

**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.12-03-014
(Filed March 22, 2012)

**COMMENTS OF THE CALIFORNIA LARGE ENERGY CONSUMERS
ASSOCIATION ON PRELIMINARY SCOPING MEMORANDUM**

William H. Booth, Of Counsel
Nora Sheriff
Alcantar & Kahl
33 New Montgomery Street, Suite 1850
San Francisco, CA 94105
Tel: (415) 421-4143
Email: whb@a-klaw.com
Email: nes@a-klaw.com

Counsel for the California Large Energy
Consumers Association

April 6, 2012

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ASSOCIATION ON PRELIMINARY SCOPING MEMORANDUM**

The California Large Energy Consumers Association (CLECA) herein provides its comments on the proposed scoping memo (PSM) for this new long-term procurement planning (LTPP) rulemaking. CLECA has been an active participant in the last several LTPP proceedings and intends to actively participate in this new docket as well.

The preliminary scoping memo (PSM) raises a number of issues to be addressed in the system plan part of this proceeding. In addition to maintaining an adequate planning reserve margin (PRM), the PSM contemplates that utility system plans will address a number of issues. The first is integration of renewable resources, which we assume will focus on the challenges created by intermittent renewable resources, as their role in the resource mix under state policy increases significantly over the rest of the decade. CLECA agrees that this is a very important issue. However, we have two concerns.

One is that the system plan analysis should include the most recent information from the California Independent System Operator's (CAISO's) renewable integration study plan. While some preliminary updated reports were made available on the CAISO's website on February 9, 2012, more work is continuing and there are still important outstanding issues, such as those regarding loss of load probability (LOLP) impacts.¹ These must be addressed so that the costs and benefits of actions taken to reduce load following uncertainty resulting from renewable integration and load forecast uncertainty (including procurement of additional inter-hour ramping, intra-hour load following and regulation) are fully understood. One aspect of that understanding has to do with the impact of a change in CAISO procurement from current day-ahead practices to closer to real-time operations, which would reduce such uncertainty, and likely at substantially lower cost to consumers as compared to procuring additional resources to mitigate all of this uncertainty. Another aspect is the impact of limited curtailment of intermittent renewable resources, such as wind during down ramps. These matters were raised in the workshops and comments in R. 10-05-006 but were never addressed by the Commission.

Our second concern with respect to integration is that is that the Commission should not conclude that procurement should attempt to achieve zero risk. Not only is this impossible, but loss of load can and will still occur due to problems at the transmission and distribution level. The draft CAISO study results cited earlier show a potential need to reduce LOLP of less than 10 hours

¹ RenewableIntegration_StudiesUpdate_February 10_2012.pdf, available on CAISO website.

per year. (CHECK) While these results are preliminary, it is important to understand the duration of the need for various types of functionality in order to consider what type of resources can best meet it. If the need is for 10 hours per year, for example, a load adjustment is likely to be far more cost-effective than procurement of new resources. Furthermore, customer value of service studies show that customers tolerate certain levels of service interruption risk and do not have an infinite appetite for rate increases to minimize these risks. This issue overlaps the ISO's proposals for procurement of additional flexible capacity, which has also been raised in the RA proceeding, R.11-10-032. The same flexible capacity will integrate intermittent renewables. How to address such needs must be seen in the context of the risk, the duration of the risk, and the most cost-effective way to mitigate the risk.

The PSM also discusses how parties should address support of OTC policy implementation. This is clearly an important issue over the next decade. However, we feel compelled to point out that the issue of how much OTC generation should be assumed to disappear over the next 8-9 years is a matter of substantial uncertainty. The ISO has issued various documents in which it states that its operating assumption is that all OTC generation will shut down by the time state deadlines occur.² Southern California Edison Company (SCE), in its March 9, 2012 comments at FERC on the ISO's Sutter Risk of Retirement waiver request, states that plans have been filed to repower 1118 MW of OTC

² CAISO, Flexible Capacity Product Procurement Market and Infrastructure Policy Issue Paper, January 27, 2012, states that for the CAISO's studies in R. 10-05-006 to quantify the flexible capacity needed for renewable integration the CAISO "assumed retirement of the once-through-cooling plants". p. 6, fn 6.

units and that generation owners representing an additional 3554 MW of capacity have submitted plants to achieve compliance with the OTC regulations by the end of 2017.³ While we have not independently verified SCE's statement to FERC, there is a big difference between over 4600 MW of compliance and the assumption that all of the OTC resources will disappear. The Commission should be very wary of accepting an assumption that all of this generation will have to be replaced without very clear evidence that this is the case. It should obtain the most recent information on the future of these generation resources so as to minimize unnecessary ratepayer impacts. That said, it should also realistically assess the future of the OTC nuclear plants. They provide voltage support and considerable capacity and energy and have relatively low variable costs, but are also inflexible.

Maintenance of local reliability is clearly an issue for future procurement. The OTC plants provide some of this local reliability and thus the issue of their future is inextricably connected to the local reliability issue, as is that of the nuclear plants, which are located on the coast and involve local reliability matters, at least in Southern California.

Meeting GHG goals is also in some ways connected to the above concerns. The issue of how much fossil generation is needed to integrate intermittent renewables and replace OTC plants is bound up in these other considerations.

³ SCE Motion for Leave to Answer and Answer to the Answer of the California Independent System Operator Corporation in ER12-897-000, dated March 9, 2012.

However, there is the additional consideration of policies to encourage an increase in distributed carbon-free generation at the distribution level and how that will affect the operation of the larger system. The Commission has historically made certain assumptions about the impact of renewable DG at lower levels of penetration that may not be appropriate at higher levels of penetration, particularly depending on the geographical dispersion of these resources. Policies to encourage greater adoption of these on-site resources should be assessed in light of the need to keep the overall system in balance.

The PSM mentions “the retention of existing flexible capacity at risk of retirement”. We agree that this is an important issue. However, the Commission should be, and no doubt is, aware of the fact that paying to retain existing capacity in excess of the PRM will, all else being equal, further suppress market prices for energy and ancillary services and thus undermine the economic viability of this existing fossil generation. Thus, this policy, if not addressed in a sensible way, can be self-defeating. It is possible that the cost to ratepayers of paying for options for certain existing flexible fossil generation resources to keep them on some form of standby status (which would thus allow them to remain available to provide flexible service if needed without in the meantime selling into the market and undermine current energy or ancillary services prices) may be less than the cost of adding new generation to meet these needs in the future or procuring backstop capability through the Capacity Procurement Mechanism on an annual basis to address possible future needs on an ad hoc basis as proposed by the CAISO. The Commission should explore this possibility.

In addition, the suppression of prices in the energy and ancillary service markets also undermines the ability of demand response to provide needed flexibility. Not only the low level of prices but also the lack of price volatility results in ISO market prices that cannot support demand response in its markets.

We raise these issues to underscore the fact that there are numerous interaction effects among all of these policy decisions, ranging from retention of existing flexible fossil generation, whether OTC or otherwise, increasing DG, demand response, etc. Policies that result in over-procurement and price suppression will worsen the current situation, in which markets cannot support the needed resources and procurement must take place outside of those markets. While we understand that the LTPP proceeding cannot address all possible issues, the next decade will see the implementation of numerous policies addressed above that will have a profound effect on the need for additional resources, the type of needed resources, and the viability (or lack thereof) of the use of markets to procure these resources. CLECA urges the Commission to take this broader context into account when reaching decisions in this docket.

Respectfully submitted,

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

William H. Booth, Of Counsel
Nora Sheriff
Counsel for CLECA

April 6, 2012