Docket: : R.12-03-014
Exhibit Number :
Commissioner : Michel Peter Florio
Admin. Law Judge : David M. Gamson
DRA Witnesses : Robert M. Fagan

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

TESTIMONY OF ROBERT M. FAGAN ON BEHALF OF DRA (ERRATA)

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

(R.12-03-014)

San Francisco, California
June 25, 2012

584751

procurement planning, it may not be necessary to gauge sub-area needs 10 years in advance, given the considerable changes to supply, demand and transmission system configuration likely to occur over that timeframe. Notwithstanding the analytical approach differences, the primary source of difference between CAISO's results and my load and resource analysis is my assumption of greater levels of demand-side resource acquisition through the 2022 period.

CAISO's results also illustrate, in two different ways, the critically important role that transmission reinforcement (and by extension, consideration of new transmission) can play in reducing local area needs.

First, CAISO presents two sets of LCR needs for the overall LA Basin that vary depending on which critical transmission contingency is binding. The less limiting transmission contingency leads to overall LA Basin needs that are lower by more than 2,500 MW in the trajectory case, for example.[4] This result illustrates that reinforcement of underlying transmission system elements, along with use of operational procedures to wring the most value from critically-placed and critically-loaded 500/230 kV transformers will lower LCR need.

Second, in the Supplemental Testimony of Mr. Sparks, CAISO presents results of an updated analysis that included a recently accelerated transmission reinforcement project (Del Amo – Ellis 230 kV line loop-in project). The presence of this transmission reinforcement in the model *eliminated entirely* the need for the Ellis sub-area of the overall LA Basin LCR~~. contributed to lower LCR need in the LA Basin area.~~ (Sparks supplemental Testimony, p. 3:12-13, "With the loop-in project in service, it eliminates the need for local generation in the Ellis sub-area for the mid net load sensitivity analysis.")

These two examples show how transmission reinforcements, including those that may not be planned or approved at this time, can have a significant effect on LCR need. Given the critical air quality issues in the LA Basin[5], it is important to aggressively seek out and implement those transmission solutions that will allow

[4] Sparks' 5/23/2012 Testimony, p. 7, Table 2.
[5] Please see for example, Attachment A: Interagency AB 1318 Technical Team (Air Resources Board, California Energy Commission, California Independent System Operator, California Public Utilities Commission, "Assessment of Electrical System Reliability Needs in South Coast Air Basin and Recommendations on Meeting those Needs", Draft Work Plan, January, 2011, p. 2, "SCAQMD [South Coast Air Quality Management District] has the dinstinction of having some of the worst air quality in the nation."

Q18. CAISO's modeling explicitly addresses LCR needs in sub-areas. Does your load and resource table do this?

A18. No. The sub-area concerns are critical, but they are based on current assumptions of supply and demand resource configuration, and a presumption of the transmission system configuration 10 years out. All of these conditions can change. For example, sub-area boundaries can shift, and sub-areas can even be eliminated.

Q19. Does this mean that broader local area resources, such as those in the Overall LA Basin, could be used as local area resources for what is currently a sub-area, the western LA Basin?

A19. Possibly, at least to some limited extent, in later years. Whether resources are able to serve the area depends on the transmission import conditions for the western LA Basin sub-area, and how those conditions could change over the next eight years.

Q20. What portion of the western LA Basin sub-area OTC resources might be needed by 2020?

A20. That depends on a number of variables, not all of which have been fully analyzed. What the CAISO's sensitivity analysis shows is that under "best case" conditions, the western LA Basin "OTC need" is only 1,042 MW, assuming SONGS in service. This implies that of the total OTC resource base currently in service in the western LA Basin – i.e., 4,940 MW from Alamitos, El Segundo, Huntington Beach, and Redondo Beach - only a fraction of those units (1,042/4,940 = 21%) may be required as "repowered" resources, and may be required only as "peaking" resources, depending <u>on a number of factors</u>, <u>including</u> the extent to which preferred (i.e., EE, DR, distributed generation) resource development occurs.

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DRA Witness	:	Peter Spencer

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PREPARED TESTIMONY OF PETER SPENCER ON BEHALF OF DRA (ERRATA)

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include identifying updates to the standardized planning assumptions that should be adopted for demand, preferred resources, and retirements of once-through cooling (OTC) generation.

Q3. Would the adoption of the CAISO's conclusions increase risks of over-procurement of conventional resources?

A3. As explained in detail in Mr. Fagan's Prepared Testimony, the CAISO adopts assumptions in its 2011-2012 Transmission Plan for preferred resources that are either <u>zero</u> or substantially discounted relative to the standardized planning assumptions adopted in the 2010 LTPP (R.10-05-006), creating a risk of over-procurement. In comments submitted on the CAISO's January 31, 2012 draft of the 2011-2012 Transmission Plan, the Commission's Energy Division Staff, noted that the CAISO's transmission planning assumptions include less incremental uncommitted energy efficiency, demand response, and combined heat and power than were adopted for the CPUC's 2010 LTPP process.[1] The Energy Division Staff noted that "this can produce a disconnect between transmission and resource planning," and urged the CAISO to use the CPUC's LTPP assumptions for demand-side adjustments in the next transmission plan.[2]

By contrast, using standardized planning assumptions for long-term procurement planning ensures that decisions to authorize more resources will remain consistent with the Commission's and the State's policies related to the loading order. It also ensures that the IOUs' procurement plans use comparable assumptions.

Q4. Is it appropriate for the 2012 LTPP proceeding to use planning assumptions from the 2010 LTPP proceeding?

A4. An important step in each LTPP proceeding is to update the planning assumptions that the Commission uses to assess long term need. The ideal LTPP process would update planning assumptions prior to determining any system or local needs. Yet the current LTPP schedule will determine local needs ahead of updating the prior 2010 planning assumptions. Recently, the CAISO stated that the "electric system in California is undergoing one of its most significant

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[1] ~~D.12-01-033, p. 15~~ <u>See Attachment A (CPUC Staff Comments on the draft 2011-2012 transmission plan, Feb. 28, 2012, p. 1, 4-5).</u>

[2] See Attachment A (CPUC Staff Comments on the draft 2011-2012 transmission plan, Feb. 28, 2012, p. 1, 4-5).

studies as part of a more comprehensive and litigated planning process. Thus, the Commission should not give any weight to flexible capacity concerns until the processes examining that issue are concluded.

Q22. Do you believe that Mr. Sparks fairly characterizes the risks of being marginally short versus marginally long in LCR planning?

A.22. No, I do not. Mr. Sparks attempts to invoke a fear of shortages that is not well founded and he dismisses the ratepayer costs of surplus procurement. In rebuttal testimony filed in A.11-05-023, Mr. Sparks states that "the consequences of being marginally short versus marginally long are asymmetrical."[32] He explains that "a marginal shortage means the loss of firm load, which puts public safety and the economy in jeopardy, whereas a marginal surplus has only a marginal cost implication."

Some of the cost implications of over-procurement are addressed in my response to Q5 as noted above. Over-procurement costs continue year after year until such time as the need reaches the level of over-procurement. It is difficult to calculate a precise figure, however, with the costs of new power plants reaching over one billion dollars[33] and the associated annual costs of maintaining a power plant, it is fair to say that the potential costs of building unnecessary, surplus power plants could be very significant and not simply "marginal."

Concerns over public safety and the economy should not be invoked in a ten-year planning process where the likely effects of marginal under-procurement are not likely to create significant impacts. It should be very clear that we are considering ten-year ahead planning, which is revised every two years and could be revised whenever situations dictate such a need. Miscalculations resulting in marginal under-procurement, if they should occur years prior to an actual need, leave many options to cure the situation.

For example, on August 15, 2006, the Commission, in an Assigned Commissioner Ruling, determined that an urgent need for capacity existed and directed SCE to develop 250 MW of peaker units. This followed a CAISO assessment that an urgent need existed related to

[32] Rebuttal Testimony Robert Sparks on Behalf of the California Independent System Operator Corporation, A.11-05-023, June 4, 2012, p. 3.

[33] For example, Pacific Gas and Electric Company's proposed Oakley power plant will cost over $1.5 billion dollars. See Prepared Testimony, Public Version (Application 12-03-026, May 21, 2012) at 6-1.)

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PREPARED TESTIMONY OF DAVID SIAO ON BEHALF OF DRA (ERRATA)

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3. Sufficient time to comply with the policy;

4. Local opposition;

5. Current economic conditions and;

6. The regulatory environment.[26]

~~However,~~ After conducting discovery, DRA learned that all plants in the LA Basin and Big Creek/Ventura LCA areas expect to be able to continue operations until their compliance deadline, either under valid permits, under an administrative extension (i.e. if a permit expires during the permit renewal application process), or after receiving requested renewals or modifications for their applicable permits. In other words, the permit approval process for existing units is not likely ~~may not negatively~~ to affect a plant's ability to comply with the Policy. However, Dynegy has indicated uncertainty regarding what- if any- additional permits may be needed for Morro Bay to meet compliance under Track 2, and therefore the likelihood of obtaining those permits.[27]

Q7. Can you describe the basic facts, timeline, and any other relevant issues regarding each power plant in the LA Basin and Big Creek/Ventura LCR areas?

A7. Appended to my testimony as Attachment C are tables for each plant in the LA Basin and Big Creek/Ventura LRA areas. Each table describes the basic facts for each generation plant: its name, owner, capacity (for individual units and the total plant), location and utility, and Local Capacity Area. Tables also include the Policy compliance deadline, compliance strategy, and compliance technology, if applicable. Unless otherwise noted, unit net dependable capacity data

[26] Implementation Plan letters, various. *See:* http://www.swrcb.ca.gov/water_issues/programs/ocean/cwa316/powerplants/

[27] AES, Dynegy, GenOn, and NRG Responses to DRA Data Request for Rulemaking 12-03-014.

ATTACHMENT C

Table 1: Morro Bay Power Plant

Plant: Morro Bay Power Plant	**Owner:** Dynegy Morro Bay, LLC
Units and Net Dependable Capacity: 3 (325 MW), 4 (325 MW). 650 MW total	
Location: Morro Bay, San Luis Obispo County	**Local Capacity Area:** Near Big Creek/Ventura LCA
Compliance Deadline: 12/31/2015	
Strategy: Track 2. Otherwise, repower at ~164 MW (net 486 MW less if successful as planned) at new site using Morro Bay air credits.	
Compliance Technology: TBD; will research until 4/13 and decide in 1/14. If repower, natural gas-fired simple-cycle turbine.	

Summary: ~~Contracts and permits are concerns. Dynergy believes it is unlikely to find a new contract after its current one expires in October 2013, that it has a relatively tight deadline, and that success uncertain~~. A repower would result in a 486 MW net loss of capacity, while retirement would leave a 650 MW net loss of capacity. SACCWIS recommended against a deadline extension due to a lack of reliability issues if Morro Bay units retired.[1]

Timeline: Dynergy will decide compliance measure by 2014. It will then submit an amended compliance plan; if the plan is approved, Dynergy will procure, construct, and comply by 2015. Dynergy projects possible outages for 2 months near end of 2015 for Morro Bay. A repower would take 2 to 3.5 years, depending on permitting time, and likely need a deadline extension if the repower is not commenced by 2013.

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[1] Report of the Statewide Advisory Committee on Cooling Water Intake Structures, 3/12/12, p. 6. *See:* http://www.swrcb.ca.gov/water_issues/programs/ocean/cwa316/saccwis/docs/rpt031912.pdf