

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

Order Instituting Rulemaking to Integrate  
And Refine Procurement Policies and Consider Long  
Term Procurement Plans

Rulemaking 10-05-006  
(Filed May 6, 2010)  
Tracks I and III

**REPLY TESTIMONY OF KEVIN WOODRUFF  
ON BEHALF OF THE UTILITY REFORM NETWORK  
REGARDING TRACKS I AND III**

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1  Q. Please introduce yourself and your client.

2  A. I am Kevin Woodruff, Principal of Woodruff Expert Services, testifying on behalf of The  
3  δ Utility Reform Network (TURN).

4  δ

5  Q. Are you the same Kevin Woodruff that filed testimony on behalf of TURN in this docket  
6  δ on August 4, 2011?

7  A. Yes.

8  δ

9  Q. What is the purpose of this Reply Testimony?

10  A. I am filing this Reply Testimony to respond to three other parties' testimony that was also  
11  δ filed August 4, pursuant to the Administrative Law Judge's various rulings regarding the  
12  δ schedule for Tracks I and III of this docket, including his oral ruling of August 11 that I  
13  δ could submit this Reply Testimony in writing rather than orally.

14  δ

15  Q. To which three parties will you be responding in this Reply Testimony?

16  A. I will be responding to the testimony filed by witness for three other parties: Calpine, the  
17  δ Independent Energy Producers (IEP) and the Western Power Trading Forum (WPTF).

18  δ

19  Calpine:

20  Q. What testimony filed on behalf of Calpine are you addressing?

21  A. I am responding to the Track I Direct Testimony of Calpine Corporation sponsored by  
22  δ Dr. Matthew Barmack. Dr. Barmack is proposing that this Commission direct the  
23  δ utilities "to hold intermediate term (3-5 years) resource solicitations for flexible capacity  
24  δ from existing resources" (3:19-21).

25  δ

26  Q. Do you have any concerns with Calpine's proposal?

27  A. Yes. As detailed below, I have many concerns with Calpine's proposal and Dr.  
28  δ Barmack's supporting testimony. I believe the Commission should simply reject  
29  δ Calpine's proposal.

30  δ

δ

1  Q. Dr. Barmack suggests that existing efficient gas-fired resources, such as the Combined  
2  δ Cycle Gas Turbine (CCGT) resources that Calpine owns, without long-term contracts  
3  δ may not earn sufficient revenue streams in the next few years to remain viable, and might  
4  δ be retired as a result (11:15-17). Do you believe that this is a credible threat?

5  A. No. CCGTs are the most efficient gas resources on the CAISO system and even in the  
6  δ current market should be expected to recover their “going forward” costs, that is,  
7  δ revenues sufficient to pay for the costs of operating the plant and provide some net  
8  δ revenue to the owner. Even if these revenues are not sufficient to allow the recovery of  
9  δ sunk capital costs, a rational owner would continue to operate the units.

10  δ

11  Q. If CCGT owners find economic retirement actually is preferable to continued operation  
12  δ of plants without contracts, does that mean that such owners will necessarily retire their  
13  δ CCGTs?

14  A. No. Owners have other options to managing negative cash flows. For example, CCGT  
15  δ owners could “mothball” some or all of their resources, that is, shut them down  
16  δ temporarily until market conditions improve. Such steps can keep capacity available for  
17  δ future need without the expense of building new capacity. Further, if project economics  
18  δ are that unfavorable, a CCGT owner could sell one or more of its resources to other  
19  δ parties that may be able to run them profitably, possibly a utility. These possibilities  
20  δ should be part of any discussion of the risks that current resources will be permanently  
21  δ “retired”.

22  δ

23  Q. Do you have any concerns about Dr. Barmack’s analysis of CCGT economics in current  
24  δ markets?

25  A. Yes. Dr. Barmack suggests in several places that Calpine’s current troubles are driven by  
26  δ a lack of “revenue streams” in current markets to allow plant owners to recover their  
27  δ “going forward costs”. When considering any financial distress that CCGT owners may  
28  δ be feeling, it is also important to remember other factors affecting project revenues,  
29  δ particularly (a) the reduction gas prices of recent years, which has reduced the \$/MWh  
30  δ “spark spread” that efficient gas generators like CCGTs earn, (b) the reductions in load  
31  δ over the last few years due to the recession, which reduces the MWh that CCGTs can

~~Q~~

1  ~~Q~~ sell, and (c) high hydro conditions in the West over the past several months, which also  
2  ~~Q~~ reduces MWh sales and \$/MWh prices. It is not reasonable to assign all responsibility for  
3  ~~Q~~ any distress CCGTs may now be feeling to the current surplus or market design issues.  
4  ~~Q~~ Calpine's complaints should instead be evaluated against this backdrop of market  
5  ~~Q~~ conditions.

6  ~~Q~~

7  ~~Q~~. Should the Commission insulate Calpine from the impacts of these market conditions?

8  ~~A~~. No. Calpine made a business decision to bet big on building gas-fired generating  
9  ~~A~~ capacity in restructured electricity markets. There is no reason the Commission should  
10  ~~A~~ bail out Calpine from the consequences of such decisions when market conditions are  
11  ~~A~~ unfavorable to Calpine. I seriously doubt that Calpine would offer to return its earnings  
12  ~~A~~ to customers associated with higher revenues realized during recent periods of hurricane-  
13  ~~A~~ driven high gas and power prices.

14  ~~A~~

15  ~~Q~~. What kind of prices would Calpine get if it were to sign three to five year contracts in the  
16  ~~Q~~ current market?

17  ~~A~~. As Dr. Barmack has recognized, multi-year contract prices are closely related to short-  
18  ~~A~~ term market prices. Generic three to five contracts for capacity and energy would thus  
19  ~~A~~ likely offer negligible revenues.

20  ~~A~~

21  ~~Q~~. How could a contracting requirement be structured such that Calpine might earn higher  
22  ~~Q~~ revenues?

23  ~~A~~. The only way I see to structure such a contracting requirement would be to specify that  
24  ~~A~~ the utilities must procure a high amount of capacity from power plants with operating  
25  ~~A~~ attributes very specific to modern CCGT units. Given such a procurement target, owners  
26  ~~A~~ of CCGT units – particularly Calpine – could be in a strong position to command prices  
27  ~~A~~ well in excess of current market revenues.

28  ~~A~~

29  ~~Q~~. Do you think Calpine in particular would benefit from an order to the utilities to procure  
30  ~~Q~~ significant MW of CCGT attributes as you described above?

δ

1  A. Yes. Depending on the exact structure of the requirement and solicitation, given the  
2  δ amount of CCGT capacity Calpine owns, it could be in a dominant position in that  
3  δ “market”. Calpine might be able to exercise significant market power in such a  
4  δ procurement process, extracting significant new revenues from utility customers.

5  δ

6  Q. How much capacity is Calpine asking the Commission to order the utilities to procure?

7  A. It is not clear exactly how much capacity Dr. Barmack is calling on the Commission to  
8  δ require the IOUs to acquire (pp. 16-17). But at one point (16:22-23), he states “The IOUs  
9  δ could satisfy such requirements by securing all of the resources that are assumed to  
10  δ continue to operate in the CAISO and IOU renewable integration modeling”.

11  δ

12  Q. Would procurement of this amount of capacity be reasonable?

13  A. No. First, I think parties recognize that methodology and results are not fully developed  
14  δ and that its results consequently cannot be used to draw conclusions about future resource  
15  δ needs. For example, most parties to this case signed the Settlement Agreement that stated  
16  δ “There is general agreement that further analysis is needed before any renewable  
17  δ integration resource need determination is made” (p. 5). So an argument that all capacity  
18  δ assumed to operate in the CAISO and IOU modeling will be necessary is not persuasive.  
19  δ Second, I would note that the CAISO’s Track I testimony showed that the amount of  
20  δ resources assumed available in the CAISO studies resulted in Planning Reserve Margins  
21  δ ranging from 35 to 50 percent in 2020! (Rothleder, Table 7 and Figure 11, p. 45) This  
22  δ interpretation of Dr. Barmack’s testimony thus suggests he wants the Commission to  
23  δ direct the utilities to far exceed their current 15-17 percent Planning Reserve Margin  
24  δ requirement. Third, requiring the procurement of virtually all capacity would confer  
25  δ market power on virtually every generator. This could also result in a considerable  
26  δ windfall to all affected generators.

27  δ

28  Q. Are there any other facts the Commission should keep in mind when considering

29  δ Calpine’s request in this case?

30  A. Yes. Calpine is currently building the 600 MW Russell City Energy Center under a  
31  δ contract with PG&E that this Commission approved in Decision (D.) 09-04-010 in

□Ǿ

1 □Ǿ Rulemaking (R.) 08-09-007. According to the California Energy Commission,  
2 □Ǿ construction started last September and completion is scheduled for July 2013.<sup>1</sup> Calpine  
3 □Ǿ is presumably making some profits on the construction of this project. Yet they are  
4 □Ǿ threatening to shut down other capacity unless this Commission provides them more  
5 □Ǿ revenues. This Commission should also keep this aspect of its relations with Calpine in  
6 □Ǿ mind when rejecting Calpine’s request.

7 □Ǿ

8 □Ǿ Independent Energy Producers:

9 □Ǿ Q. Do you have any comments you wish to make about the August 4 Testimony of William  
10 □Ǿ A. Monsen on behalf of IEP?

11 □Ǿ A. Yes. In arguing that owners of existing power plants should be able to offer existing  
12 □Ǿ plants into the utilities’ long-term Requests for Offers (RFOs) for power supply, he mis-  
13 □Ǿ states the Commission’s intent. In particular, at 22:16-17 Mr. Monsen states “the IOUs  
14 □Ǿ are authorized to procure existing resources (in addition to the authorized new  
15 □Ǿ generation)” and in a footnote cites as the source as page 103 of D.07-12-052 the last  
16 □Ǿ LTTP decision that established need.

17 □Ǿ

18 □Ǿ Q. Does this quote fairly represent the Commission’s action in D.07-12-052?

19 □Ǿ A. No. The complete sentence Mr. Monsen quoted makes clear that the Commission was  
20 □Ǿ authorizing the utilities to procure new generation as one option for meeting their  
21 □Ǿ bundled customers’ needs.<sup>2</sup> But it did not suggest the opposite -- that existing resources  
22 □Ǿ would be allowed to meet the need for “new” resources the Commission established in  
23 □Ǿ that decision. Indeed, Ordering Paragraphs 4 to 6 of the decision the Commission  
24 □Ǿ explicitly authorized the utilities to procure a range of MW “of new resources”. Clearly,  
25 □Ǿ the IOUs could not procure existing resources to meet the specific language of this  
26 □Ǿ Commission direction.

27 □Ǿ

~~□Ǿ □Ǿ~~

<sup>1</sup> □Ǿ See [http://energy.ca.gov/sitingcases/all\\_projects.html](http://energy.ca.gov/sitingcases/all_projects.html). □Ǿ

<sup>2</sup> □Ǿ The complete sentence from page 103 of D.12-07-052 is “With these adjustments, the IOUs’ bundled need assessments are adopted, and the IOUs are authorized to procure existing resources (in addition to the authorized new generation) *as needed to meet their bundled need*” (emphasis added). □Ǿ

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1 ø Western Power Trading Forum:

2 ø Q. Do you have any comments on the August 4 testimony of WPTF witness Gary

3 ø Ackerman?

4 ø A. Yes. Mr. Ackerman spends about three pages discussing Cost Allocation Mechanism

5 ø (CAM) issues (pp. 22-25). My focus is not on that discussion, but his call that “the

6 ø Commission...deal with this issue expeditiously in this phase of this proceeding, and

7 ø require parties to include this topic in their briefing” (24:11-12). CAM issues were never

8 ø noticed in prior Rulings as being within the scope of Track I or the Track III issues being

9 ø considered at this time. In reliance on that ruling, TURN and other parties have not filed

10 ø testimony on these issues. It would therefore be inappropriate for the Commission to act

11 ø on such issues at this time in this docket.

12 ø Q. Does this conclude your Reply Testimony?

13 ø A. Yes.

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