

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)

REPLY TESTIMONY OF KEVIN WOODRUFF
ON BEHALF OF THE UTILITY REFORM NETWORK
REGARDING TRACK I - LOCAL RELIABILITY

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July 23, 2012

17 INTRODUCTION

27

37 Q. Please introduce yourself.

47 A. I am Kevin Woodruff. I filed Prepared Testimony June 25 in this docket on behalf of
57 The Utility Reform Network (TURN) regarding potential resource need to meet future
67 Local Capacity Requirements (LCR) in the service territory of the Southern California
77 Edison Company (SCE or Edison) and means for procuring such resources. I provided
87 my resume and qualifications as Attachment I to that testimony.

97

107 Q. What issues are you addressing in this Rebuttal Testimony?

117 A. In this Rebuttal Testimony, I:

127 ffi Respond to the testimony served June 25 on behalf of the Alliance for Retail Energy
137 Markets (AReM), the Direct Access Customer Coalition (DACC) and the Marin
147 Energy Authority (MEA). (For convenience, I use the acronym “DA/CCA” as an
157 acronym to refer to these parties’ and their testimony and proposals. “DA” refers to
167 “Direct Access” customers and “CCA” refers to “Community Choice Aggregators”
177 and their customers. I also refer on occasion separately to DA and CCA suppliers and
187 customers.)

197 ffi Respond to the detailed questions asked in the July 12 Assigned Commissioner’s
207 Ruling (ACR) regarding LCR needs and procurement.

217 ffi Comment on testimony of GenOn and AES, the owners of the most critical Once-
227 Through Cooling (OTC) units at issue in this track of this case.

237 ffi Comment on arguments parties make in support of “centralized capacity markets”.

247

257 SUMMARY OF FINDINGS AND RECOMMENDATIONS

267

277 Q. Before proceeding to your detailed testimony, please summarize your findings and
287 recommendations on the above matters.

297 A. My findings and recommendations on the above issues can be summarized as follows:

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7

17 ffi The Commission should reject DA/CCA parties’ efforts to evade responsibility for
27 supporting the investments in new generation plant that will be necessary to provide
37 reliable electric service to Commission-jurisdictional customers.

47 ffi The Commission should consider the specific recommendations I make in responding
57 to the ACR’s questions.

67 ffi The Commission should take steps to manage potential market power current OTC
77 unit owners may enjoy in any effort to replace the capacity of existing OTC units.¹

87 ffi In considering revisions to its Resource Adequacy (RA) program – such as a
97 “capacity market” – the Commission should not assume in advance any particular
107 solution must be applied – or even that any particular problem exists.

117

127 RESPONSIBILITY FOR COSTS OF NEW RESOURCES

137

147 Q. In your Prepared Testimony, did you address which customers should bear the
157 responsibility for the costs of procuring any new resources the Commission finds are
167 needed to provide reliable electric service?

177 A. Yes. I provided a “Question-and-Answer” (Q&A) stating that “net capacity costs”
187 should be allocated to “all benefitting customers”.²

197

207 Q. Do you have occasion now to offer more substantive comments on this issue?

217 A. Yes. DA/CCA parties filed testimony that effectively proposed that DA and CCA
227 customers should bear little or no responsibility compared to bundled customers for

1 I refer often in this testimony to “replacing” OTC capacity. This term should be read to include possible replacement of an existing OTC unit, the refurbishing or repowering an existing OTC unit to comply with the OTC policy, or other means to provide local capacity in various load pockets within Edison’s service territory.

2 The specific Q&A, at 23:28-24:3, is:

“Q. How should costs of any procurement the Commission authorizes to meet local capacity requirements in the Edison service territory be allocated?

“A. The net costs of such capacity should be allocated to all benefitting customers, pursuant to Senate Bill 695, Senate Bill 790 and other Commission policies. Other than this general principle, I am not making any more detailed recommendations at this time.”

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7

17 financing needed new quantities of capacity, as measured in megawatts (MW). The
27 DA/CCA testimony also effectively proposed that if responsibility for any MW of such
37 capacity is assigned to DA and CCA customers, that they should pay less of the costs of
47 this new capacity.

57 I provide some specific examples from the DA/CCA testimony below to support these
67 criticisms. I understand other parties will be filing testimony today making other
77 arguments in support of my themes.
87

97 I also identify and rebut other negative aspects of the DA/CCA testimony.
107

117
127 *GRID RELIABILITY IS SHARED EQUALLY BY ALL CUSTOMERS, SO THE COSTS OF GRID*
137 *RELIABILITY SHOULD ALSO BE SHARED EQUALLY*

147 Q. Do you have any overarching observations about the allocation of “grid reliability”
157 among customers?

167 A. Yes. As a general principle, all customers share equally in the “good” of grid reliability.
177 Alternately stated, any one customer is as likely to have its service interrupted by its
187 distribution utility as any other customer. Given this lack of difference in service
197 reliability, all customers should expect to pay equally for the costs of investing in new
207 resources needed to provide reliability.³

217
227 Q. Why is payment for new resources a particular concern, as distinguished from payment
237 for existing resources?

247 A. Both new and existing resources generally provide equivalent reliability to the grid. But
257 new resources are typically much more costly than existing resources. Thus, parties that
267 pay for more than their proportionate share of new resources will pay more than their
277 proportionate share for grid reliability, and parties that pay less than their proportionate
287 share of new resources will pay less than their proportionate share for grid reliability.

|||||
3 There is a group of “interruptible” customers that allow grid operators to interrupt their service as necessary to maintain reliable service in exchange for paying a lower rate

1 Further, developers of new resources generally require long-term contracts with third
 2 parties – typically utilities – to secure financing for such new generation projects.
 3 Customer support for new resources thus needs to extend for the duration of such
 4 financing arrangements, which are at least ten years and often longer.

5
 6 Q. Do you have any evidence to support your view that new resources are much more costly
 7 than existing resources?

8 A. Yes. In its *2010 Resource Adequacy Report*, the Commission’s Energy Division reported
 9 a median price for “RA / Capacity only” contracts of \$1.97/kW-mo or less than \$24/kW-
 10 yr.⁴ But according to the California Energy Commission (CEC’s) analysis, the annual
 11 fixed costs of new gas-fired generating units are about \$200/kW-yr, of which only one-
 12 quarter to one-third is recovered from sales of energy.⁵

13
 14 Q. Do you have any evidence to support your view that the construction of new resources
 15 requires long-term contracts?

16 A. Yes. In D.06-07-029, the Commission found that “long-term contracts are necessary to solicit
 17 investment in new generation in California”.⁶ The Commission’s finding remains true today. To
 18 the best of my knowledge, all new generation serving Commission-jurisdictional load since that
 19 statement has been financed on the basis of either utility ownership or a long-term contract with
 20 an IOU. GenOn’s testimony in this track, discussed below, further supports this view.

21
 22 Q. What are the implications of the above facts and principle for the Commission’s
 23 consideration of the DA/CCA testimony?

24 A. As stated above, and developed more fully below, the DA/CCA proposals would result in
 25 DA and CCA customers paying for less than a proportionate share of the costs of
 26 maintaining reliable electric service. Their proposals should thus be rejected.

⁴ This report is available at <http://www.cpuc.ca.gov/PUC/energy/Procurement/RA/>.

⁵ These figures are cited in the *2011 Annual Report on Market Issues and Performance* at pages 45-48. This CAISO report is available at <http://www.caiso.com/Documents/2011AnnualReport-MarketIssues-Performance.pdf>

⁶ D.06-07-029, FF 6 (p. 54).

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7

17 DA/CCA PROPOSALS WOULD MINIMIZE DA AND CCA CUSTOMERS' RESPONSIBILITY
27 FOR NEEDED NEW CAPACITY

37 Q. Why do you say that the DA/CCA proposals would have DA and CCA customers bear
47 less responsibility than bundled customers for financing needed new quantities of
57 capacity, as measured in MW?

67 A. There are at least two proposals in the DA/CCA testimony that would have this effect:
77 ffi Proposed revisions to requirements for Investor-Owned Utility (IOU) bundled
87 portfolios.

97 ffi Proposed "Load-Serving Entity (LSE) Opt-Out" from procurement subject to the Cost
107 Allocation Mechanism (CAM).⁷

117

127 - IOU BUNDLED PORTFOLIOS


137 Q. Do you have any specific observations on the DA/CCA testimony regarding the IOUs'
147 construction of their bundled portfolios?

157 A. Yes. The DA/CCA testimony effectively contends that the IOUs' bundled customers
167 have full responsibility to build all new resources and, by implication, that DA/CCA
177 customers have no such responsibility.⁸ The DA/CCA testimony further contends that
187 the Commission has erred in its implementation of Assembly Bill (AB) 57 over the past
197 several years because it has not imposed such requirements on the IOUs.⁹

207

217 Q. Does the language of AB 57 that the DA/CCA testimony cites at page 25 require the
227 Commission to force the IOUs to purchase new capacity to meet bundled customers'
237 needs in the long-term?

247 A. No. There are no references to new capacity in the portion of the statute provided in the
257 DA/CCA testimony. The term "unmet resource needs" is present, as is a single reference

7  LSE is a term typically applied to organizations providing electric power supplies to customers. For purposes of its proposal, the DA/CCA testimony only includes CCAs and Energy Service Providers (ESPs) as LSEs. However, the term is also applied at times to Investor-Owned Utilities (IOUs) that provide service to their bundled customers.

8 DA/CCA June 25 Testimony, Section IV.A.2 (pp. 24-29).

9 Id., 24:17-19 and 27:1-4.

7

7

17 to maintaining a “diversified procurement portfolio consisting of both short-term and
27 long-term electricity...products”.¹⁰ However, there is nothing that requires IOUs to buy
37 or build *any* new capacity as part of such a portfolio. To the extent that the IOUs and/or
47 Commission want to include long-term resources in their portfolio, the IOUs can contract
57 with existing resources on a long-term basis.¹¹

67
77 Q. How do you recommend the Commission address these arguments in the DA/CCA
87 testimony?

97 A. The Commission should have confidence that it has reasonably implemented at least this
107 aspect of AB 57 and reject the DA/CCA proposal to require bundled portfolios to include
117 new capacity.

127
137 - *DA/CCA “LSE OPT-OUT” PROPOSAL WOULD ALLOW DA AND CCA CUSTOMERS
147 TO AVOID RESPONSIBILITY FOR NEW CAPACITY*

157 Q. Why do you say that the DA/CCA LSE Opt-Out proposal would also allow DA and CCA
167 customers to avoid responsibility for financing new construction, as measured in MW?

177 A. The structure of the DA/CCA LSE Opt-Out proposal virtually guarantees that DA and
187 CCA customers would take no responsibility for new capacity needed to meet load
197 reliably. In particular, each of the three DA/CCA proposed LSE Opt-Out alternatives
207 would only require customers “to make a showing that it has procured adequate
217 generation resources for a 5-year period”.¹² The DA/CCA testimony argues that a “5-
227 year term corresponds well with the time required for new construction of peaking units
237 which can be completed in less than two years’ time”.¹³

247
257 Q. Do you believe that a five-year commitment from an LSE is adequate to support
267 construction of new generation?

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10

Id., p. 25, lines 25, 30-32 and 33.

11 Much of the IOUs’ long-term portfolios already consist of existing IOU-owned generating resources.

12 DA/CCA June 25 Testimony, 54:11-12.

13 Id., 55:21-22.

7

7

17 A. No. It may be true that peakers could be built in less than two years. However, as
27 discussed above, the financiers of such projects would almost certainly require a contract
37 term far beyond five years. I am not aware of any new peaker being constructed in an
47 IOU service territory in recent memory that was not either utility-owned or had a ten-year
57 contract with a utility. An LSE that chose to opt out per the DA/CCA proposal is thus
67 almost certain to contract for five years only with existing generation, and not contribute
77 at all to the construction of new generation.

87
97 Q. Do you have any other concerns about the DA/CCA LSE Opt-Out proposal as it relates to
107 the focus of this Track I of this LTPP, which is the orderly replacement of any OTC
117 capacity needed for local reliability?

127 A. Yes. The minimal “five year, existing asset” contracting requirement of the DA/CCA
137 LSE Opt-Out proposal seems especially useless for facilitating the replacement of OTC
147 capacity within Edison’s territory, which is the focus of this Track I of this LTPP.

157
167 As noted in my June 25 testimony, all the OTC capacity in the Ellis and Moorpark sub-
177 areas and much additional OTC capacity in the Western LA Basin have OTC policy
187 compliance dates of December 31, 2020,¹⁴ or approximately eight years from the date a
197 decision is expected in this track. Given the potential logistical challenges of replacing
207 OTC capacity in the LA Basin and Big Creek/Ventura Local Reliability Areas (LRAs),¹⁵
217 efforts to make commercial arrangements with generators or other providers of
227 replacement capacity may need to begin in early 2013. Depending on the amount of need
237 the Commission identifies, more such efforts may be necessary in following years.

247
257 But the DA/CCA LSE Opt-Out proposal would apparently allow suppliers of DA and
267 CCA customers to comply with local RA requirements by simply contracting for existing
277 generation for a period of five years. But such contracts would make no contribution to
287 replacing OTC capacity in the LA Basin or Big Creek/Ventura LRAs. In fact, if ESPs

14 TURN June 25 Testimony, 20:16-21:15, including footnotes 30 and 31.
15 Id.

1 entered such contracts with owners of existing OTC units, such contracts might even
2 impede replacement of such units until after such contracts expire late this decade.

3

4 *DA/CCA PROPOSALS WOULD MINIMIZE DA AND CCA CUSTOMERS' COST*
5 *RESPONSIBILITY FOR ANY NEEDED NEW CAPACITY ALLOCATED TO DA/CCA*
6 *CUSTOMERS*

7 Q. Why do you say that the DA/CCA proposal would reduce DA and CCA customers'
8 "dollar" contribution to supporting any needed new "MW" that are allocated to DA and
9 CCA customers?

10 A. The DA/CCA testimony asks the Commission to adopt policies that would unreasonably
11 reduce DA/CCA customers' contributions to the costs of any MW of new capacity
12 needed for reliability that are allocated to DA/CCA customers, and thus unreasonably
13 increase IOU bundled customers' responsibility for the costs of such resources.

14

15 Q. Are there any specific aspects of the DA/CCA testimony you wish to call to the
16 Commission's attention?

17 A. There are at least three proposals in the DA/CCA testimony that would have this effect:
18 ffi Proposal to "cap" CAM charges, but not put a "floor" under such charges.
19 ffi Proposal to revise estimate AS revenues attributable to a CAM resource and subtract
20 them from CAM resource's cost.
21 ffi Proposal to estimate "option value" and subtract it from CAM resource's cost.

22

23 - *DA/CCA PROPOSAL WOULD PUT A CAP ON DA/CCA CUSTOMERS' COSTS – BUT*
24 *NOT PUT A FLOOR UNDER SUCH COSTS*

25 Q. What is the first aspect of the DA/CCA cost allocation proposal you wish to address?

26 A. In proposing changes to the computation of CAM charges, the DA/CCA testimony
27 argues that costs to DA/CCA customers should be subject to a "cap" set by an
28 unspecified method.¹⁶ However, in arguing that negative CAM charges should also be

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16 DA/CCA June 25 Testimony, 47:3-19.

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1 allocated to all customers, the DA/CCA testimony implicitly argues that there should not
2 be a “floor” under CAM charges.¹⁷ Imposing a “cap” on the allocation of costs to
3 DA/CCA customers without a corresponding “floor” would be clearly discriminatory.

4
5 Q. How do you propose the above DA/CCA proposals be treated?

6 A. I agree that any negative CAM charges should be returned to all customers, as the
7 DA/CCA testimony suggests. However, there should not be any cap on the allocation of
8 such CAM costs to any customer group.

9

10 - *DA/CCA PROPOSAL COULD IMPUTE TOO MUCH REVENUE TO CAM*
11 *RESOURCES*

12 Q. Do you have any observations the DA/CCA proposal regarding the computation of CAM
13 charges?

14 A. Yes. The testimony quotes the section of SB 695 that requires “net capacity costs” to be
15 determined by “subtracting the energy and ancillary service value of a resource from the
16 total costs” of the CAM resource.¹⁸ DA/CCA’s testimony later argues that the definition
17 of ancillary services (AS) used in this computation should be expanded beyond that of the
18 Joint Parties’ Proposal adopted by the initial decision establishing the CAM, D.06-07-
19 029.¹⁹

20

21 Q. Do you have any concerns with these portions of the DA/CCA testimony?

22 A. Yes. I am open to expanding the types of AS that are included in the CAM computation
23 now and as new AS may be added over time. However, if the Commission wishes to
24 change the CAM computation, it should be careful to avoid adopting methods that would
25 over-estimate a CAM resource’s revenues, particularly AS revenues.

26

27 Q. How could a CAM resource’s revenues be over-estimated?

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¹⁷ Id., 49:19-50:5.

¹⁸ Id., 37:7-14.

¹⁹ Id., 39:6-42:18

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57 Q. Do you have any specific recommendations for computing CAM revenues at this time?

67 A. Yes. The simplest alternative to compute a CAM resource’s net capacity costs is to
77 subtract the revenues earned by the resource from the costs of the resource. This method
87 does not rely on an idealized modeling estimate of a CAM resource’s maximum potential
97 revenues, but on the revenues its owner can and does actually realize when operating the
107 plant.

117
127 - *DA/CCA PROPOSAL TO INCLUDE CAM RESOURCES’ “OPTION VALUE” IN CAM*
137 *CALCULATION POSES FINANCIAL RISK AND POSSIBLY INVITES DOUBLE-*
147 *COUNTING*

157 Q. What is the second DA/CCA CAM computation proposal that concerns you?

167 A. The DA/CCA testimony proposes that the “option value” of new resources be computed
177 and subtracted from CAM costs allocated to DA/CCA customers.²⁵

187
197 Q. Please define what you understand such “option value” to be.

207 A. An electric generator’s option value is the value a resource provides to its owner through
217 the owner’s ability to operate the resource at greater or lower levels – including zero – in
227 response to market prices. Generally speaking, such option values reflect expectations
237 about revenues that can be earned in the future given the expected future levels of market
247 prices and the volatility of such market prices. However, the value of the revenues a
257 resource actually receives might vary dramatically – in either direction – from such an
267 estimated option value.

277

25
Id., 42:19-43:20.

17 Q. Is the DA/CCA testimony correct that CAM resources will provide some “option value”
27 to the entities that own the rights to schedule such resources’ energy?

37 A. Yes. An entity that has the rights to manage a resource’s energy and AS and receives the
47 revenues from such services has rights to that resource’s “option value”.

57

67 Q. Should “option values” be estimated and included in the CAM calculation consistent with
77 the DA/CCA testimony?

87 A. No.

97

107 I first note that because option value reflects expectations about future revenues, that the
117 Commission would be double counting a resource’s financial value to its owner if it
127 subtracted a resource’s actual energy and AS revenues *and* a resource’s option value
137 from the CAM charge. A CAM calculation can subtract one of these values or the other
147 – *but not both*. By not stating this fact, the DA/CCA Testimony appears to propose that
157 both values be computed, though it does not explicitly state so.

167

177 In addition, the computation of option values proposed by the DA/CCA testimony would
187 trigger a time-consuming and controversial “modeling war” of no real value to the RA or
197 CAM process.


207

217 Q. Can option values be reasonably included in the computation of CAM charges by other
227 means?

237 A. Yes. As the DA/CCA testimony notes, the energy auction was designed to net such
247 option values against the costs of the CAM resource.²⁶

257

267 Q. Which method should the Commission prefer for determining the option value of a CAM
277 resource and netting such value against the cost of the CAM resource?

26  Id., 43:13-15.

7

7

17 A. The Commission should strongly prefer the energy auction approach – that is, a market-
 27 based approach – over the modeling approach the CCA/DA testimony proposes. First,
 37 such market values are much more reliable indicators of what option values really are.
 47 Second, option values in the energy auction can actually be monetized, unlike modeling
 57 estimates of option value. Estimating an option value using a model and subtracting such
 67 value from the cost of the CAM resource also places the CAM resource owner at risk for
 77 the difference between the modeling estimate and the revenues it actually receives in the
 87 market. The CAM resource owner faces no such risk if it receives cash payments for the
 97 option value from the winner of an energy auction. The winner of an energy auction
 107 assumes such risk instead.

117
 127 Q. Is it necessary to impute option value to CAM resources to set their net capacity costs?

137 A. No. As stated above, the simplest alternative to compute a CAM resource’s net capacity
 147 costs is to subtract the revenues earned by a CAM resource from the costs of the
 157 resource. This method does not rely on an idealized estimate of a CAM resource’s
 167 “option value”, but on the revenues its owner can and does actually realize when
 177 operating the plant.

187
 197 *OTHER ASPECTS OF DA/CCA TESTIMONY*

207 Q. Are there any other aspects of the DA/CCA testimony you wish to address?

217 A. Yes. There are two additional aspects of the DA/CCA testimony the Commission should
 227 explicitly reject in making its findings in this case.

237
 247 - *MIS-INTERPRETATIONS OF SB 790*

257 Q. What is the first such aspect of the DA/CCA testimony you wish to address?

267 A. The DA/CCA testimony at times unreasonably expands the scope of SB 790 regarding
 277 cost allocation issues and also asserts that the rights accorded to CCAs under SB 790 also
 287 apply to ESPs.

297

17 For example, the DA/CCA testimony states “SB 790 directs the Commission to
 27 implement the new CAM rules by no later than January 1, 2013”.²⁷ However, the
 37 language of SB 790 directs only that the Commission adopt a “code of conduct,
 47 associated rules, and enforcement procedures, to govern the conduct of the electrical
 57 corporations relative to the consideration, formation, and implementation of community
 67 choice aggregation programs” by that date.²⁸ There is no reference to CAM issues in the
 77 relevant sections – and certainly not as they might affect ESPs. Instead, the DA/CCA
 87 testimony tortures the language of this section to suggest that the phrase “associated
 97 rules” also refers also to the sections of the Public Utilities Code that reference CAM
 107 issues, expanding the scope of SB 790 beyond reason.²⁹

117
 127 As another example, the DA/CCA testimony states that “LSE Opt-Out is necessary to
 137 comply with SB 790, which requires the Commission to ensure CCAs are able to
 147 ‘maximize’ use of generation resources of their own choosing to serve load”.³⁰ First, SB
 157 790 does not require that CCAs be allowed to opt-out. But even if SB 790 had been
 167 written to give CCAs to ability to opt-out, it certainly does not require opt-out for ESPs.
 177 In this case, the testimony asserts that the benefits SB 790 provided to CCAs should also
 187 be provided to ESPs.

197
 207 In adopting any revisions to the CAM, the Commission must keep clearly in mind what
 217 SB 790 does and does not require, and in particular recognize that the statute provides
 227 CCAs certain benefits that it does not provide to the ESPs.

237
 247 I would also observe that the only CCA currently active – MEA, a co-sponsor of the
 257 DA/CCA testimony – operates within PG&E’s service territory. MEA’s costs will thus
 267 be entirely unaffected by the specific procurement the Commission may direct in this

27 Id., 5:5-6.

28 Public Utilities Code Sections 707(a) and (b).

29 DA/CCA June 25 Testimony, 16:21-33.

30 Id., 64:4-6.

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17 case. There is thus no hurry to adopt specific procurement policies as they relate to the
27 specific SB 790 provisions that may or may not apply to CAM allocations CCAs.

37

47 - *TRANSFER OF COMMISSION AUTHORITY TO CAISO*

57 Q. What is the second such aspect of the DA/CCA testimony you wish to address?

67 A. In describing the “LSE Opt-Out” process, the DA/CCA testimony makes several
77 references that seem to suggest the CAISO be given authority to set planning criteria and
87 direct or approve related procurement and that the Commission has no such authority or
97 limited authority. For example, the testimony uses the phrase “reliability needs specified
107 by the CAISO” in a manner that seems to ignore the Commission’s final authority over
117 imposing such procurement requirements on LSEs.³¹

127

137 Even more ominous is the statement that “the CAISO must be involved to define the
147 specific System or Local RA reliability needs and operational characteristics, if any, and
157 the time frame by which they must be satisfied”.³² This statement appears to suggest the
167 CAISO be granted even more authority to set procurement quantities, operational
177 characteristics, and timing of new resource additions. I disagree with this apparent policy
187 recommendation because I believe this Commission will better balance the trade-off
197 between reliability and ratepayer cost than the CAISO.

207

217 In considering the DA/CCA LSE Opt-Out proposal and other procurement proposals in
227 this docket, the Commission must write its decisions to be clear as to the extent of its
237 authority.

247

257 RESPONSES TO ASSIGNED COMMISSIONER’S QUESTIONS

267

277 Q. Do you have any additional comments to offer in response to the questions asked in the
287 July 13 ACR?

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Id., 31:3-4 and 31:6.

32
Id., 32:19-21.

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7

17 A. Yes.

27

37 Q. What is your response to the ACR’s first question?³³

47 A. As I suggested in my initial Testimony, the simplest and most reliable means of getting
57 any needed new capacity built is for Edison take on the responsibility of contracting for
67 such capacity and allocate the costs to all benefit customers via the CAM. I also make
77 other specific recommendations for the Commission and Edison in my initial testimony.³⁴

87

97 Q. What is your response to the ACR’s second set of questions?³⁵

107 A. As a first principle, I believe any resource needs should be met via competitive
117 solicitations to the extent reasonably possible. Further, RFPs can be designed to solicit
127 “cost plus” contracts along with the more common financial structures.³⁶ I thus do not
137 believe the Commission’s apparent interest in a “cost plus” contract with the owner of an
147 OTC asset to replace such asset can only be achieved outside a competitive solicitation.

157

167 However, I also recognize that there may be cases under which an alternative
177 procurement method – such as “‘cost plus’ contracts outside of a competitive solicitation”
187 – might yield lower cost resources and/or be the most practical and timely procurement
197 option. And given the strategic location of some of the OTC units in Edison’s territory,
207 the replacement of such units may be such a case, making it appropriate for the



³³ Question 1 reads “To the extent that the Commission determines that Southern California Edison Company (SCE) and/or other Load-Serving Entities in the Los Angeles basin and the Big Creek/Ventura local area must procure capacity to meet long-term local capacity needs, how should the Commission direct these entities to meet that need on behalf of the system?” (p. 1)

³⁴ TURN June 25 Testimony, 2:9-3:28, 17:1-8 and 21:17-23:2.

³⁵ The second set of questions reads “If the Commission wishes to allow SCE to meet some or all of the identified need through ‘cost plus’ contracts outside of a competitive solicitation, how should that work? Does AB 1576 provide clear guidance on the options available to SCE or does the Commission need to interpret the bill’s meaning in this context?” (p. 1)

³⁶ These other structures are primarily utility ownership and non-utility ownership. Utility ownership is generally a “cost plus” arrangement as defined below. In the case of non-utility ownership, firm electric capacity is generally committed to electric customers through a Power Purchase Agreement between the owner and a utility or other LSE, but the Commission, purchasing utility and other parties generally have no rights to review the owner’s costs.

7

7

1 Commission to direct Edison to enter into contracts with owners of such assets to achieve
2 such goals.

3
4 If the Commission takes this step, I would also recommend that Edison or the
5 Commission hire an Independent Evaluator (IE) to monitor the process, as well as an
6 Independent Transmission Engineer (ITE) to assess the ability of various options to meet
7 reliability standards consistent with the Commission’s criteria. And even in such a
8 directed procurement, the ability of other options to meet local reliability needs should
9 also be considered and reflected in the Commission’s direction.

10
11 Finally, as a reminder, I believe such a directed procurement approach should not be a
12 precedent for future procurements, but instead be a one-time directive to reflect the
13 current unusual circumstances in Edison’s territory.

14
15 Q. Do you have any response to the question that references AB 1576 in the ACR’s second
16 set of questions?

17 A. Yes. It may be possible that the Commission could allow Edison to enter “cost plus”
18 contracts with OTC asset owners without the authority that was provided by AB 1576.³⁷
19 In such a case, the particular language of AB 1576 may not be relevant except as a partial
20 guide to the Legislature’s intent on power plant repowering issues.

21
22 But if the Commission wishes to authorize procurement pursuant to AB 1576, it will –
23 despite the law’s relative simplicity and clarity – need to interpret some of the language
24 and establish processes to ensure related procurement complies with this law. For
25 example, I believe the phrase “cost plus” in the ACR is intended to be consistent with the
26 section of AB 1576 that reads “The project provides electricity to consumers of this state
27 at the cost of generating that electricity, including a reasonable return on the investment

|||||
³⁷ AB 1576 refers to Assembly Bill (AB) 1576, which was enacted as Chapter 374 of 2005. In making this statement, I am not expressing a legal opinion on whether the Commission has such powers without AB 1576.

1 and the costs of financing the project.”³⁸ In other words, AB 1576 would require, and I
2 believe the ACR anticipates, that contracts developed under the auspices of AB 1576
3 would provide electric services to customers at the costs to the project owner of building,
4 maintaining and operating the project, including return of and a reasonable return on the
5 capital invested in the project.

6
7 Q. What is your response to the ACR’s third set of questions?³⁹

8 A. It is possible to compare different types of resources competing to provide local
9 reliability services in the same RFP. However, the differential costs and performance
10 parameters of such resources – including their ability to comply with, in some cases, still
11 evolving criteria for providing local RA capacity – may make their comparison on an
12 “apples-to-apples” basis challenging. However, for the sake of consistency with both the
13 Commission’s policy supporting competitive procurement and its resource planning
14 goals, this challenge should be accepted.⁴⁰

15
16 Any RFO resulting from this docket to meet local capacity needs in Edison’s territory
17 should require that resources offer the performance characteristics needed to be eligible
18 to count as local RA capacity, to the extent such characteristics are known at that time. If
19 such characteristics are not entirely known yet, the RFO should specify them as well as
20 possible and provide a summary of those characteristics that may be clarified before the
21 RFO process is completed and Edison identifies its “short list”. But the evaluation of
22 bids received in response to the RFO, negotiation of contracts with short-listed bidders,

38 Section 454.6(b)(6) of the Public Utilities Code.

39 The third set of questions reads “In the past, the Commission has allowed all source Request for Offers (RFOs) for incremental resources in which any type of resource could compete to fill an identified need. What barriers may currently exist to ensuring effective all source RFOs? What specific performance characteristics should be accounted for in this RFO to effectively enable the participation of non-traditional resources like energy storage, demand response and distributed generation? Would the Commission need to be specific about the characteristics of the resources needed to meet the need (e.g., minimum hours of availability required to meet local reliability needs)? If so, what characteristics should the Commission require?” (p. 2)

40 TURN June 25 Testimony, 9:7-10:16.

1 and Commission review of any contracts arising from the RFO may be challenging if RA
2 counting rules for some resources are not certain yet.

3

4 COMMENTS ON OTC UNIT OWNERS' TESTIMONY

5

6 Q. Do you have any comments on the testimony of AES and GenOn?

7 A. Yes. As noted in my June 25 Testimony, AES and GenOn own units that are currently
8 uniquely critical to local area reliability in portions of Edison's territory.⁴¹ I thus read
9 their testimony with interest.

10

11 Q. What did AES and GenOn say in their respective testimonies?

12 A. Briefly, AES agreed with the CAISO's analysis of local capacity needs in the Western
13 LA Basin sub-area, and in particular that capacity at existing OTC sites – such as those
14 owned by AES – would be more effective at meeting such capacity needs.⁴² Briefly,
15 GenOn said it is now pursuing a "retire and replace" strategy regarding its two OTC
16 stations in the Moorpark sub-area, but would require a long-term contract to implement
17 this strategy.⁴³

18

19 Q. Do you have any comments to offer on these companies' testimonies?

20 A. Yes. Both of these companies are clearly interested in refurbishing or replacing their
21 current OTC generating units in Edison's territory. Both companies thus have a very
22 good chance to be key participants in meeting any local capacity needs the Commission
23 identifies in this track of this case. However, it will also be important that any
24 Commission effort to replace existing OTC capacity manage the potential market power
25 these companies may enjoy.⁴⁴

26



⁴¹ Id., pp. 20-21.

⁴² AES June 25 Testimony.

⁴³ GenOn June 25 Testimony, particularly 4:17-20.

⁴⁴ TURN June 25 Testimony, 2:15-19, 3:5-23, 17:1-8 and 20:16-23:24.

7

7

17 In addition, GenOn’s testimony that it needs a long-term contract to replace its OTC units
27 further suggests that the DA/CCA LSE Opt-Out’s minimal “five year, existing resources”
37 contracting requirement would not contribute to the replacement of OTC capacity.

47
57 COMMISSION SHOULD WITHHOLD JUDGMENT ON POSSIBLE CHANGES TO
67 MARKET STRUCTURE

77
87 Q. Did any parties suggest in their June 25 Testimony that the Commission change its
97 capacity procurement policies more generally?

107 A. Yes. Both Edison and the San Diego Gas & Electric Company (SDG&E) made brief
117 statements in support of a “capacity market”.⁴⁵

127
137 Q. Do you have any response to these statements?

147 A. I will not respond to the particulars of these brief statements because – as both Edison
157 and SDG&E realize – issues such as a “capacity market” are not in the scope of this
167 docket. However, when the Commission does review market structures in the future,⁴⁶ I
177 recommend the Commission take an agnostic view as to what policies should be
187 implemented to address issues being raised by various parties – or, more importantly,
197 whether such issues are actually problems that need to be addressed.

207
217 CONCLUSION

227
237 Q. Does this conclude your testimony?

247 A. Yes.

|||||
45

Edison June 25 Testimony, 25:11-16 and SDG&E June 25 Testimony, 8:18-20.

46 As noted above, the Commission will take such a step in the near future in R.11-10-023 when it reviews the potential addition of flexible capacity specifications to the RA program.

7
7