempting to

---

<sup>8</sup> Section 5.2 of D.05-10-042, linked here:  
[http://docs.cpuc.ca.gov/WORD\\_PDF/FINAL\\_DECISION/50731.PDF](http://docs.cpuc.ca.gov/WORD_PDF/FINAL_DECISION/50731.PDF)

work out the dispute without action by the CPUC. If disputes cannot be worked out informally, then the CEC and the LSE are to bring the dispute to the attention of the CPUC, by filing a motion in the current RA proceeding.

Energy Division proposes to make no change to the current Local RA waiver procedure. As it is currently a waiver of penalties for failure to satisfy Local RA obligations, the process could apply under the reallocation approach with regards LSEs filing waiver of penalty requests with their monthly RA compliance filings if the monthly RA compliance filings are to demonstrate a deficiency of Local RA procurement. LSEs are to refer to the structure laid out in D.06-06-064.