

Docket No.: R.12-03-014

Exhibit No.: _____

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Witness: William A. Monsen

**REPLY TESTIMONY OF WILLIAM A. MONSEN ON BEHALF OF THE
INDEPENDENT ENERGY PRODUCERS ASSOCIATION CONCERNING TRACK
ONE OF THE LONG-TERM PROCUREMENT PROCEEDING
(change pages only)**

Table of Contents

I. Introduction and Summary	1
II. There is General Agreement Regarding Certain Aspects of Opening Testimony	5
III. There is Significant Disagreement About Other Aspects of CAISO’s Studies; All-Source RFOs Provide A Possible Means to Accommodate Disparate Positions	12
A. Do the studies assume enough uncommitted “preferred” resources?	12
B. Should procurement be deferred?	18
C. Perform sensitivity analysis?	19
D. Solution: Authorize local capacity procurement to level identified by CAISO and allow uncommitted preferred resources to bid to provide local capacity	20
IV. The Commission Should Establish Longer-Term Need for Flexible Resources in the Current LTPP, with Track 1 as the Starting Point	22
V. Conclusion	24

1 Purchase Agreements (PPAs) to serve the need for a specified duration of
2 time.

- 3 • The Commission should set procurement targets based on overall grid
4 reliability needs and resource policy objectives, then provide procurement
5 vehicles (e.g. Requests for Offers (RFOs)) such that the Load-Serving Entities
6 procure their Incremental Need, which would be calculated only assuming
7 committed resources.
- 8 • Preferred resources previously included as “uncommitted resources” would be
9 permitted to participate in “all-source” solicitations to meet the identified
10 Incremental Need, and would be appropriately counted once selected and
11 subject to meeting performance obligations on par with other resources.
- 12 ~~• The CAISO should be requested to run additional scenarios in Track 1 to~~
13 ~~account for uncertainties regarding the future operation of SONGS and the~~
14 ~~timing of retirement of OTC units.~~
- 15 • The Commission should establish longer-term need for flexible resources in
16 the current LTPP, which will require working with the CAISO to 1) define
17 with specificity the flexible capacity products the CAISO believes it needs to
18 ensure reliability, 2) establish a schedule for the completion of studies for
19 local and system-wide flexibility needs, 3) finalize the CAISO’s studies on
20 system flexibility.
- 21 • Once the need for flexible resources is determined, the Commission should
22 require IOUs to meet their flexible procurement obligations through
23 competitive means.

1 surprise since the CAISO's studies of the need for flexible resources on a system
2 basis are far from completed at this point.⁴ In fact, the Commission does not
3 expect the CAISO's studies of the need for system flexibility to be completed
4 until sometime in 2013.⁵ Based on plans submitted by OTC units to the State
5 Water Resources Control Board (SWRCB), it appears that a certain amount of
6 flexible, local generating resources will retire as a result of regulatory
7 requirements, particularly the OTC regulations.⁶ However, new generation is
8 under construction, and some of the owners of the retiring units may repower
9 those units.⁷

10

11 Even if the repowered units are not as flexible as the units that they are replacing,
12 their presence on the grid might free up other, more flexible units that are
13 currently used to generate energy to instead provide a greater amount of flexibility
14 to the grid. Also, some existing combined cycle units may be able to improve
15 their flexibility through capital improvements.⁸ The CAISO touched upon this

⁴ Comments of the California Independent System Operator Corporation on the Preliminary Scoping Memo, R.12-03-014, April 6, 2012, pp. 2-4; Testimony of Mark Rothleder on Behalf of the California Independent System Operator Corporation, R.12-03-014, May 23 2012, pp. 6-7.

⁵ Scoping memo and Ruling of Assigned Commissioner and Administrative Law Judge, R.12-03-014, May 17, 2012, p. 10.

⁶ Testimony of Robert Sparks on Behalf of the California Independent System Operator Corporation, R.12-03-014, May 23, 2012, pp. 14-15 (CAISO Sparks Testimony), noting the flexible characteristics of retiring OTC generation that must be replaced.

⁷ The California Energy Commission issued a decision approving a license for NRG Energy's Carlsbad Energy Center Project on June 20, 2012 (Docket No. 07-AFC-06. Commission Decision, June 20, 2012. CEC-800-2011-004-CMF (Attachment B). The CAISO specifically noted that repowering retiring OTC units is an option (CAISO Sparks Testimony, pp. 14-15).

⁸ GE and Siemens appear to offer products and services to improve the flexibility of existing generation, including combined cycles. For example, see "Operational Flexibility Enhancements of Combined Cycle Power Plants," Dr. Norbert Henkel, Erich Schmid and Edwin Gobrecht, Siemens AG, Energy Sector Germany (Attachment C). See also the information brochure regarding GE's OpFlex Advanced Control Solutions (Attachment D).

1 **III. There is Significant Disagreement About Other**
2 **Aspects of CAISO’s Studies; All-Source RFOs**
3 **Provide A Possible Means to Accommodate**
4 **Disparate Positions**
5

6 **Q. Are there disagreements about other issues raised in the opening testimony?**

7 | A. Yes. I focus on ~~three~~two broad areas of contention. First, there is significant
8 | disagreement over the level of uncommitted energy efficiency, demand response,
9 | distributed generation, and combined heat and power that the CAISO assumed in
10 | its Local Capacity Requirement (LCR) study.¹⁷ Second, some parties believe that
11 | it is premature to procure long-run LCR resources at the present time, while other
12 | parties believe that the results of the CAISO’s study definitively identify LCR
13 | needs.¹⁸ ~~Third, there is dispute over whether the CAISO should examine scenarios~~
14 | ~~in which the San Onofre Nuclear Generating Station (SONGS) does not return to~~
15 | ~~service.~~¹⁹ I address each issue in turn below.

16 **A. Do the studies assume enough uncommitted**
17 **“preferred” resources?**
18

19 **Q. What is the source of the first dispute?**

20 A. SDG&E in particular supported the CAISO’s conservative approach of assuming
21 no incremental uncommitted preferred resources above and beyond that already

¹⁷ SCE Testimony, p. 7; SDG&E Testimony, pp. 6-7; TURN Testimony, pp. 9-10; DRA Fagan Testimony, pp. 16-17; CEJA Testimony, p. 4-10; Women’s Energy Matters Opening Testimony – LCRs, R.12-03-014, June 27, 2012, pp. 9-10 (WEM Testimony).

¹⁸ CAISO Sparks Testimony, pp. 15-17; SCE Testimony, p. 1; SDG&E Testimony, pp. 1-3; TURN Testimony, pp. 3 and 5; DRA Fagan Testimony, pp. 1-4.

¹⁹ CAISO Sparks Testimony, p. 15; SCE Testimony, p. 4; SDG&E Testimony, p. 2; TURN Testimony, p. 16.

1 or DR resource is provided through a utility program, then the line of
2 responsibility is less clear. The recent proposals for Regional Energy Networks²⁵
3 to provide energy efficiency services would reduce this concern.²⁶
4

5 **Q. Why might proving delivery of local resources be a problem for EE and DR?**

6 A. For mass-market programs like EE and DR, it will be necessary for the projects to
7 demonstrate their ability to deliver capacity targeted at specific locations. For
8 example, this issue was discussed in the Resource Adequacy (RA) proceeding as
9 it relates to DR, with the Commission granting PG&E an exemption from the
10 Local Dispatchability Requirement for certain DR in the 2012~~23~~ RA compliance
11 year.²⁷ The Decision grants PG&E's request for the current compliance year but
12 also emphasizes that local dispatchability requirements are important and that this
13 capability should be in place by May 2013. Thus, at least for PG&E, certain DR
14 resources might not be eligible to participate in solicitations until such time as
15 they can demonstrate their ability to provide local capacity. Given the hurdles
16 associated with even modeling EE in the CAISO's integration and OTC studies,
17 verifying local impacts could prove to be a major hurdle.²⁸
18

²⁵ For example, see: Motion for Consideration of the San Francisco Bay Area Regional Energy Network, A.12-07-001, July 16, 2012; Motion for Consideration of the Marin Energy Authority Energy Efficiency Program for 2013-2014, A.12-07-001, July 16, 2012; Motion for Consideration of the Southern California Regional Energy Network for Southern California Edison's Service Territory for 2013-2014, A.12-07-001, July 16, 2012 (Attachment H).

²⁶ Regional Energy Networks (RENs) would allow local governments to implement energy efficiency programs in the 2013-2014 CPUC energy efficiency program cycle. These organizations, rather than a utility, would likely be the counter-party.

²⁷ D.12-06-25, pp. 34-35.

²⁸ "Assigned Commissioner's Ruling On Standardized Planning Assumptions," R.12.03-014, July 27, 2012, Appendices A and B, caiso-sparks Testimony, p. 15.

1 **B. Should procurement be deferred?**

2
3 **Q. What is the source of the second dispute?**

4 A. Some parties argued that, given the uncertainty in future loads and levels of
5 preferred resources, it may be the case that there is little or no need for long-term
6 PPAs with gas-fired resources.²⁹ Other parties believe that delay could result in
7 potential shortages in LCR resources, which would result in very high costs.³⁰

8
9 **Q. What is IEP’s position regarding this issue?**

10 A. IEP is concerned about the potential asymmetric risks associated with under- and
11 over-procurement of local resources. As noted by the CAISO, under-procurement
12 of integrating resources could result in significant societal costs as a result of the
13 need to curtail firm load. However, over-procurement could result in higher costs
14 to ratepayers. Over-procurement of long-run capacity could also cause significant
15 financial difficulties for existing generators that sell market-based capacity (as
16 was seen for Calpine’s Sutter plant). However, on balance, IEP supports a
17 somewhat more conservative approach to procurement, in order to ensure that
18 firm load curtailments do not occur. Given the State’s history with rolling
19 blackouts and the aversion to repeating that experience, a conservative
20 procurement approach is the most politically palatable option.³¹

21

²⁹ DRA Fagan Testimony, pp. 1-4; WEM Testimony, p. 14.

³⁰ SCE Testimony, pp. 16-17; TURN Testimony, pp. 21-24.

³¹ IEP would note that certain parties appear to not dismiss involuntary curtailment of firm load as a potential resource option. See “Prepared Direct Testimony Of Julia May On Behalf Of The California Environmental Justice Alliance,” R.12-03-014, June 25, 2012, pp. 41-43.

1 In addition, IEP is concerned about delaying decisions regarding procurement of
2 local capacity because of the amount of time necessary to permit and construct
3 certain local resources. As noted above, the lead-time for constructing new
4 resources can be 6-8 years or more. If the Commission were to delay resource
5 decisions in certain local sub-areas (such as areas where OTC units provide the
6 vast majority of local capacity), then the Commission might find that it is not
7 possible to repower those units and, as a result, the units will be shut down in
8 order for the owners of those units to meet their SWRCB requirements. Thus,
9 delaying decisions would effectively preclude reuse of sites that are most
10 effective for providing local capacity.

11

12 ~~**C. Perform sensitivity analysis?**~~

13

14 ~~**Q. What is the source of the third dispute?**~~

15 ~~A. DRA disputes that the CAISO studies have adequately accounted for two major~~
16 ~~sources of uncertainty: the future operation of SONGS and the timing of~~
17 ~~retirement of OTC units.²² DRA therefore argues that the CAISO's analysis is an~~
18 ~~insufficient basis for approving LCR related procurement and that further review~~
19 ~~of LCR sub-area needs is required.²³ Other parties believe that the existing~~
20 ~~analysis provides an adequate basis for approving LCR procurement.²⁴ While~~

²² ~~DRA Fagan Testimony, pp. 21-22.~~

²³ ~~DRA Fagan Testimony, p. 27.~~

²⁴ ~~SCE Testimony, pp. 10 and 24; Track 1 Prepared Testimony of Hala N. Ballouz on Behalf of AES Southland, R.12-03-014, June 25, 2012, pp. 3-4.~~

1 ~~SDG&E generally notes the importance of meeting local requirements in the Los~~
2 ~~Angeles basin, it recommends a sensitivity analysis assuming a SONGS outage.³⁵~~

3

4 ~~Q. What is IEP's position on this issue?~~

5 ~~A. IEP believes that it is critical for the Commission to understand the range of~~

6 ~~potential risks that any long term plan entails, regardless of whether the plan~~

7 ~~addresses only local resources or the broader consideration of system needs.~~

8 ~~Therefore, IEP recommends that the CAISO should run additional scenarios in~~

9 ~~Track 1 to account for these two major uncertainties. DRA's recommended~~

10 ~~scenarios are reasonable.~~

11

12 ***D. Solution: Authorize local capacity procurement to***
13 ***level identified by CAISO and allow uncommitted preferred***
14 ***resources to bid to provide local capacity***

15

16 **Q. What is IEP's recommendation regarding trying to harmonize these**
17 **disparate positions?**

18 A. IEP believes that the Commission should authorize the IOUs to procure resources

19 to meet the level of local capacity requirements identified by the CAISO but also

20 acknowledge that the need could be met by both supply resources and other

21 preferred resources if they are "committed." The LSEs should hold all-source

22 RFOs to procure local capacity. If the LSEs are able to procure committed

23 "supply" from preferred resources, then that would effectively lower the need for

24 supply-side resources. On the other hand, if the LSEs are unable to obtain firm

³⁵ SDG&E Testimony, pp. 1-2.