

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

Order Instituting Rulemaking to Integrate and)
Refine Procurement Policies and Consider Long-) Rulemaking 10-05-006
Term Procurement Plans)

**COMMENTS OF THE
CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION
ON THE PROPOSED PHASE 1 AND 3 DECISION**

Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure, the California Large Energy Consumers Association (CLECA) hereby comments on the Proposed Decision (PD) issued in this docket on February 21, 2012. CLECA has actively participated in Phase 1 and 3 of this proceeding, filing testimony, engaging in workshops and settlement negotiations, and submitting briefs.

I. Introduction

The Long Term Procurement Planning (LTPP) process is of key importance in determining what resources are needed to serve retail customers of the investor-owned utilities (utilities or IOUs) given state energy policy direction. However, it is also important that such procurement be as cost-effective as possible. Thus, any direction provided in this proceeding and its successors should emphasize the importance of procuring only those resources that are actually needed to provide reliable service and at the lowest reasonable cost. The Commission should steer clear of any policy of “reliability at any cost.” In particular, where there is uncertainty as to the need, as in the case of

renewable integration, the Commission should exercise caution and be as well-informed as possible before deciding that additional resources are needed, particularly if they are needed for a limited number of hours per year.

II. Adoption of August 23, 2011 Settlement Agreement

CLECA was a signatory to the August 3, 2011 Phase 1 Settlement Agreement (Settlement) and supports its adoption by the Commission.

The Settlement noted that the modeling activity attempting to determine the need for resources to integrate intermittent renewable resources pursuant to the requirement for a 33% renewable portfolio standard (RPS) by 2020 was ongoing. Indeed, that modeling effort has continued through a working group under the aegis of the California Independent System Operator (CAISO). One element of the Settlement was a recommendation to the Commission that it either keep this proceeding open or shortly open a new long term procurement planning (LTPP) proceeding. This would enable incorporation of the results of that working group effort into a formal record, subject to the opportunity for workshops, discovery, and evidentiary hearings. As the proposed decision would close the current docket,¹ CLECA encourages the Commission to expeditiously open a new proceeding to allow for this. The Settlement also recommended the incorporation of the CAISO modeling results regarding local reliability requirements going forward, in particular in light of the State Water Resources Control Board's (SWRCB's) policy regarding Once-Through Cooling (OTC) for power plants. This new proceeding should address this matter as well.

¹ Ordering Paragraph 17.

III. Phase 3 Issues

CLECA supports the conclusion of the PD that there was insufficient support provided for a proposal by Calpine Corporation for utility solicitations aimed at existing power plants operating without contracts.² Calpine's request was apparently driven by its concerns regarding revenue recovery issues for existing power plants operating without contracts. Without prejudice to those concerns, Calpine failed to develop a sufficient record to justify a separate procurement process for such resources, either in terms of the number of MW of existing resources at risk or their potential for permanent shutdown.

CLECA also supports the conclusion of the PD to reject the proposal of Southern California Edison (SCE) for a new generation auction.³ CLECA opposed this proposal in testimony; SCE's effort to resurrect its Centralized Capacity Market proposal without the rightly-criticized encumbrance of potentially paying the price of new capacity to largely-depreciated existing capacity should be rejected.

The PD notes our position that the Commission should take into account local reliability needs when considering the ability of the utilities to contract with a power plant subject to the SWRCB's OTC policy.⁴ We share the Commission's concern about utilities making commitments on behalf of ratepayers for payments to OTC plants that extend beyond their SWRCB compliance obligations. However, as long as the payments do not extend the

² PD at p. 16.

³ PD at pp. 26-27.

⁴ PD at p. 23.

operation of a non-compliant resource or involve a major risk of stranding of ratepayer money, the Commission's procurement process should further the compliance requirements of the SWRCB in a manner that most cost-effectively addresses local reliability problems. The results of the CAISO's local reliability analysis expected this year should be allowed to inform that decision.

The conclusions of the PD regarding a specified range of IOU strategies for procurement to meet GHG compliance⁵ may prove problematic. CLECA has been an active participant in R. 11-03-012, the Commission's GHG proceeding, on its own and jointly with the Energy Producers and Users Coalition and the California Manufacturers and Technology Association. We, along with many other parties, have supported the return of the revenue associated with the free allowances granted to utilities under Cap and Trade to utility customers in order to mitigate the rate impacts of Cap and Trade allowances on generation rates. The ability of the revenues from the sale of the free allowances to mitigate utility allowance costs is clearly affected by the timing of the sale of the free allowances and the timing of utility procurement of allowances to cover their own Cap and Trade allowance costs. Thus, any decision in this proceeding related to utility allowance procurement should take into account the need to coordinate the purchase and sale of the respective allowances.

For this reason, we provide the following comments on the section of the PD that addresses utility allowance procurement:

- The utilities should be required to prudently procure such instruments in a manner that minimizes ratepayer cost exposure with an opportunity for Commission review of the procurement activities.

⁵ PD, at 51-55.

The PD sets a range of specified procurement. The prescription of a specified range of procurement of GHG compliance instruments, however, could unnecessarily restrict utility GHG procurement strategies, to the detriment of ratepayers.

- Treatment of GHG procurement in this docket should be coordinated with the Commission's consideration of related issues in other dockets, including R.11-03-012.

Ratepayers will be affected not only by the cost of GHG compliance instruments procured by the utility, but by the manner in which the utility monetizes its free allowance allocation. To ensure that there are not significant timing mismatches between procurement and monetization that result in rate volatility, and to ensure that there are not mismatches between GHG costs and revenues, the utilities should be required to implement a coordinated strategy. That strategy should be subject to a single review, enabling the Commission and ratepayers to see the results of the utility judgment. This review will occur naturally in the annual Energy Resource Recovery Account proceeding, for example, if the utilities' proposal in R.11-03-012 is adopted.

IV. CONCLUSION

CLECA appreciates the opportunity to comment on the PD and respectfully requests that the proposed changes be taken into consideration.

Respectfully submitted,

A handwritten signature in black ink that reads "Nora Sheriff". The signature is written in a cursive style.

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APPENDIX

CHANGES TO FINDINGS OF FACT AND CONCLUSIONS OF LAW

Conclusions of Law:

9. To reduce risk to ratepayers, the quantities and sources of greenhouse gas compliance instruments shall be procured by the utilities ~~should be limited~~ in a manner that minimizes ratepayer costs.

NEW 10. The cost, quantities and sources of greenhouse gas compliance instruments procured by the utilities shall be reviewed by the Commission for reasonableness and prudence.