BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

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Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local Procurement Obligations.	)))))	R.11-10-023 (Filed October 20, 2011)

REPLY COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U-338E) REGARDING PRELIMINARY MATTERS PERTAINING TO THE SCOPE, SCHEDULE, AND ADMINISTRATION OF THIS PROCEEDING

JENNIFER TSAO SHIGEKAWA
JONI A. TEMPLETON

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-6210
Facsimile: (626) 302-1935
E-mail: Joni.Templeton@sce.com

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I.

INTRODUCTION

In accordance with the October 27, 2011, order instituting rulemaking for this proceeding ("Order"), Southern California Edison Company ("SCE") respectfully submits this reply to comments on preliminary matters pertaining to the scope, schedule, and administration of this proceeding. SCE looks forward to engaging in discussions on a number of the topics presented in the Order and some that parties have recommended be added to that list. On the other hand, SCE has concerns with some suggestions presented by parties and recommends the following:

- The topic of procurement of non-generic capacity should be removed from the scope of this rulemaking and moved to either a subsequent phase of this rulemaking or to a separate rulemaking where the topic can receive appropriate evaluation by all stakeholders without taking time away from the many other important issues being addressed in this proceeding.
- SCE supports the recommendations of The Utility Reform Network ("TURN") and Pacific Gas and Electric Company ("PG&E") to include an analysis of the effective load carrying capacity ("ELCC") approach as a topic in this proceeding. SCE notes, however, that an ELCC analysis may involve factual issues in dispute that could require hearings and requests

that the California Public Utilities Commission ("Commission") provide adequate time to hold hearings should they be necessary or put this issue in a proceeding that will allow for the possible additional time.

- The requests of Calpine Corporation ("Calpine") and the Independent Energy Producers Association ("IEP") to revisit a multi-year forward resource adequacy ("RA") procurement requirement should not be considered in the scope of the current proceeding.
- The Commission should reject IEP and NRG Energy, Inc.'s ("NRG") request to revisit the $40/kW-year waiver trigger in this proceeding because this issue was already revisited in Phase 2 of Rulemaking ("R.") 09-10-032 and decided in Decision ("D.") 11-06-022.
- The Commission should reject the Alliance for Energy Retail Markets' ("AReM") proposal to add consideration of a requirement that investor-owned utilities ("IOUs") sell excess local RA capacity to other load-serving entities ("LSEs") to the scope of this rulemaking.
- The request of PG&E to consider a centralized RA database should be deferred.
- The Commission should reject the Division of Ratepayer Advocates' ("DRA") proposal to consider a seasonal local capacity requirement ("LCR") for only San Diego Gas and Electric Company's ("SDG&E") service territory.
- SCE supports a new Maximum Cumulative Capacity ("MCC") bucket for demand response ("DR") but agrees with EnerNOC, Inc. ("EnerNOC") and Comverge, Inc. ("Comverge") that the Commission's loading order needs to be reflected in any MCC restrictions.

II.

DISCUSSION

A. The Non-Generic Capacity Procurement Requirement and Process Should Be Considered in Either a Subsequent Phase of This Rulemaking or in a Separate Rulemaking.

In opening comments on the Order, AReM and PG&E explain that the topic of procurement of non-generic capacity will require consideration of complex issues, and that such efforts may be duplicative of work currently being performed in other venues.[1] SCE agrees and supports removing this issue from the scope of the instant rulemaking and moving it to either a

[1] *See* AReM Comments at 5-6; PG&E Comments at 2.

subsequent phase of this rulemaking or to a separate rulemaking where the topic can receive appropriate evaluation by all stakeholders without taking time away from the many other important issues being addressed in this proceeding.

SCE also agrees with DRA's statement that "it is not clear why the CAISO cannot use its established ancillary services market to solve any problems created by intermittent renewable response."[2] Before stakeholders can effectively consider this topic, the California Independent System Operator ("CAISO") must first clarify exactly why it needs non-generic RA capacity and provide studies that support how much of this capacity need is driven by load uncertainty and variability, and how much of this need is driven by generation uncertainty and variability. Until the CAISO makes these initial determinations, it is premature to address this issue. The CAISO should present these findings and studies, ideally in a separate rulemaking. At a minimum, the Commission should provide a separate dedicated phase in the current rulemaking to consider all of the aspects required of this issue without short-changing consideration of the multitude of other issues also being addressed in this rulemaking.

B. SCE Supports Including the ELCC Approach in the Scope of This Proceeding.

In D.09-06-028, the Commission modified the RA counting value of wind and solar renewable resources by adopting use of a 70 percent exceedence factor. This decision was a change from previous methods that had used an average capacity factor (essentially a 50 percent exceedence factor), in recognition that an average factor was inadequate to fully capture the diminished contribution of intermittent resources to overall system reliability. In 2011, the Legislature enacted Public Utilities Code Section 399.26(d), which requires the Commission to determine the ELCC of wind and solar resources towards meeting RA requirements. The process by which the Commission established the 70 percent exceedence factor was not based on an ELCC analysis. SCE supports the recommendations of TURN and PG&E to include the

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[2] DRA Comments at 5.

ELCC approach as a topic in the RA proceeding.[3] However, SCE strongly believes that the current exceedance factor is simple to implement and use while accounting for variations within the same renewable technology. Consequently, SCE recommends that if the ELCC approach is added to the scope of the subject rulemaking, the Commission should specifically allow stakeholders to propose ways to retain the benefits of the current approach under a new ELCC methodology.

An ELCC analysis typically is performed by running a base case production simulation model, then increasing load (or removing generation) and adding wind or solar resources until the base case reliability level is restored. SCE notes that an ELCC analysis may involve factual issues in dispute that could require hearings. Therefore, if the Commission adds this issue to the scope, SCE requests that the Commission provide adequate time to hold hearings should they become necessary.

C. The Commission Should Not Revisit a Multi-Year Forward RA Obligation in the Scope of the Current Proceeding.

Calpine and IEP request that the Commission revisit a multi-year forward RA procurement requirement in this proceeding.[4] Calpine requests that the consideration of this issue should be included in Phase 1 of this proceeding,[5] whereas IEP says that it is not clear whether this issue requires resolution by mid-2012 and therefore recommends that this issue may be considered as part of Phase 2 of this proceeding.[6]

In D.10-06-018, the Commission had asked Energy Division and appropriate Commission staff to study the potential of a forward procurement obligation and report its findings to the Commission.[7] To the best of SCE's awareness, this study has not occurred yet.

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[3] PG&E Comments at 3; TURN Comments at 3.
[4] Calpine Comments at 2-4; IEP Comments at 5-6.
[5] Calpine Comments at 2-4
[6] IEP Comments at 5-6
[7] D.10-06-018 at 32-33 and 70-71.

In the same decision, the Commission had also said that upon receipt of staff's findings, the Commission may choose to include in an appropriate proceeding consideration of the issue of whether and how to implement such a forward procurement obligation upon all LSEs. SCE urges the Commission to not deviate from its own directive in D.10-06-018, and not attempt to address this issue in this proceeding. This issue requires a thorough consideration of all relevant issues, some of which are being addressed in other Commission proceedings and also in CAISO stakeholder processes. SCE believes that it will be a better use of the Commission's and stakeholders' limited resources to focus on many other topics already in the scope of this proceeding, and not add this topic to the scope until the related study and report are complete.

D. The Commission Should Reject Proposals to Revisit the $40/kW-Year Trigger.

IEP and NRG request that the Commission revisit the $40/kW-year waiver trigger in this proceeding.[8] This issue was already revisited this year in Phase 2 of R.09-10-032, which set the 2012 RA rules. In June 2011, after consideration in the most recent RA proceeding, the Commission decided not to change the waiver trigger price.[9] Contrary to NRG's assertions, the Commission did not base its decision only on the price paid for RA capacity as reported in the 2010 Energy Division RA Report. The Commission explained:

> The waiver trigger price has been applied for only three times (and granted twice) since the 2007 compliance year. The fact that the waiver has been rarely used since its adoption in 2006 shows that LSEs do not appear to be subject to market power in such a way as to make compliance with RA obligations impossible.[10]

SCE does not see any reason to address this issue again in the current rulemaking.[11]

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[8] IEP Comments at 3-5; NRG Comments at 5-6.

[9] D.11-06-022 at 34.

[10] *Id.* at 35.

[11] IEP argues that the trigger price should be revisited because "the local RA program and the CAISO's backstop capacity authority were aligned at their inception, but the price of backstop capacity for the CAISO's mechanism has been revised to reflect changing conditions, while the waiver trigger has not." IEP Comments at 3. IEP's conclusion, however, is wrong. As IEP acknowledges in its own comments, the two prices were derived from two very different methodologies that did not rely on the same inputs; so the fact that they were aligned previously is no reason that they need be aligned now.

E. The Commission Should Reject AReM's Proposal to Consider a Requirement for IOUs to Sell Excess Local RA Capacity to Other LSEs.

AReM has requested the Commission to add an issue to the Phase 1 scope to "consider requirements that would ensure the IOUs employ non-discriminatory and timely practices for sales of Local RA capacity to ESPs."[12] The Commission should reject AReM's request to add this issue to the scope of this rulemaking. First of all, the Commission should be very careful in promulgating any mandates that could impact the functioning of wholesale energy markets. Second, because local RA resources also add to IOUs' system resource adequacy requirements, it is possible that selling surplus local RA capacity could make the IOUs short on their system RA requirements. Such situations are best addressed by commercial arrangements in the wholesale markets, and not by regulatory mandates. Also, SCE notes that the current RA rules allow for parties to seek a waiver in the event capacity is unavailable to meet RA compliance requirements or is cost-prohibitive.[13] In light of these factors, SCE believes that the Commission should not attempt to impose, via this rulemaking, an obligation on the IOUs to sell their surplus local RA capacity to other LSEs.

F. The Commission Should Defer Consideration of PG&E's Proposal to Develop a Centralized RA Database.

PG&E would like to add an issue to the scope of Phase 1 to "consider the establishment of a centralized database to record all suppliers' and load serving entities' purchases and sales of resource adequacy capacity, and to validate all load serving entities' resource adequacy compliance."[14] This appears to be an entirely new approach to RA compliance demonstration. Although SCE does not disagree that an automated transactions database could be a useful tool, SCE is concerned about the sheer number of issues proposed for the scope of this rulemaking

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[12] AReM Comments at 7.
[13] *See* D.06-06-064 at 71.
[14] PG&E Comments at 5.

and advises that consideration of this issue could require significant time and effort. SCE recommends that this issue be deferred to a later phase of this proceeding because this issue likely cannot be resolved within the schedules laid out for Phases 1 and 2 of this proceeding.

G. The Commission Should Not Adopt Policies – Such as a Seasonal LCR Requirement - That Apply to Only One Service Territory.

In D.11-06-022, the Commission declined to adopt a seasonal RA requirement based on insufficient information.[15] The Commission explained that it would be willing to consider the issue again if the CAISO completed additional studies and modeling. Such studies would require a significant increase in the CAISO's workload to determine a monthly LCR analysis for all local areas in the state. To mitigate the increase in CAISO workload necessary for this proposal, DRA recommends "performing a two-season analysis for only the San Diego Local Area" and that "the discussion of a two-season analysis for the San Diego Area be included in the workshop discussions."[16]

SCE is concerned about the implications of a proposed solution that treats one service territory different from the others. If a proposal has merit, it should be considered for all LSEs and applied equally. SCE urges the Commission to reject DRA's proposal to address in this proceeding's scope a seasonal LCR obligation for only SDG&E's service territory. If the Commission includes a seasonal LCR requirement in the scope of this rulemaking, the Commission should consider its application across all utilities and solidly weigh the factors of whether this proposal makes sense in the aggregate to all LSEs, not just one.

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[15] D.11-06-022 at 44.
[16] DRA Comments at 3.

H. The Commission Should Consider Its Loading Order When Establishing an MCC Bucket for DR Resources.

SCE supports a new MCC bucket for DR but shares the concern of EnerNOC and Comverge that the Commission's loading order needs to be reflected in any MCC restrictions.[17] Current MCC buckets impose a limit on categorized resources based on the total RA portfolio.[18] The Commission should ensure that no similar limitations be imposed on DR resources and satisfy the Commission's loading order, which requires all cost-effective DR to be integrated into utilities' resource plans.

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[17] *See* Joint Comments of EnerNOC and Comverge at 3.

[18] For example, resources that are considered in Bucket 1 can only be 13.3 percent of the total RA portfolio. *See* http://www.energy.ca.gov/2009_energypolicy/documents/2009-09-24_workshop/comments/Southern_California_Edison_TN-53572.PDF

III.

CONCLUSION

SCE appreciates this opportunity to respond to parties comments on preliminary matters pertaining to the scope, schedule, and administration of this proceeding and urges the Commission to consider the arguments made herein regarding the scope of the proceeding.

Respectfully submitted,

JENNIFER TSAO SHIGEKAWA
JONI A. TEMPLETON

/s/Joni A. Templeton
By: Joni A. Templeton

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-6210
Facsimile: (626) 302-1935
E-mail: Joni.Templeton@sce.com

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