

**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	R.10-05-006
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**TESTIMONY OF DR. BARBARA R. BARKOVICH  
ON BEHALF OF THE  
CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION  
ON TRACK THREE ISSUES**

August 4, 2011

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**I. Introduction**

**Q1.** Please state your names and business address.

**A1.** My name is Dr. Barbara R. Barkovich. My business address is Barkovich & Yap, Inc., P. O. Box 11031, Oakland, CA, 94611. My statement of qualifications is included as Attachment A.

**Q2.** On whose behalf are you presenting this testimony?

**A2.** I am testifying on behalf of the California Large Energy Consumers Association (CLECA). CLECA is an organization of large industrial electric customers of Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE). Some of the members have affiliates in the service territory of San Diego Gas & Electric Company (SDG&E). These companies are in the steel, cement, industrial gas, pipeline, and beverage industries and they share the fact that electricity costs comprise a significant portion of their costs of production. Some of the CLECA member companies are bundled service customers and some are served under direct access arrangements, but for all of them the cost of electricity is a very important element in their cost structures and the competitiveness of their products.

**Q3.** Why is this proceeding of interest to the customers you represent?

**A3.** Since many CLECA members take bundled service (currently about 80% of aggregate member company kWh are bundled service), new generation resulting from a need determination in this proceeding will directly affect their rates. Even the DA members of CLECA will have their rates affected by the cost of new generation through the Cost Allocation Mechanism (CAM) and the Power Charge Indifference Amount (PCIA). Their electricity suppliers will have to meet renewable portfolio standards (RPS) in their procurement, which will also mean that they will have to pay for renewable integration.

**Q4.** Please describe the purpose of Track 3 in this proceeding.

**A4.** In Track 3, the Administrative Law Judge (ALJ) directed the utilities to address the following:

“(1) procurement rules relating to once-through cooling issues; (2) refinements to the bid evaluation process, particular [sic] weighing competing bids between utility-owned generation and power purchase agreements; (3) refinements to the existing timeliness associated with the utilities’ RFOs for resource adequacy products; (4) utility procurement of greenhouse gas related products;” and (5) “procurement oversight rules, including the oversight responsibilities and authority of various entities (including Independent Evaluators and the Procurement Review Group) and standards of conduct applicable to the utilities and their employees.” (ALJ Ruling addressing Track 3 Issues, June 13, 2011.)

**Q5.** What Track 3 utility proposals do you address in this testimony?

**A5.** I address only two of these issues. The first is the Southern California Edison Company (SCE) proposal for new generation procurement by the California Independent System Operator (CAISO). The second is the proposal of the Commission staff that the utilities only be allowed to sign

one-year contracts with fossil generation using once-through cooling (OTC), once current contracts expire.

## **II. SCE CAISO Procurement Auction Proposal**

- Q6.** Please describe SCE's proposal for procurement of new generation capacity by the CAISO.
- A6.** SCE proposes that new generation capacity for purposes other than meeting the planning reserve margin (PRM) not be procured by individual utilities. This other procurement would be for local capacity requirements and integration of renewable generation. SCE says that such other procurement should be undertaken by the CAISO, which could identify the need and "fairly" spread the cost responsibility for the development of such generation. Under SCE's proposal, this procurement would be for new generation only, through a centralized auction run by the CAISO, and the costs would be billed to all load-serving entities (LSEs) based on their peak load. The CAISO, rather than a utility, would make long-term commitments for the winning new generation. SCE posits that the contracts would be financeable through the authority of the CAISO tariff, which is approved by the Federal Energy Regulatory Commission (FERC).
- Q7.** What is SCE's rationale for making this proposal now, when available evidence suggests that there is no need for new generation for renewable integration or for local reliability, with the possible exception of San Diego Gas & Electric Company's service area?

**A7.** SCE argues that “the first CAISO new generation auction should select bids by the end of 2012 in order to ensure that this new generation would have sufficient time to come online.” (SCE, Track 3, p. 8) I note that it is not at all clear that this could happen, given the time it would take for the CAISO to develop an auction plan and gain FERC approval. However, while SCE appears to be content to wait for the next LTPP proceeding (which would normally result in a decision the end of 2013) to determine the need for and provide authorization for replacement generation for OTC plants for local reliability reasons, it is requesting that a decision on a major change in procurement policy and locus be adopted in the next few months, so that procurement for local reliability can be decided by the end of 2012. This is at best inconsistent.

**Q8.** What is your response to this proposal?

**A8.** I oppose it for numerous reasons. First of all, the CAISO has no expertise in either engaging in procurement of resources under long-term contracts or contracting itself. The utilities have this expertise. There is no reason to attempt to duplicate it. Second, while SCE says that such tariff authority exists in eastern regional transmission organizations (RTOs), the viability of using the CAISO tariff to allow new generation to be financed is not assured. Certainly, the CAISO itself does not have the balance sheet to support such financing. Third, the CAISO has numerous important undertakings underway associated with such matters as renewable integration and transmission planning and it is not evident that it needs

another major undertaking in the next few years. Fourth, while SCE says that its proposal should be adopted now so that such a market would be available when new capacity is needed, it is clear that, in this proceeding, such capacity is not needed.

Indeed, SCE's proposal is simply a scaled-down version of its previous proposal for a centralized capacity market. That proposal resulted in a process that took five years and was finally rejected by this Commission in D. 10-06-018, barely over a year ago, for reasons that have not had any cause to change. SCE couches its proposal by saying it is not for a full-fledged centralized capacity market (CCM) because it is only for new generation, and thereby sidesteps potential criticism for paying market-clearing prices to depreciated existing capacity. It also says that the CAISO should procure new generation for local capacity requirements and renewable integration, in an attempt to avoid one of the criticisms of its previous proposal, which was that it was designed to procure generic capacity. SCE also proposes that the costs of new generic capacity be spread to all load, presumably statewide, which would reduce the impact of the cost consequences of procurement decisions made by utilities among their customers by shifting the responsibility to the CAISO and FERC.

**Q9.** Do you have any other concerns about the proposal?

**A9.** Yes. SCE's proposal would shift procurement responsibility for new generation for renewable integration and local reliability to an entity that is

FERC-, not CPUC-, jurisdictional. Any procurement decision by the CAISO that was approved by FERC could not be contested by this Commission, except in court. Procurement by the CAISO would reduce the impact of new long-term contracts on SCE's balance sheet, mitigating its long-stated concern (apparently not shared by the other utilities) that the current cost allocation mechanism (CAM) shifts certain costs to other LSEs in its service territory, but it retains the financial burden for any longer-term commitments. SCE has raised this concern before and it appears to be the primary motivation for this proposal.

However, procurement by the CAISO would significantly disadvantage the Commission and California parties in the procurement review process, because the rules would be decided by the FERC through a process in Washington, DC, and the Commission would lose its oversight role.

**Q10.** What is your conclusion?

**A10.** It has been barely a year since the Commission rejected SCE's and SDG&E's proposal for a centralized capacity market (CCM).<sup>1</sup> An auction for procurement of new resources would be a major new role for the CAISO and it would duplicate at least part of the current utility procurement role. It would still pay a market clearing price to all new generation, and it would shift procurement decisions out of the jurisdiction of this Commission and into a jurisdiction where this Commission is just

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<sup>1</sup> Certain generators also joined in the proposal, but SCE was a leading proponent, as was SDG&E. However, I note that SDG&E has not made a similar proposal in this proceeding.

another party and retail end-use customers face serious constraints in participation. The Commission should reject this proposal.

**Q11.** SCE also proposes that the costs of integration of intermittent renewable generation be assigned to the generators, rather than to load. What is your response to this proposal.

**A11.** This Commission is not in a position to assign the costs of integration for intermittent renewable generators to those generators. It has no authority over them. It may be that this is another reason why SCE has proposed that the CAISO conduct the auction to procure such resources, since it could assign such costs to them. Furthermore, if such costs were to be assigned to renewable generators, I presume that they would attempt to pass those costs through to the LSEs and thus to customers. If there is no provision in existing contracts, this could create a problem similar to that associated with passing on the cost of carbon allowances when current contracts do not allow for such a change. Regardless, this Commission cannot address this matter, as it has no jurisdiction. It is clearly out of scope.

### **III. Staff Proposed Limits on Procurement from OTC Units**

**Q12.** Please describe the proposal from Commission staff to restrict future procurement by utilities from fossil OTC units that must comply with State Water Resources Control Board (SWRCB) rules to end or limit use of such cooling.



**A12.** In an attachment to a ruling from the administrative law judge dated June 10, 2011, staff proposed that utilities not be permitted to enter into a new contract for longer than one year with any such facility.

**Q13.** How have the utilities responded to the proposals that they limit their procurement from fossil OTC generating plants to one-year agreements, once their current longer-term contracts have expired, and that utilities may not contract with such facilities for operation beyond the SWRCB OTC compliance date for such facilities unless the facility is found compliant or the Commission authorizes the procurement in an LTPP proceeding?

**A13.** The utilities all oppose this proposal, arguing that it may result in higher costs to ratepayers and is unnecessary given deadlines for retirement or repowering of the fossil OTC plants.

**Q14.** What is your response to the utility arguments?

**A14.** I agree with the utilities. Since fossil OTC plants represent a significant fraction of installed generation, much of which is required for local reliability, requiring the utilities to have to re-contract with such facilities every year until they are shut down or repowered will create risks for generators and consumers and could even increase costs.

The problem is not the length of the contracts. It is how to prepare for the retirement or repowering of these units in the context of making cost-effective decisions to address local reliability needs given the SWRCB regulations.

Each utility is in a different situation. More transmission analysis is needed to address the impact on local reliability in SCE's service territory of the possible fate of the fossil OTC units. The compliance deadline for the fossil OTC units in its service territory is the end of 2020. Thus, SCE has indicated that this matter is not ready to be resolved in this proceeding and the third scenario developed by the utilities indicates that SCE can meet its local reliability needs if existing fossil OTC plants continue to operate until that time. I assume that SCE's local reliability needs associated with the future of the fossil OTC units will be a major issue in the next LTPP case.

SDG&E's proposal to add resources in this proceeding is designed at least in part to address replacement of fossil OTC plants. Since the date for compliance of the fossil OTC units in its service territory in 2017, it faces a nearer deadline than SCE.

PG&E discusses how its recent procurement has reduced its dependence on fossil OTC plants by replacing them, but notes that the most cost-effective way to address the local support provided by the Pittsburg units and Moss Landing has not yet been determined. PG&E is not asking for any authorization in this proceeding to procure additional resources for local reliability reasons to address the OTC issue.

These are the important considerations related to the fossil OTC units. The staff proposal does not aid in their resolution. The Commission should not adopt it.

**Q15.** Does this complete your Track 3 testimony?

**A15.** Yes, it does.

## **ATTACHMENT A**

### **QUALIFICATIONS OF BARBARA R. BARKOVICH**

Barbara R. Barkovich has a BA in Physics from the University of California at San Diego, an MS in Urban and Policy Sciences from the State University of New York at Stony Brook, and a Ph.D. in Energy and Resources from the University of California at Berkeley.

Dr. Barkovich worked on energy and environment issues for the National Science Foundation in 1974-75. Dr. Barkovich worked for the CPUC in 1975-1983, ending up as Director of Policy and Planning. In her time at the Commission, she dealt with broad energy policy issues, as well as revenue allocation and rate design, marginal cost development, electric resource issues, including transmission and generation, and representation of the Commission at the Legislature, the Governor's Office, and Congress.

From there Dr. Barkovich spent almost two years running a short-term financing program at a major bank holding company. Since then (1985), she has been a consultant and expert witness on energy (mainly electricity) and regulatory matters, including marginal cost, cost allocation and rate design, electric industry restructuring, electric resource analysis, due diligence for energy projects, and negotiations on behalf of electric consumers with utilities and energy service providers on pricing and service matters.

Dr. Barkovich has also served on the California Independent System Operator Governing Board and the Energy Engineering Board of the National

Research Council. She is currently board chair of the California Power Exchange.