



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking to Consider  
Annual Revisions to Local Procurement  
Obligations and Refinements to the  
Resource Adequacy Program.

Rulemaking 08-01-025  
(Filed January 21, 2008)

**REPLY COMMENTS OF THE  
DIVISION OF RATEPAYER ADVOCATES  
ON PHASE I ISSUES**

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**I. INTRODUCTION**

Pursuant to the schedule adopted in the Assigned Commissioner's Phase I Ruling and Scoping Memo dated February 22, 2008, the Division of Ratepayer Advocates (DRA) submits the following comments on Phase I issues.

**II. COMMENTS**

**A. NQC for Intermittent Resources.**

DRA does not recommend changing the current methodology for the calculation of NQC for intermittent resources. Out of the ten opening comments filed on May 12 that DRA has reviewed, seven parties have provided comments on Net Qualifying Capacity (NQC) for intermittent resources and one party, TURN, has stated that it will review the opening comments of the other parties and may offer a response in its reply comments. DRA's review of these comments indicates that there is no consensus to date as to what change, if any, should be made to the counting rules for wind resources.

Several parties express the need to decrease the NQC for wind resources. Proponents of decreasing the NQC for wind resources include PG&E, SCE, SDG&E, and the CAISO. These parties argue that during peak periods, the actual qualifying capacity of wind resources is less than the current NQC, which is calculated based on the historical production over the last three years during the Standard Offer No. 1 (SO1) for

peak periods. Parties have suggested various different time periods, all of them less than the number of hours in SO1 for peak periods, for calculating the qualifying capacity of wind resources. For example, PG&E originally proposed that wind resources should be counted based on three years of historical production during the ten highest peak hours of each month. SCE and SDG&E have submitted a joint proposal that also relies on three years of historical production data, but only for the hours of 12 p.m. to 6 p.m. for May – September and the hours of 10 a.m. to 8 p.m. for the November – April months. In addition, the SCE-SDG&E joint proposal recommends that an appropriate exceedance factor should then be applied to the historical data, for example 80%.

The CAISO has made several proposals regarding the NQC of wind resources. The most recent proposed methodology (dated May 6, 2008) takes the historical output for each intermittent resource from the top six system coincident peak load days of each month, and a specified group of five hours within each of these six days in that month. The five hours are chosen based on when the CAISO has typically experienced the system coincident peak demand during each of the months. Then, CAISO recommends the use of three year average on data from these 30 hours each month. Finally, the CAISO proposes a confidence or exceedance level of 70% be established for this methodology.

Each of the methods presented by the CAISO, PG&E and SCE-SDG&E will significantly reduce the NQC for wind resources. These methods assume zero reliability contribution from wind resources generation outside of the limited number of (hypothetical) hours used in their methodology. For example, the total annual number of hours used in establishment of NQC is 360 hours (12 months x 30 hours/months) in CAISO's most recent proposal. This means that out of total wind production during 8,760 hours per year, only the production from 360 hours (less than 5% of the total hours) is used in calculating the NQC. The NQC using this method results in around 5% of the installed capacity for wind resources during the summer months.

IEP also provided comments on the NQC for wind resources. However, IEP, whose members include generators of all types of technologies, provides only broad

principles, such as recommending that the Commission “not discriminate for or against any particular technology,” rather than specific recommendation or methodology for the calculation of NQC for intermittent resources.

Two parties, the California Wind Energy Association (Cal WEA) and DRA, have suggested that energy production from wind resources outside of peak hours also contribute to system reliability, and propose that a far better methodology to calculate the NQC of intermitted resources would be to use the Effective Load Carrying Capacity (ELCC). The ELCC captures the reliability contribution of wind resources for *every* hour of the year, rather than the arbitrary choices, such as the ten peak hours suggested by PG&E, or the thirty hours per month proposed by the CAISO. The ELCC method also correctly reduces the influence on NQC of those time-of-day defined “peak hours” having a low load and very low chance of a Loss of Load. The application of the ELCC method produces a capacity value of between 20% to 25% of the installed capacity of wind resources, which is much closer to the NQC calculation derived from the current CPUC-approved methodology. CalWEA’s opening comments provide excellent reasons for why the “exceedance” method should not be used in determining NQC for wind resources. Thus, DRA does not recommend changing the current methodology for the calculation of NQC for intermittent resources, until additional analysis is carried out using ELCC methodology.

**B. Load Forecasting, “Current Customer” Method.**

DRA believes that the issue of “under-forecasting” is an important issue, but one that should be revisited at a later time. PG&E has stated that the under-forecasting has allowed some ESPs to avoid local RA requirements, as well as to defer system RA procurement from the year-ahead to month-ahead timeframe. PG&E’s proposal is that “LSE’s load forecasts in the year-ahead should reflect expected future customers plus the full load of their current customers unless a current customer has provided a binding notice of intent to discontinue service.”

SCE agrees that the problem of underestimating of load by certain ESPs needs to be addressed. However, SCE is concerned that the solutions to this problem may end up

requiring a month-ahead local RA obligation which would introduce additional complexities into the local RA program.

AReM states that a request to move to the “current customer” approach for load forecasting has already been decided twice by the CPUC. It has been rejected in D.04-10-035 and again the following year in D.05-10-042. AReM urges the Commission to reject PG&E’s proposal as it is outside the scope of Phase 1 of this proceeding.

Sempra Energy Solutions similarly states that the “current customer” approach was fully considered in 2004, and reviewed and rejected again in 2005. Revising this approach is outside the scope of the current proceeding. That by presenting “under-forecasting” and “unaccounted-for load,” PG&E and SCE are trying to replace “best estimate” forecasting with the “current customer” approach.

DRA believes that the issue of “under-forecasting” is an important issue and it should be revisited at the appropriate time. In the 2005 decision, the Commission stated that “we are willing to revisit this topic at an appropriate time in the future.”<sup>1</sup> The Commission also provided guidance on what conditions will be needed to reconsider the replacement of the “best estimates” approach. DRA recommends that the issue of “under-forecasting” be discussed in Phase 2 of this proceeding or later. This review/discussion should include what “conditions that must be in place before the “best estimates” is replaced by an approach similar to what PG&E has recommended.

### **C. Counting of Scheduled Outages.**

DRA supports PG&E’s proposal to eliminate double-counting of scheduled outages. PG&E has proposed that the Commission clarify that the Qualifying Capacity counting protocol for scheduled outages adopted in D.06-07-031 applies only to resources with the scheduled outage designation in the NQC counting rule, as specified in sections 5 and 5.3 of the 2004 Workshop Report.

Currently the scheduled outages are counted twice: first, in using the average historical generation in setting the NQC results in reduced amount; and second, in setting

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<sup>1</sup> D.05-110-042, p. 35-36.

the NQC value in a future month the effect of scheduled outage is reflected to reduce the NQC value again. This results in higher RA requirements than are needed and increased costs for ratepayers. Accordingly, DRA supports PG&E's proposal, which would correct this problem, and agrees with PG&E's rationale that correcting this problem would result in lower RA program costs by eliminating unnecessary additional procurement.

**D. Counting the NQC of Back up Generators.**

PG&E's proposes that the Commission to define counting the NQC of Back Up Generators (BUGs). According to PG&E, BUGs currently exist throughout California and are resources that can be reliably aggregated and dispatched during peak demand with a very short notice. Therefore, it makes these types of units potentially cost effective as well as a reliable resource for RA needs during peak periods.

PG&E suggests to initially limit the quantities of BUGs counted towards RA. Upon reviewing the Commission's summer assessments, these limitations can be removed if the Commission deems it appropriate to do so. While this proposal may warrant further consideration, it was not discussed in depth in Phase 1. DRA recommends that the Commission consider the pros and cons of PG&E's proposal in Phase 2 or a subsequent phase of this proceeding.

**E. Qualifying Capacity of New Generators.**

DRA supports the use of the COD for determining when a new resource should begin to count for RA purposes. Certain parties have proposed to use the Commercial Operation Date (COD), while others recommend that the actual "operational status" date should be used. The COD date is the established and customary date used for contracting purposes, and can be relied upon for RA counting purposes. The "operational status" of each unit is not a good indicator of availability, because it cannot always be estimated with a high degree of certainty. At a minimum, a new resource should count as long as it has met all the requirements for COD. If parties can provide dependable information that the unit will be operational when needed, then the "operational status" date can be used for counting its MWs towards RA requirements.

## **F. Calpine's Proposal for a New Penalty and Waiver Trigger.**

DRA does not support revisiting the penalty/waiver trigger issue until such time as there is a standardized tradable capacity product and an Electronic Bulletin Board (EBB). Calpine has requested that the Local RA penalty rate and waiver "trigger" threshold of \$40/kW-year adopted in D.06-06-069 is insufficient and should be revisited by the Commission. The request is that the Commission find in its Phase 1 decision that it will review this issue in Phase 2 of this proceeding, or in a separate proceeding. Two parties have provided comment on this issue in their may 12, 2008 filings, SCE and AReM.

SCE believes that Calpine's request is premature and improper for inclusion in the Commission's Phase 1 Decision. SCE states that the penalty /waiver "trigger" threshold is a complex issue, and recommends that consideration of Calpine's request should be deferred to the Phase 2 scoping memo process, at the earliest.

AReM suggests that Calpine's proposal for a new penalty and waiver trigger is outside of the scope of Phase 1. The Commission requested Phase 1 and 2 topics from parties in January 2008. Calpine did not suggest this issue at that time. AReM recommends that the Commission should reject Calpine's proposal. If the Commission is inclined to entertain Calpine's proposal, it must provide time for vetting of this proposal in a workshop forum in Phase 2.

DRA agrees with the statements of SCE and AReM. DRA recommends that the issue of changing penalty and waiver triggers should be delayed until there is a standard RA capacity product and an EBB for this product. Review of the capacity market which is liquid and has price transparency will provide information on what should be the penalty and waiver trigger.

## **III. CONCLUSION**

DRA recommends that the Commission: (1) not change the current methodology for the calculation of NQC for intermittent resources; (2) revisit the issue of "under-forecasting" in Phase 2 of this proceeding or later; (3) eliminate double-counting of scheduled outages; (4) defer consideration of PG&E's proposal to allow back up

generation to count for RA until Phase 2 or later; (5) use the COD for determining the date that a new resource can be counted; and (6) do not revisit the penalty/waiver trigger issue until such time as there is a standardized tradable capacity product and an Electronic Bulletin Board (EBB).

Respectfully submitted,

By: /s/ Charlyn Hook

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Executed on May 19, 2008 at San Francisco, California.

/s/ ALBERT HILL  
\_\_\_\_\_ ALBERT HILL

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