

Decision 08-06-031 June 26, 2008

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

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

Rulemaking 08-01-025  
(Filed January 31, 2008)

**DECISION ADOPTING LOCAL PROCUREMENT OBLIGATIONS FOR 2009  
AND REFINEMENTS TO THE RESOURCE ADEQUACY PROGRAM**

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## **DECISION ADOPTING LOCAL PROCUREMENT OBLIGATIONS FOR 2009 AND REFINEMENTS TO THE RESOURCE ADEQUACY PROGRAM**

### **1. Summary**

This decision adopts local procurement obligations for 2009 applicable to Commission-jurisdictional electric load-serving entities (LSEs). These procurement obligations are based on a study of local capacity requirements (LCRs) for 2009 performed by the California Independent System Operator (CAISO). Even though peak loads are expected to increase in all but one of the defined local areas, the total LCR for all such areas combined has declined slightly, from 28,106 megawatts (MW) in 2008 to 27,915 MW in 2009.

In addition, we approve and adopt certain proposed resource adequacy (RA) program refinements. We simplify the rule for counting the capacity of a new resource by focusing on the resource's commercial operation date, approve an interim rule for new resources for 2009, and approve proposed clarifications and modifications to the rules for counting the capacity of Qualifying Facility (QF) resources. We also approve and adopt modifications to the RA compliance reporting procedure that include a provision for electronic compliance reporting.

### **2. Procedural Background**

The Order Instituting Rulemaking (OIR) established two phases for this proceeding, designating the first phase as the forum to review the CAISO's LCR study and to establish local procurement obligations for 2009. Noting that it was adopting a shortened procedural schedule, the Commission restricted the addition of other issues in Phase 1 to those which "the assigned Commissioner determines may be processed under this expedited schedule without unduly burdening participants or delaying the Phase 1 decision." (OIR, p. 7.)

The *Assigned Commissioner's Phase 1 Ruling and Scoping Memo* (Phase 1 Scoping Memo) was issued on February 22, 2008, following initial comments and replies on procedural matters. In addition to the local RA issues as ordered by the OIR, the following RA program refinement topics were identified for possible consideration in Phase 1: (1) review of the rules for counting the net qualifying capacity (NQC) of intermittent resources, (2) review of outage counting rules to ensure coordination of the RA program with CAISO tariff provisions, (3) monthly true-ups of local procurement obligations for load migration impacts, (4) review of the counting rules for new resources, (5) review of whether and how QF resources whose contracts are extended pursuant to Decision (D.) 07-09-040 count for RA compliance, and (6) modification of the RA compliance filing procedure to reduce paperwork and the need for corrections. While these topics were deemed "reasonable candidates for exploration in the Phase 1 workshops and comments," the Energy Division was authorized to suspend discussions on them in the event of controversy or delay associated with any need for data or analysis. (Phase 1 Scoping Memo, p. 4.)

The Phase 1 Scoping Memo provided for a possible seventh topic based on a then-pending motion by the Alliance for Retail Energy Markets (AReM) to address timing issues associated with capacity credits from energy auctions. AReM's motion for inclusion of this issue in Phase 1 was granted by ruling of the Administrative Law Judge (ALJ) on March 7, 2008 with the caveat that, like the other Phase 1 topics, the issue may be deferred to a later phase as necessary.

Pursuant to the schedule and procedure established by the Phase 1 Scoping Memo, the Commission's Energy Division facilitated workshops on March 24 and 25, 2008. In conjunction with the workshop process, the Energy Division coordinated the exchange of informal proposals by and among

workshop participants. On April 15, 2008, the Energy Division served a report reviewing the RA program's experience in 2007. On April 18, 2008, the Energy Division served summaries of the Phase 1 workshops and related documents. Following a stakeholder process that began in 2007, on May 1, 2008 the CAISO posted its "2009 Local Capacity Technical Analysis, Final Report and Study Results" (2009 LCR Study) on its website and served notice of the report's availability. These workshop discussions, informal proposals, and reports served to inform the formal comments and replies, filed May 12 and 19, 2008, respectively, that constitute the Phase 1 record.

AReM; CAISO; California Wind Energy Association (CalWEA); Division of Ratepayer Advocates (DRA); Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, Dynegy Oakland, LLC, and Dynegy South Bay, LLC (Dynegy); Independent Energy Producers Association (IEP); Pacific Gas and Electric Company (PG&E); Southern California Edison Company (SCE); San Diego Gas & Electric Company (SDG&E); Sempra Energy Solutions, LLC (SES); and The Utility Reform Network (TURN) filed comments. Replies were filed by AReM, Cogeneration Association of California (CAC), CAISO, CalWEA and American Wind Energy Association, California Large Energy Consumers Association and California Manufacturers and Technology Association, DRA, Dynegy, IEP, PG&E and TURN, SCE, SDG&E, and SES.

Today's decision concludes Phase 1 of this proceeding. Phase 2 will commence upon issuance of the assigned Commissioner's scoping memo for Phase 2.

### **3. Local RA for 2009**

#### **3.1. 2009 LCR Study**

D.06-06-064 determined that a study of local capacity requirements performed by the CAISO would form the basis for this Commission's Local RA program. The CAISO conducts its LCR study annually, and this Commission resets local procurement obligations each year based on the CAISO's LCR determinations. As noted above, on May 1, 2008 the CAISO issued its final LCR report and study results for 2009.

The CAISO states that the assumptions, processes, and criteria used for the 2009 LCR study were discussed and recommended in a stakeholder meeting held on October 11, 2007, and that, on balance, they mirror those used in the 2007 and 2008 LCR studies. The CAISO identified and studied capacity needs for the same ten local areas as in the previous study: Humboldt, North Coast/North Bay, Sierra, Greater Bay, Greater Fresno, Big Creek/Ventura, LA Basin, Stockton, Kern, and San Diego.

The 2008 and 2009 summary tables in the 2009 LCR report, copied below, show that for all ten areas combined, the total LCR associated with reliability Category C declined slightly, from 28,106 MW in 2008 to 27,915 MW in 2009. This reduction occurred even though the peak load is expected to increase in nine of the ten areas. The LCRs for four areas (Big Creek/Ventura, LA Basin, Stockton, and Kern) declined, while the LCRs for the other six areas increased. The CAISO notes that projects such as the installation of the new Antelope Transmission Project Sections 1, 2, and 3 and various substation projects led to the LCR reductions. It attributes the LCR reduction for the Kern local area to a downward load trend.

## 2009 Local Capacity Requirements

Local Area Name	Qualifying Capacity			2009 LCR Need Based on Category B			2009 LCR Need Based on Category C with operating procedure		
	QF/Muni (MW)	Market (MW)	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)
Humboldt	48	135	183	177	0	177	177	0	177
North Coast / North Bay	217	728	945	766	0	766	766	0	766
Sierra	1012	768	1780	1453	226	1679	1617	703	2320
Stockton	276	265	541	491	34	525	541	185	726
Greater Bay	1111	5662	6773	4791	0	4791	4791	0	4791
Greater Fresno	510	2319	2829	2414	0	2414	2680	0	2680
Kern	646	31	677	208	0	208	417	5	422
LA Basin	3942	8222	12164	9728	0	9728	9728	0	9728
Big Creek/ Ventura	931	4201	5132	3178	0	3178	3178	0	3178
San Diego	201	3442	3663	3113	0	3113	3113	14	3127
<b>Total</b>	<b>8894</b>	<b>25773</b>	<b>34687</b>	<b>26319</b>	<b>260</b>	<b>26579</b>	<b>27008</b>	<b>907</b>	<b>27915</b>

## 2008 Local Capacity Requirements

Local Area Name	Qualifying Capacity			2008 LCR Need Based on Category B			2008 LCR Need Based on Category C with operating procedure		
	QF/Muni (MW)	Market (MW)	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)	Existing Capacity Needed	Deficiency	Total (MW)
Humboldt	45	135	180	175	0	175	175	0	175
North Coast / North Bay	262	621	883	676	0	676	676	0	676
Sierra	1014	766	1780	1780	89	1869	1780	312	2092
Stockton	272	264	536	460	15	475	536	250	786
Greater Bay	1116	5098	6214	4688	0	4688	4688	0	4688
Greater Fresno	496	2495	2991	2212	0	2212	2274	108	2382
Kern	615	31	646	259	0	259	463	23	486
LA Basin	3545	8545	12093	10130	0	10130	10130	0	10130
Big Creek/ Ventura	1463	3933	5396	3562	0	3562	3658	0	3658
San Diego	201	2718	2919	2919	114	3033	2919	114	3033
<b>Total</b>	<b>9029</b>	<b>24606</b>	<b>33638</b>	<b>26861</b>	<b>218</b>	<b>27079</b>	<b>27299</b>	<b>807</b>	<b>28106</b>

The comments reveal no disagreement with CAISO's LCR determinations for 2009. We are pleased to note that the past efforts towards greater transparency and opportunity for participation in the LCR study process appear to have paid off in significant part, as reflected in the comments. We determine that the CAISO's final 2009 LCR study should be approved as the basis for establishing local procurement obligations for 2009 applicable to Commission-jurisdictional LSEs.

SCE notes that the 2009 LCR study identified and analyzed new sub-areas within the Big Creek/Ventura and LA Basin local areas. SCE recommends that these sub-area determinations be used only for planning purposes, and that the local areas for which LSEs have local procurement obligations remain the same for 2009 as they were in 2008. It is our understanding that the CAISO does not propose that we use its sub-area determinations to establish local procurement obligations. We concur with SCE's recommendation.

SCE recommends that two operating solutions approved by the CAISO should be incorporated in the local procurement obligations that we establish: Santiago N-2 Special Protections System and La Cienega/El Nido N-2 Special Protection System. The first of these operating solutions would mitigate the LA Basin LCR by about 500 MW. We have approved the use of CAISO-approved operating solutions to mitigate LCRs in previous decisions, and we do so here.

PG&E and SCE offered and discussed recommendations for improving future LCR studies. As noted in the Phase 1 Scoping Memo, Phase 2 will address LCR study improvements, including consideration of a more detailed LCR study

schedule that will address such recommendations. We encourage all parties to bring forward such ideas in Phase 2.

### **3.2. Local Procurement Obligations for 2009**

#### **3.2.1. Continuation of the Local RA Program**

D.06-06-064 adopted a framework for Local RA and established local procurement obligations for 2007 only. D.07-06-029 established local procurement obligations for 2008 only. We intend that Local RA program and associated regulatory requirements adopted in D.06-06-064 and D.07-06-029 shall be continued in effect for 2009, subject to the 2009 LCRs and procurement obligations adopted by this decision.

In previous decisions, we have delegated ministerial aspects of RA program administration to the Commission's Energy Division. The Energy Division should implement the local RA program for 2009 in accordance with the adopted policies and principles.

#### **3.2.2. Reliability Options**

The 2009 LCR report sets forth two sets of LCRs associated with reliability options based on North American Electricity Reliability Council (NERC) Performance Level B and Performance Level C criteria. As the CAISO's report explains:

##### **1. Option 1 - Meet Performance Criteria Category B.**

Option 1 is a service reliability level that reflects generation capacity that must be available to comply with reliability standards immediately after a NERC Category B given that load cannot be removed to meet this performance standard under Reliability Criteria. However, this capacity amount implicitly relies on load interruption as the **only means** of meeting any Reliability Criteria that is beyond the loss of a single transmission element (N-1). These situations will likely require substantial load

interruptions in order to maintain system continuity and alleviate equipment overloads prior to the actual occurrence of the second contingency.

**2. Option 2 – Meet Performance Criteria Category C and Incorporate Suitable Operational Solutions.**

Option 2 is a service reliability level that reflects generation capacity that is needed to readjust the system to prepare for the loss of a second transmission element (N-1-1) using generation capacity after considering all reasonable and feasible operating solutions (including those involving customer load interruption) developed and approved by the CAISO, in consultation with the [Participating Transmission Owners (PTOs)]. Under this option, there is no expected load interruption to end-use customers under normal or single contingency conditions as the CAISO operators prepare for the second contingency. However, the customer load may be interrupted in the event the second contingency occurs.

As noted, Option 2 is the local capacity level that the CAISO requires to reliably operate the grid per NERC, [Western Electric Coordinating Council (WECC)], and CAISO standards. As such, the CAISO recommends adoption of this Option to guide resource adequacy procurement. (2009 LCR Report, p. 15; emphasis in original.)

D.06-06-064 determined that the reliability level associated with Option 2 as defined in the 2007 LCR study should be applied as the basis for local procurement obligations for that year. The Commission stated that “[w]hile we expect to apply Option 2 in future years in the absence of compelling information demonstrating that the risks of a lesser reliability level can reasonably be assumed, we nevertheless leave for further consideration in this proceeding the appropriate reliability level for Local RAR for 2008 and beyond.”

(D.06-06-064, p. 21.) D.07-06-029 adopted Option 2 as recommended by the CAISO for 2008 local procurement obligations. There is no evidence or recommendation before us suggesting that assumption of the reduced reliability associated with Option 1 is reasonable for 2009. We therefore affirm the continued application of Option 2 to establish local procurement obligations for 2009.

### **3.2.3. Aggregation of Local Areas**

To address supplier market power concerns, D.06-06-064 established an approach for aggregation of certain local areas for 2007. After determining each LSE's allocation of Local RAR for each local area based on its share of load in the investor-owned utility (IOU) distribution service area, the Commission determined that six local areas within the PG&E territory (Humboldt, North Coast/North Bay, Sierra, Stockton, Greater Fresno, and Kern) should be aggregated as one for purposes of RA compliance. D.07-06-029 found that continuation of the aggregation approach for these six areas was reasonable for 2008, although it repeated the concern expressed in D.06-06-064 that aggregation might lead to over- or under-procurement in some areas.

AREM supports continuation of the local area aggregation approach for the six areas in PG&E's territory, and TURN notes that no reason has been offered to alter it. No party has raised a concern that reliability would be impaired by continuing the approach for 2009. We find it is reasonable to continue the previously adopted aggregation approach for 2009.

### **3.2.4. Local Area Resource Deficiencies**

The LCR study identifies deficiencies in qualifying capacity resources in certain local areas. In the 2009 study the CAISO determined that

such deficiencies exist in the Sierra, Stockton, Kern, and San Diego local areas that total to 907 MW.

Because it would not be “reasonable to require LSEs to procure capacity that, according to the LCR study, does not currently exist in an area,” the Commission directed the Energy Division to calculate reduced LCRs for those areas. (D.06-06-064, pp. 21-22.) D.06-06-064 authorized this “blanket waiver” treatment of deficiencies for 2007 only, and D.07-06-029 approved similar treatment of local area deficiencies for 2008. We will again approve blanket waiver of the local procurement requirement in the resource-deficient areas identified by the CAISO.

### **3.2.5. Coordination With CAISO Backstop Procurement**

In the previous local RA decisions we have established local RA compliance filing procedures in coordination with the CAISO’s Reliability Must Run (RMR) mechanism. To minimize unnecessary procurement, we established an iterative process whereby LSEs submitted preliminary showings in September that the CAISO would consider before making RMR commitments. The final compliance showings were made due on October 31, and the System RA compliance filing date was reset to October 31 as well. We are aware of no recommendation or other basis for changing this procedure for 2009. Accordingly, for the 2009 compliance cycle, preliminary local procurement showings shall be made on September 19, 2008 and final compliance showings for both local RA and System year-ahead RA shall be due on October 31, 2008.<sup>1</sup>

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<sup>1</sup> These dates may be altered as necessary by assigned Commissioner or assigned ALJ Ruling.

D.07-06-029 approved a procedure (Proposal 8) for integrating the Commission's RA and the CAISO's procurement procedures. It would be reasonable and appropriate to implement Proposal 8 in 2009, adapting the 2008 schedule, and with the CAISO only designating units with 2008 RMR contracts that were not under RA contracts in the preliminary RA compliance filings.

#### **4. RA Program Refinements**

As previously noted, the Phase 1 Scoping Memo identified seven RA program refinement topics for possible consideration in this decision provided that such consideration does not interfere with timely issuance of the decision on local procurement obligations for 2009. Upon reviewing the comments, we determine that more time is needed before two of these topics can be decided, that is the topics of revised NQC counting rules for intermittent resources and monthly true-ups of local procurement obligations for load migration impacts. We therefore defer these topics to Phase 2. We also decline to resolve herein issues that do not fall within the scope of Phase 1.

##### **4.1. Outage Counting Rules**

D.06-07-031 adopted a protocol for determining how the NQC of resources with scheduled outages should be counted. PG&E is concerned that the protocol results in scheduled outages being counted twice in assessing the RA value of certain resources, such as QFs, that utilize historic performance as the basis for setting their NQC. PG&E explains that the initial NQC calculation for these resources reflects their reduced generation during scheduled outages taken in the three-year historic averaging period. The scheduled outages of these units are applied a second time to reduce their RA counting value under the protocol.

To resolve this issue, PG&E asks that we clarify that the counting protocol for scheduled outages adopted in D.06-07-031 applies only to resources with the scheduled outage (or “SO”) designation in the NQC counting rule, as specified in Sections 5 and 5.3 of the 2004 Workshop Report. SCE, SDG&E and TURN support adoption of this clarification, while the CAISO urges its rejection.

The CAISO agrees that there is a double counting problem under the current rules, but it believes that PG&E’s proposed solution is inappropriate. According to the CAISO, under PG&E’s approach resources known in advance to be unavailable to meet system needs would nevertheless count in full towards an LSE’s RA obligation. The CAISO believes that the double counting problem should be resolved by adjusting the calculation of historic output.

While the double counting of outages for these resources should be corrected to avoid unnecessary procurement, we are not ready to accept PG&E’s proposed exemption from the scheduled outage counting protocol as the preferred solution. Before changing the protocol or granting an exemption for a particular class of resource, we need a more comprehensive analysis of the extent of the double counting problem and whether it is better resolved by modifying NQC counting methodologies as recommended by the CAISO.

If it is confirmed that the scope of the problem is not of major significance, it may be more appropriate to adopt PG&E’s approach since it appears to be more efficient administratively. Because any double counting of outages should be mitigated or eliminated, this topic should be resolved in Phase 2.

#### **4.2. New Resources**

Several proposals for clarifying or revising existing rules that govern how new resources are counted were offered. First, the CAISO proposes that the

rule for determining a resource's eligibility should focus only on the term "commercial operation." Second, SDG&E proposes a waiver from local procurement obligations equivalent to a new resource's capacity in the early months of the year, before the resource is commercially operational. Several parties offer clarifications or minor modifications to the current rules and/or the SDG&E approach. In comments on the Proposed Decision, PG&E offered an alternative approach, described below.

#### **4.2.1. CAISO's Proposal**

The current rule for counting new resources, adopted by D.05-10-042, relies on the concepts of "commercial operation date" and "operational status." The CAISO proposes a simplification that focuses on the former term. Specifically, any generating resource that achieves commercial operation by the date of the relevant RA compliance showing should be eligible to count.<sup>2</sup> The result of this proposal is that resources known to the CAISO and the Commission to have achieved commercial operation can be counted.

Since resources that have not achieved commercial operation status may be subject to delays in testing or other necessary steps before being fully available to the CAISO for reliability purposes, it is reasonable that only those resources which have achieved commercial operation status on or before the date of the LSE's compliance showing can be counted for an RA compliance period. For example, if the month-ahead system RA showing for June, 2011 is due on

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<sup>2</sup> Under the CAISO Tariff, commercial operation, is "[t]he status of a Generating Unit at a Generating Facility that has commenced generating electricity for sale, excluding electricity generated during a Trial Operation."

April 30, 2011, a unit that achieved commercial operation on or before April 30, 2011 would be eligible to count for June.

In the case of year-ahead showings for local RA, the same logic applies: only resources that achieve commercial operation status on or before the date of the compliance showing would be eligible for NQC. For example, if the 2012 year-ahead showing is due on October 31, 2011, only resources that have achieved commercial operation status by October 31, 2011 should be counted. Resources that come online after that date could be counted in month-ahead filings during 2012 for all filings due on or after the date of commercial operation.

In the case of year-ahead system filings, the month-ahead filings serve as the true-up mechanism. Therefore, resources that have not reached commercial operation status by the date of the year-ahead filing can continue to be counted for system RA under the same procedure as used for compliance year 2008 (*i.e.*, by listing on the “under construction” page of the template).

We find the CAISO proposal to focus on a resource’s commercial operation status to be a reasonable simplification of the current rule and therefore adopt it. Other alternatives, such as IEP’s proposal to evaluate when a unit achieves a percentage of its output, could be administratively burdensome.

PG&E raised a concern that a new unit that has reached commercial operation status but has not yet been included on the CAISO’s posted NQC list might not count for RA purposes. We clarify that the Energy Division is authorized to approve the counting of such units.

#### **4.2.2. SDG&E’s Proposal**

SDG&E proposed that resources expected to achieve commercial operation by April 1 should be eligible for year-ahead local RA filing. As noted

above, resources that have not reached commercial operation may not achieve that status by a projected future date. For this reason, a mechanism would be needed to true up the local capacity as possible delays become known. Unlike the system RA approach, at present no such mechanism exists. Moreover, there is not an adequate record in this proceeding to support creating a true-up for local RA after the year-ahead filing. Therefore, this proposal should not be implemented at this time.

#### **4.2.3. PG&E's Proposal**

PG&E notes that its Gateway Generating Station is expected to be commercially operational in early 2009. Under existing counting rules that would be continued in effect under the Proposed Decision, the unit would not count for local RA for 2009. PG&E would have to contract with an existing local resource for the full year to meet local requirements rather than just contract with such resource for a few months to bridge the period until the Gateway unit comes on line. PG&E states this could cost as much as \$24 million, and asserts that such an outcome conflicts with the policy of retiring older resources.

In comments on the Proposed Decision, PG&E offered an alternative interim proposal for counting new resources. PG&E proposes that new resources may be counted toward local RA obligations in the year-ahead demonstration if the LSE also demonstrates local procurement sufficient to cover the obligation in the months preceding the expected commercial operational status of the new resource. PG&E suggests including a stipulation that any LSE relying on a new resource for local RA needs would be responsible for replacing local capacity if for some reason the new resource's commercial operational date is delayed. The Joint Parties urge adoption of this approach, and the CAISO also supports it, noting that "the flexibility of PG&E's proposal outweighs the risk of

significant CAISO backstop capacity procurement resulting from its adoption.” (CAISO reply comments, p. 3.)

We adopt PG&E’s proposal for 2009 only, with the following limitation. An LSE that relies on a new resource that has not become commercially operational as of the date of its final annual local RA compliance showing shall, in such showing, (1) claim the entire new resource and (2) show a single local unit that it will show on every monthly filing to make up the capacity until the new unit has reached commercial operational status.

#### **4.3. QF Resources**

Prior to the workshops, SCE raised the issue of whether and how QF resources whose contracts are extended pursuant to D.07-09-040 should count for RA compliance showings. TURN notes that consensus was reached during the workshops that deliveries from these contract extensions should count for RA. There is no opposition to this proposal, and we affirm that such contracts should count.

SCE also proposed that the NQC for dispatchable QF resources should be calculated as it is for non-QF thermal units rather than by using a historical average. No party opposes this proposal on its merits, although AReM proposes that consideration be deferred to Phase 2, when the Commission would also address whether to allocate QF RA credits to all LSEs.

A dispatchable QF resource has the ability to provide greater grid reliability benefits than would be reflected by an NQC determination that is based solely on the unit’s historical performance. We concur with SCE that we should not delay realization of this benefit until the issue of which LSEs can claim RA credits associated with the QF unit is resolved. Accordingly, SCE’s

proposal for counting these resources in the same manner as non-QF units of similar fuel type and technology is approved.

#### **4.4. RA Compliance Reporting**

Decision 05-10-042 adopted a compliance reporting procedure based on the Commission's advice letter process. The Energy Division has developed a proposed replacement system that relies on a new reporting template and electronic submission of compliance showings to the Energy Division using the Commission's File Transfer Protocol (FTP) computer application.<sup>3</sup>

The Energy Division reports that staff and LSEs have encountered two types of complexities and difficulties with the current RA process. First, the Energy Division sends allocations of Demand Response (DR), CAM,<sup>4</sup> and RMR capacity credits to the LSEs by computer files. LSEs are required to manually input these allocations into the compliance template. LSEs are also required to manually check other information against an NQC database published by the CAISO. This creates the possibility for incorrect copying. Second, Energy Division finds that the current procedure of filing by Advice Letter does not accommodate electronic filing well, nor does it provide an easy means for tracking arrival and inputting values from the filings or submission of revisions. Although review of the filings by Energy Division has become significantly more streamlined, there is still some inefficiency that can be eliminated.

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<sup>3</sup> While reference is commonly made to electronic "filing" of RA compliance showings, we emphasize that these submissions are made to the Energy Division. They are not formal documents filed with the Commission's Docket Office.

<sup>4</sup> This is capacity that is allocated to LSEs in accordance with the cost allocation methodology (CAM) adopted in D.06-07-029.

To address these concerns, the Energy Division redesigned the template and proposed a reevaluation of the filing procedures to ease the administrative obligation on LSEs and staff. The broad outline of Energy Division's proposed revisions is summarized below:

Addition of the NQC list to the template, which enables creation of a dropdown list for Scheduling Resource IDs. With this dropdown list, the LSE is no longer required to fill in the Local/Zonal Designation in Column D, as that is filled in automatically.

LSE specific allocations of DR, RMR, and CAM are inserted into the template, and each LSE receives a spreadsheet individually password protected and sent via Secure FTP. This enables the allocations as issued by Energy Division to automatically populate the formulas in the spreadsheet. As CAM capacity is currently allocated quarterly, the templates will arrive to each LSE quarterly.

Each LSE will receive on a quarterly basis a template pre-populated with their allocations, and will select only the month of the filing on the summary page. The rest of the summary page is now automated.

Unit-Specific Department of Water Resources (DWR) contracts are to be entered into the Physical Resource page and Import DWR contracts are to be entered into the Import page, both to facilitate agency review.

The template now includes both the Year-Ahead and Month-Ahead Summary pages, and they are linked and automated so that the LSE submits both each month. This alleviates confusion related to which template the LSE ought to be using. Staff will use whichever one is appropriate for compliance.

The template includes the Local RA Template that will enable monthly adjustments made to Local RA obligations. This is for demonstration, to ensure that should a mechanism like this be adopted, there has been beta testing on the template to ensure that it works. There is also a

column for Local RA procured in the Physical Resource Worksheet to represent that for any given month the RA capacity procured might be different from the August NQC value that is to be used for Local RA compliance.

The LSE no longer will submit the filing via Advice Letter, but instead simply create a Secure FTP account with the Commission as detailed in the attached document and submit the files directly to a secured mailbox to be created for this purpose. This enables the Commission to better track submission and arrival of the Filings, and hopefully cut costs and administrative obligations on the part of the LSEs.

The templates sent to the LSEs quarterly will be based on the most recent RA Filings filed by LSEs to the Energy Division, and Energy Division will insert a revised allocations page and new NQC spreadsheet should that be revised as well. The LSE will ideally not have to reenter the resources listed in the resource worksheets, as Energy Division will make no changes to those sheets.

Energy Division staff demonstrated the proposed template in the Phase 1 workshops, and it subsequently provided parties with a tutorial regarding the FTP as well as the draft compliance template for parties to begin beta testing. Energy Division also plans to hold an informational workshop on this process this summer.

The comments indicate broad support for the Energy Division's initiative. We join the parties in expressing appreciation to the Energy Division for developing a more efficient and effective compliance filing process that should benefit the LSEs and reviewing staff alike. We approve the adoption of the new procedure, and the cessation of RA compliance showings by the current advice letter process, upon confirmation by the Energy Division that the new

system has been tested and is fully operational.<sup>5</sup> We adopt the proposal by SCE to require that LSEs submit a cover letter that cross-references the LSE's separate FTP submission to the Energy Division and requests approval of the LSE's compliant status for the applicable period. We intend that the confidentiality policies and procedures adopted in R.05-06-040, insofar as they apply to advice letter filings, shall apply in like fashion to compliance filings made under this new procedure.

#### **4.5. Allocation of CAM-Related RA Credits**

Decision 06-07-029 provided that IOU procurement of new generation would generally be done through long-term power purchase agreements (PPAs), and that the advantages and costs of the new generation are to be shared by all benefiting customers in the IOU's service territory. The capacity and energy from the PPA are unbundled, and rights to the capacity are allocated among all the LSEs in the IOU's service territory according to each LSE's share of the coincident peak. LSEs can apply this allocated CAM-related capacity towards their RA procurement obligations. A subsequent implementation decision (D.07-09-044) addressed concerns about the timing of reallocations of capacity subject to the CAM, and provided that:

The Commission is mindful of Settling Parties concerns [that reallocations accurately reflect capacity changes] and will see that a means for ensuring fair and equitable

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<sup>5</sup> Pursuant to the delegation of authority for ministerial matters that was approved by D.06-07-031, Energy Division may determine when the new compliance filing system is ready for implementation. Similarly, Energy Division is authorized to implement the rounding convention described in the Energy Division's "Staff Implementation Proposal #1," served on April 18, 2008. Energy Division should evaluate the changes to the template that were discussed in comments on the proposed decision, and implement those changes it deems necessary or appropriate.

implementation of the CAM for RA purposes is discussed in a workshop in the RA proceeding, R.05-12-013 or its successor proceeding. (D.07-09-044, p. 6.)

AReM seeks to change the quarterly allocation of CAM-related RA credits that was ordered by D.07-09-044 to a monthly allocation. During the Phase 1 workshops, most parties agreed that the existence of just one CAM contract in force today did not justify the administrative costs of a move to monthly allocations. The workshop discussions then centered on defining the threshold for determining when the change from quarterly to monthly allocations would be justified. In its post-workshop comments, AReM proposed that the trigger for changing to monthly allocations of RA credits be defined as the date that one additional CAM contract becomes operational.

Although AReM has offered a straightforward proposal that is not contested, Energy Division advises that there may be unresolved workload issues associated with the proposed shift to monthly allocations. Since no new CAM contracts are anticipated for 2009, the matter is not urgent. We will defer resolution of AReM's proposal to Phase 2. Energy Division should present a proposal in Phase 2 that addresses the workload issues and any related concerns.

## **5. Comments on Proposed Decision**

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by AReM and SES, CAISO, DRA, PG&E, SCE, SDG&E, TURN, and WPTF, and reply comments were filed by AReM and SES, CAISO, SCE, and jointly by PG&E, SDG&E, and TURN. We have made several revisions to clarify the decision. Most significantly, we adopt a proposal for counting new resources in 2009.

## **6. Assignment of Proceeding**

Michael R. Peevey is the assigned Commissioner and Mark S. Wetzell is the assigned ALJ in this proceeding.

### **Findings of Fact**

1. The assumptions, processes, and criteria used for the 2009 LCR study were discussed and recommended in a CAISO stakeholder meeting, and they generally mirror those used in the 2007 and 2008 LCR studies.

2. The Option 1 (Category B) reliability level presented in the 2009 LCR study report implicitly relies on load interruption as the only means of meeting any Applicable Reliability Criteria beyond the loss of a single transmission element, whereas Option 2 (Category C) is the local capacity level that the CAISO needs to reliably operate the grid per NERC, WECC, and CAISO standards.

3. Resources that have not achieved commercial operation status may be subject to delays in testing or other necessary steps before being fully available to the CAISO for reliability purposes.

4. A dispatchable QF resource has the ability to provide greater grid reliability benefits than would be reflected by an NQC determination that is based solely on the unit's historical performance.

5. The current RA compliance filing process requires manual data processing, which can be costly and lead to data errors.

6. The current procedure of submitting compliance showings by advice letter does not accommodate electronic filing, and it does not provide an easy means for tracking arrival and inputting values from the submission and revisions to them.

### **Conclusions of Law**

1. The CAISO's 2009 LCR study should be approved as the basis for establishing local procurement obligations for 2009 applicable to Commission-jurisdictional LSEs.
2. Application of the Option 2/Category C local area reliability standard approved for 2007 and 2008 should be continued for setting local procurement obligations for 2009.
3. The total local procurement obligation for the LA Basin local area should reflect the approximate 500 MW mitigation that results from the approved Santiago N-2 Special Protections System operating solution.
4. Because the current Local RA program establishes procurement obligations for the following year, LSEs should only be responsible for procurement in a local area to the level of resources that exist in the area.
5. Focusing on a new resource's commercial operation status is a reasonable and straightforward simplification of the current rule for counting new resources and should therefore be adopted.
6. QF resources whose contracts are extended pursuant to D.07-09-040 should count for RA compliance showings, and the NQC for dispatchable QF resources should be calculated as it is for non-QF units of similar fuel type and technology.
7. The Energy Division should be authorized and directed to implement the local RA program for 2009 and its proposed compliance reporting procedure in accordance with the adopted policies and principles.

**O R D E R**

**IT IS ORDERED** that:

1. The local resource adequacy (RA) program and associated requirements adopted in Decision (D.) 06-06-064, and continued in effect by D.07-06-029, are continued in effect for 2009, subject to the modifications, refinements, and Local Capacity Requirements (LCRs) adopted by this decision.

2. The "Option 2/Category C" LCRs set forth in the California Independent System Operator's (CAISO) *2009 Local Capacity Technical Analysis, Final Report and Study Results*, dated May 1, 2008, are adopted as the basis for establishing Local RA procurement obligations for load-serving entities (LSEs) subject to this Commission's RA program requirements.

3. The modifications for counting the Net Qualifying Capacity (NQC) of new resources and Qualifying Facilities resources are approved as set forth in the foregoing discussion, findings, and conclusions.

4. The Energy Division's proposed compliance reporting procedure shall replace the current advice letter process for compliance showings upon confirmation by the Energy Division that the new system has been tested and is fully operational.

5. Phase 1 is concluded, and this proceeding remains open for consideration of Phase 2 issues.

6. The assigned Commissioner or assigned Administrative Law Judge may extend any compliance dates set forth in this decision.

This order is effective today.

Dated June 26, 2008, at San Francisco, California.

MICHAEL R. PEEVEY

President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
TIMOTHY ALAN SIMON  
Commissioners