

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

**COMMENTS OF PATHFINDER RENEWABLE WIND ENERGY LLC AND ZEPHYR
POWER TRANSMISSION LLC ON 2012 ENERGY DIVISION STRAW PROPOSAL ON
PLANNING STANDARDS**

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POWER TRANSMISSION LLC ON 2012 LTPP STRAW PROPOSAL ON PLANNING
STANDARDS**

Pathfinder Renewable Wind Energy, LLC (“Pathfinder”) and Zephyr Power Transmission, LLC (“Zephyr”) submit the following comments on the Energy Division’s May 10, 2012 Straw Proposal on Planning Standards (“Straw Proposal”).

I. INTRODUCTION

Pathfinder is in the process of developing a large-scale wind generation project located in southeastern Wyoming. The project will be interconnected to the California Independent System Operator (“CAISO”) balancing authority area at the Eldorado Substation via a high-voltage direct current (“HVDC”) transmission line being developed by Zephyr. Thus, both Pathfinder and Zephyr have a significant interest in the CAISO’s transmission planning process (“TPP”) and the California Public Utilities Commission’s (“CPUC”) LTPP proceeding.

Both Pathfinder and Zephyr have been actively involved in the CAISO’s 2012-2013 TPP. In joint comments submitted March 13, 2012 on the CAISO Draft 2012/2013 Transmission Planning Process Unified Planning Assumptions and Study Plan, Pathfinder and Zephyr emphasized the importance of allowing stakeholder input on the generation scenarios and portfolios submitted to the CAISO by this Commission. Pathfinder and Zephyr therefore appreciate the efforts of this Commission, the Energy Commission and the CAISO, to develop a

clear process that allows for stakeholder input as the planning assumptions and scenarios are developed, including the Straw Proposal and the May 17 workshop on that Proposal that Zephyr and Pathfinder attended. Zephyr and Pathfinder intend to continue to be actively involved in the 2013-2014 TPP and this LTPP, and submit the following comments on the assumptions being developed in this proceeding for that TPP.

The comments which follow are formatted to follow the template circulated by Energy Division staff on May 23, 2012.

Energy Division Comment Template for 2012 Straw Proposal on Planning Standards

GENERAL

1. Guiding Principles

The Policies Driving Assumption and Scenario Development Should be Identified

The Guiding Principles contained in the Straw Proposal repeatedly refer to underlying policies that drive the assumptions and scenarios being developed both for this proceeding and the TPP. Among the Guiding Principles included in the Straw Proposal are ones urging that “assumptions... take a realistic view of expected policy-driven resource achievements in order to ensure reliability of electric service and track progress toward resource *policy goals*” (underlined in original, italics added); and that “scenarios should be designed to inform useful policy information,” and “should be limited in number based on policy objectives that need to be understood.” The Straw Proposal, however, is silent as to the policies that are guiding the development of both the assumptions and the scenarios.

The Federal Energy Regulatory Commission’s (“FERC”) Order No. 1000 requires that public utility transmission providers consider transmission needs driven by “Public Policy Requirements,” defined in Order No. 1000 as “state or federal laws or regulations,” further

defined as “enacted statutes (i.e., passed by the legislature and signed by the executive), and regulations promulgated by a relevant jurisdiction, whether within a state or at a federal level.” Order No. 1000, *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, 136 FERC ¶ 61,051, ¶ 2 at P 9 (2011), *order on reh’g*, Order No. 1000-A, 139 FERC ¶ 61,132 (2012). FERC Order No. 1000 also provides that transmission providers may also consider public policy objectives not specifically required by state or federal laws or regulations. Para. 216. Such public policy objectives can include those adopted by state regulatory agencies such as this Commission, and those adopted by Governor Brown. Order No. 1000, *supra*, ¶ 173 at P 138 (2011).

The CAISO’s February 29, 2012 Issue Paper on FERC Order No. 1000 Compliance Filing Requirements states that the CAISO’s existing tariff already meets the requirements for addressing public policy requirements. The CAISO tariff currently requires that the CAISO’s Study Plan for each TPP identify “state or federal requirements or directives that the CAISO will utilize... to identify policy-driven transmission elements.” CAISO Tariff Section 24.3.2(i).

In short, as the Guiding Principles suggest and Order No. 1000 requires, public policy requirements have a significant influence on the assumptions and scenarios that in turn drive the TPP. Given that the CAISO is ultimately required to identify those policies in its 2013/2014 Study Plan, Pathfinder and Zephyr suggest that the Commission expressly identify such policies now. Identifying these policies now will promote transparency and stakeholder input, better inform the development of assumptions and scenarios and will assist the CAISO in meeting its obligations under both its tariff and the FERC Order No. 1000.

Those policies will obviously include various legislative mandates, such as California’s 33% Renewable Portfolio Standard embodied in Senate Bill (“SB”) x1-2 and California’s

greenhouse gas reduction policy, embodied in Assembly Bill (“AB”) 32. Additional public policy objectives may also include policy goals set forth by the Governor, including the goal of achieving 12,000 MW of distributed generation by 2020 or other goals contained within the Governor’s Clean Energy Jobs Plan. However, only by first specifying what these policies are can stakeholders provide meaningful comments regarding them such that the Commission, and the CAISO, can properly consider those policies in the implementation of assumptions and scenarios, as proposed in the Guiding Principles.

Minimize the Delivered Cost of Power

The Straw Proposal’s “Problem Statement” section states that “Scenarios should be developed to answer... what mix of infrastructure minimizes cost to customers over the planning horizon.” That statement recognizes what should be the overarching goal in both the LTPP and TPP process: achieve reliability and public policy goals at the least cost to ratepayers. However, planning to minimize transmission costs, rather than the overall costs to ratepayers, runs the risk of actually increasing ratepayer costs. Generation costs make up a far more significant portion of a customer’s bill than do transmission costs. Limiting transmission investment in order to save costs can prevent the development of least cost generation options. More robust investment in transmission, however, can preserve flexibility and ensure that least cost generation can be accessed in a wide variety of scenarios.

Furthermore, the most time-consuming aspect of transmission development is planning and permitting. In contrast, construction of a transmission project can be completed relatively quickly. Yet the significant costs in transmission development—and all of the environmental impacts—only occur upon construction, not at planning and permitting. Thus, planning and permitting a more robust transmission system preserves options that can ensure access to least

cost generation, and would still allow for the transmission system to be scaled back as the true generation picture becomes clear in the future. This will substantially reduce the “forecast risk” inherent upon planning a transmission system that allows for only one or even a limited range of generation scenarios. In contrast, planning and permitting for minimal transmission expansion is an inflexible choice that cannot easily be corrected if the generation assumptions prove to be incorrect due to the significant time required to plan and permit transmission facilities. Simply put, planning and permitting a robust transmission system preserves options and is flexible while planning and permitting a minimal system forecloses options and is inflexible. Given the significant uncertainty during the planning horizon contemplated in the straw proposal of up to 20 years, the more prudent approach is to preserve flexibility through robust planning and permitting rather than making decisions now that result in a static and inflexible system that will be used to meet future needs.

Of concern, however, is the recent emphasis at both the Energy Commission and this Commission on minimizing transmission costs. *See, e.g.* May 5, 2012 Assigned Commissioner Ruling in R.11-05-005. As explained above, an undue emphasis on minimizing transmission costs can ultimately increase overall ratepayer costs, and reduce the ability of the transmission system to adapt to changing needs and resources. Instead, the focus should be, as noted in the Straw Proposal’s Problem Statement, on minimizing overall ratepayer costs. Minimizing the delivered cost of energy will in turn further other policy goals by expanding opportunities for job creation and economic development in California.

2. Planning Area and Planning Period

The Straw Proposal provides that scenarios should be expressly created for the CAISO controlled transmission grid and the associated distribution systems. For resources located

outside the CAISO footprint, only those resources directly interconnected or dynamically transferred into the CAISO balancing authority area will be considered. The scenarios, however, should also include those resources located outside of the CAISO balancing authority area that have the potential to serve CAISO load, especially resources that will meet other policy goals such as the 33% RPS.

SUPPLY SIDE ASSUMPTIONS

14. How should transmission capacity be considered?

For imports, the Straw Proposal suggests that import capacity would be based upon the Maximum Import Capability (MIC) at each intertie that the CAISO assumes for purposes of determining resource adequacy, including any expansions identified in the TPP. Pathfinder and Zephyr suggest that this underestimates the amount of available import capacity, especially the import capacity that will be available during the entire planning period. The CAISO assesses the MIC for each intertie based upon historic energy schedules under high load system conditions. Using this method of determining import capacity, rather than basing it upon an assessment of maximum physical import capability, understates import capacity and, as the CAISO acknowledged in its Study Plan for the 2012/2013 TPP, has resulted in extremely small values for certain interties. 2012/2013 Study Plan at 3.1.2. As explained below, the Commission needs to consider scenarios that involve a high level of imports of low-cost out-of-state renewable generation. Assuming without further study that import capacity would be limited to values assumed for resource adequacy purposes ignores the potential that transmission capacity either currently exists or could be developed over the planning period to allow a significant amount of low cost renewable generation to be imported into the CAISO.

The Straw Proposal also suggests that resources from outside the CAISO should be determined from publicly-available TEPPC data. Pathfinder and Zephyr agree that this an appropriate source, but suggest that the data should be subject to stakeholder review and comment before a final list of resources is determined, to ensure that the TEPPC data is accurate and up to date.

16. Deliverability

a. Are any changes to the definition of future resources considered deliverable warranted?

The Straw Proposal proposes new stricter assumptions concerning the deliverability of resources. Resources would only be considered deliverable if capacity is available on existing or approved transmission, or if the resources are baseload or flexible resources. For baseload or flexible resources, the assumption is that necessary transmission upgrades to make those resources deliverable would be built, as the resources would not be economic otherwise. These new, stricter assumptions concerning deliverability fail to capture the complexity of deliverability determinations and resource adequacy as determined by this Commission and the CAISO. That failure could have a number of undesired effects. First, it will understate the number of resources, especially renewable resources, that will be deliverable. Second, it could result in energy-only resources that will be fully deliverable the vast majority of the time, although not fully deliverable, being undervalued. These deliverability assumptions will therefore also lead to unnecessary deliverability upgrades for resource adequacy purposes. Zephyr and Pathfinder therefore recommend that the Commission either retain the simpler assumption that all resources are deliverable, or consider a more detailed set of assumptions that could more accurately forecast which resources will in fact be deliverable.

20. Renewable Resources

b. Establishing the RPS supply (i.e. the “highly likely resources”) in the RPS proceeding.

Zephyr and Pathfinder agree with Staff’s proposal to use the renewable net short (“RNS”) calculation from the R.11-05-005, the RPS proceeding, for purposes of calculating the expected renewable energy supply. Zephyr and Pathfinder intend to actively participate in that proceeding on the RNS calculation.

Staff also proposes that existing RPS generation with contracts expiring before the expected retirement age will remain in service until the retirement age. Zephyr and Pathfinder believe that assumption is unwarranted for several reasons. First, there could be several reasons why a resource will not obtain a second contract or contract extension after the expiration of the initial contract, including that the resource is uneconomic. Second, a resource may sign a second contract, but it may be with a load-serving entity that is not within the CAISO balancing authority area, such as LADWP.

c./d. Base Portfolio/High DG Portfolio

Staff proposes to use just two renewable portfolios, a base portfolio in which the RNS is filled based on cost, and a high DG portfolio in which the RNS is filled with distributed generation resources based on cost. According to the Straw Proposal, “preliminary calculations suggest that the [RNS]... will be small” and that therefore “there is limited flexibility for significantly altering the 33% RPS procurement direction within a ten year forward timeframe.” For that reason, staff proposes that only two portfolios be developed.

The proposal to use only two renewable portfolios presupposes that utilities only have two options for fulfilling the residual net short, in turn based only on preliminary calculations of the net short. Zephyr and Pathfinder propose that the Commission instead provide for a process

to allow parties to participate in the development of renewable portfolios, to ensure that the Commission adequately considers and studies a reasonable range of options for meeting the RNS. The Commission should base any selection of the appropriate renewable portfolios on a more thorough consideration of various procurement options, supplemented by input from parties to this proceeding or the RPS proceeding, R.11-05-005.

The Straw Proposal also states at footnote 17 that transmission costs used to select projects based on cost for the base portfolio will be calculated based on the “g-Txinputs” tab of the most recent version of the 33% RPS Calculator. The Commission has itself raised concerns about the functionality of the RPS Calculator. Zephyr and Pathfinder have concerns about the accuracy of the transmission costs used in the RPS Calculator, and suggest those costs should be further evaluated before being used to calculate project costs for purposes of the base portfolio.

f. Long term target

The Straw Proposal proposes to use two separate RPS procurement trajectories: one in which the 33% RPS is maintained after 2020, and one in which there is linear progression to a 40% RPS by 2030. It is important to recognize that although the State has adopted a 33% RPS, it has also adopted greenhouse gas reduction goals that will require significantly more renewable generation than the 33% target (which the Governor described as a floor, rather than a ceiling, when signing SB x1-2). Thus, especially in the long term scenario, there are policies in addition to the RPS standard that will drive resource needs and the resulting impacts should be considered in resource planning activities. An August 2011 Energy Commission Staff Report entitled Renewable Power in California: Status and Issues, calculated that to meet the State’s long-term greenhouse gas reduction goals, renewable electricity would need to be 64% of total electricity sales. If nuclear plants were not relicensed, that percentage rose to 77%. Those calculations

were also based upon assumptions that existing in-state renewable energy facilities would continue to operate through 2050. Zephyr and Pathfinder therefore support consideration of a procurement trajectory that would result in 40% renewable generation by 2030, and further suggest that consideration of an even higher amount of renewable generation would be appropriate.

OTHER

28. What is a reasonable number of total scenarios and sensitivities to consider?

Zephyr and Pathfinder support the Commission's pursuit of scenario analysis to support resource planning as such analysis will result in better decisions. In order to maximize the value of scenario analysis, the Commission should not rely on a single or narrow set of scenarios. Doing so will limit the Commission's ability to fully evaluate various resource options, and ultimately will inhibit the ability of the CAISO to design a robust and flexible transmission system that can adapt to a wide variety of future scenarios. A robust and flexible transmission system will in turn foster competition among generation resources, allowing the selection of resources that reduce costs and environmental impacts. Zephyr and Pathfinder therefore urge the Commission to consider a variety of scenarios, including significant imports of high quality out-of-state renewable resources, including Wyoming wind resources. The Commission should also consider a scenario designed to address the State's need to meet both its AB 32 greenhouse gas reduction goals, as well as EPA regulation of greenhouse gas emissions.

29. Any other comments.

The assumptions and scenarios developed in this LTPP proceeding will be used for two very different and distinct purposes. First, they will be used in this proceeding to assist the Commission with resource planning and procurement. These same assumptions and scenarios

will then be imported into the CAISO TPP to be used for transmission planning. It is important to recognize the differences between those two uses, to ensure that the assumptions and scenarios created in this proceeding serve the aims of the CAISO's TPP as well. The goal of the LTPP process is to guide procurement of generation to meet various policy goals, including selecting low cost resources, and reducing the environmental impact of generation. However, there is no guarantee that the resources selected in the procurement process will materialize. Thus, the transmission planning process needs to not only include scenarios that will provide for a transmission system for generation resources selected through the LTPP, but also for alternate scenarios should those resources not materialize. Thus, the goal of the TPP should be to develop a robust and flexible transmission system that can respond to changing circumstances.

Zephyr and Pathfinder also note that the TPP is, unlike this proceeding, a FERC-regulated process that is governed by the CAISO's tariff. Keeping the CAISO's FERC and tariff-related obligations in mind in this proceeding will ensure the most efficient use of the assumptions and scenarios from this proceeding in the TPP.

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