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 BRIEF OF THE INDEPENDENT ENERGY PRODUCERS ASSOCIATION ON TRACK I ISSUES

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Track I of this Long-Term Procurement Proceeding (LTPP) is focused on two broad issues: (1) identifying the local capacity requirements of the Los Angeles and Big Creek/Ventura local areas, and (2) determining the best way for the investor-owned utilities (IOUs) to procure any needed capacity. In its Opening Brief, the Independent Energy Producers Association (IEP) addressed these issues and a number of more specific topics, including the role of preferred resources in meeting local capacity needs, accommodating retirement of units using once-through cooling (OTC), the need for flexible resources, and the mechanisms for procurement.

In this Reply Brief, IEP responds to contentions and arguments presented in other parties' opening briefs. As part of its response, IEP maps a pathway to meet Local Capacity Requirements (LCR) and system needs, to provide recognition of preferred resources, and to maintain grid reliability at the local and system levels.

I. EXECUTIVE SUMMARY

In this LTPP proceeding, the Commission takes the unusual step of considering procurement related to LCR studies performed by the California Independent System Operator

(CAISO), rather than in the Resource Adequacy (RA) proceeding where LCR issues are usually addressed. In the Scoping Ruling and Memo, the Assigned Commissioner and Administrative Law Judge explained that they took this step "to consider authorizing procurement of new infrastructure for local reliability purposes."[1] These new resources might be needed because relatively recent developments—notably the need to integrate increasing levels of intermittent renewable resources into the grid and the impending retirement, replacement, or restricted operations of plants using OTC—have led the CAISO to perceive a new need for local area resources with certain operational attributes.

In response to the CAISO LCR studies, parties in their Opening Briefs raised concerns that the CAISO's assumptions and approaches are too conservative or fail to account for the potential development of preferred resources supported through programs that are as yet unfunded (*i.e.,* uncommitted resources). Under the reliability criteria used in the CAISO's LCR studies, however, "[t]here must be sufficient generation in the local area to meet demand under stressed conditions such as the loss of a large generating unit and one large transmission line, the outage of two large transmission lines or the outage of two generating units."[2] LCRs are determined by examining how the electric system in the local area would respond to certain contingencies and what resources would need to be added to allow the local area to respond to those contingencies without dropping load.

The CAISO's long-term LCR study that is the focus of Track I was made necessary in part because of the pending retirements of several coastal generating plants that use OTC.[3] The retirements of the OTC plants will present special challenges to the CAISO because the retiring plants (1) were typically located near load, (2) were integrated with the transmission

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[1] *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge*, May 17, 2012, p. 3.
[2] CAISO's Opening Brief, pp. 6-7.
[3] CAISO's Opening Brief, p. 13.

system and provided support and stability for that system, and (3) provided considerable operating flexibility, at a time when flexibility is particularly needed to integrate increasing levels of variable renewable energy.

The prospective loss of the OTC plants led to the need for a multiyear LCR, so that resources needed to replace the OTC plants (and their flexible attributes) would be identified early enough to achieve commercial operation by the time the OTC plants retire. Although some parties have criticized the CAISO for using the LCR methodology originally designed for one-year forward assessments of Resource Adequacy to develop a long-term forecast of need, both the CAISO and the Assigned Commissioner recognized that a myopic year-by-year approach could result in a significant resource shortfall in a few years.

Moreover, the Legislature has repeatedly and unambiguously emphasized the critical role of reliability: "Reliable electric service is of ***utmost importance*** to the safety, health, and welfare of the state's citizenry and economy."[4] "The Legislature finds and declares that safe, reliable electric service is of ***utmost importance*** to the citizens of this state, and its economy."[5] "Reliable electric service is of ***paramount importance*** to the safety, health, and comfort of the people of California."[6]

In addition, reliability is emphasized in the statutes that created the CAISO: "The Independent System Operator shall ensure efficient use and ***reliable*** operation of the transmission grid . . . ."[7] "To ensure the ***reliability*** of electric service and the health and safety of the public, the Independent System Operator shall manage the transmission grid . . . ."[8]

Similarly, it is important to recall a key goal of the original Energy Action Plan:

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[4] Public Utilities Code section 330(g) (emphasis added).
[5] Public Utilities Code section 399(b) (emphasis added).
[6] Public Utilities Code section 334 (emphasis added).
[7] Public Utilities Code section 345 (emphasis added).
[8] Public Utilities Code section 345.5(b) (emphasis added).

> Ensure that adequate, ***reliable***, and reasonably-priced electrical power and natural gas supplies, ***including prudent reserves,*** are achieved and provided through policies, strategies, and actions that are cost-effective and environmentally sound for California's consumers and taxpayers.[9]

Consistent with its charge to maintain reliability, the CAISO intentionally uses conservative assumptions in its LCR studies, and for good reason. Conservative assumptions are used:

> . . .because there is less opportunity for load diversity and generally significantly fewer operational options in a smaller local area to manage shortages. Because these load pockets or local capacity areas tend to be urban areas of high population density (which makes additional transmission in to the areas challenging, prohibitively expensive or otherwise not viable) there is also less tolerance for unplanned or rotating outages.[10]

In response to the CAISO's LCR studies, the parties to this proceeding have largely divided into two camps. One camp accuses the CAISO of ignoring the loading order of the Energy Action Plans, and in particular of downplaying the preferred role of energy efficiency (EE), demand response (DR), combined heat and power (CHP), and distributed generation (DG) in meeting the system's needs. Another camp emphasizes the need for reliability and generally supports the CAISO's efforts to identify the resource needs that must be filled to maintain reliability (perhaps with some reservations about the details of the LCR study).

The disagreement exhibited in parties' comments crystallize in the discussion of the treatment of "uncommitted" preferred resources, particularly EE and DR. The CAISO, tasked with maintaining overall grid reliability, is understandably reluctant to base its demand forecast on the assumption that uncommitted resources—that is, resources for which no funding stream is presently available to ensure that the resource will be in place and in operation when

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[9] Energy Action Plan, p. 2 (emphasis added).
[10] CAISO's Opening Brief, p. 7.

needed—will nevertheless show up at the specified time and location to reduce demand or serve load. Other parties argue that the CAISO's approach guarantees that the assumed levels of uncommitted EE will not show up, because, in their view, efficiency's rightful role in the loading order will have been preempted by gas-fired resources. The Utility Reform Network (TURN) tries to balance these concerns and recommends assuming at least 50% of the long-term target or program goal for each preferred resource is achieved.[11]

IEP has two observations about this dispute. First, advocates of the preferred resources are on record in this proceeding as indicating they (a) have significant value to offer and, more importantly, (b) (with the possible exception of energy efficiency) they are able and willing to compare that value with other resources on a fair basis if given the opportunity. The Commission provide that opportunity in the form of an all-source solicitation.

Like many parties, IEP recommends using competitive solicitations to pick the least-cost resources that are able to provide the products sought in the solicitation. "All source" means just that—any and all resources that are able to provide the desired product should be allowed to bid, including new conventional gas-fired resources, repowered gas-fired resources, existing resources (possibly with upgrades to increase flexibility or raise the facility's Net Qualifying Capacity for RA purposes), renewable generation, DG, CHP, DR, EE (if it can be properly packaged to provide the desired product), and transmission projects that can provide the desired product or eliminate the constraints that create the local area.

Moreover, if the IOU is seeking multiple attributes or products, resources should not be required to bid all attributes as a bundle. Resources should be allowed to bid on only the

[11] TURN's Opening Brief, p. 8.

attributes that they can actually provide, and the IOU must then ensure that the least-cost portfolio of attributes is procured.[12]

IEP's second observation is that energy efficiency should be recognized more appropriately as a resource for reducing system demand. EE does not exhibit any of the flexible operating characteristics that may be needed at a local level to replace generation that is expected to shut-down as a result of OTC requirements. EE is also not usually targeted to specific local areas. IEP appreciates the contribution that uncommitted EE can make through its generic ability to reduce load, but EE in its present forms does not provide the flexibility or grid-support attributes the CAISO needs to maintain grid reliability in the local areas.

More importantly, due to the uncertainty about the availability of uncommitted EE, it fits better into broader system assessments. At the system level, the Commission has prescribed a Planning Reserve Margin that, among other things, helps maintain overall grid reliability if resources, including uncommitted EE, fail to show up or perform as expected.

In addition, the resource and demand forecasts will be revised periodically—biennially if the consideration of long-term need for LCR and flexible resources remains in the LTPP proceeding, annually if the long-term LCR study takes place in the RA proceeding. As the forecasts are revised, they will incorporate newly committed EE programs that are uncommitted today. Even more important, EE that is in place will continue to reduce the demand forecast and directly contribute to a lower LCR for affected local areas.

IEP's recommended solution to bridge the policy debate between the two camps, and IEP's recommended approach to procurement, is for the Commission to authorize procurement of the amounts of resources the CAISO identifies as needed and allow all resources

[12] Exh. IEP-01, pp. 23-24 (Monsen/IEP).

that can provide the desired operating characteristics to bid to meet the forecasted demands.[13] Furthermore, the Commission should continue to recognize that EE serves the important function of reducing demand, but for forecasting purposes that reduction applies at a system level until the EE mechanism is physically located (*i.e.,* committed) in a local area. The Commission should continue its historical practice of integrating a feasible amount of uncommitted EE into its long-term system forecasts, but the Commission should not assume that this resource has the operational attributes that allow it to replace the retiring OTC generation units.

II. DETERMINATION OF LOCAL CAPACITY REQUIREMENTS (LCR) NEED IN CALIFORNIA INDEPENDENT SYSTEM OPERATOR (CAISO) STUDIES

A. CAISO's LCR and Once-Through Cooling (OTC) Generation Studies

Some parties have raised concerns about core assumptions in the CAISO's modeling efforts. In past years, the Commission has endeavored to ensure to the maximum extent practical that the studies are based on common assumptions used by the state energy entities , *i.e.,* the California Energy Commission (CEC) for the Integrated Energy Policy Report (IEPR), the CAISO for reliability studies and transmission planning, and the Commission for the LTPP. This effort has helped ensure consistency among studies, which has helped reduce the inter-agency disagreements that have in the past sometimes impeded sound planning and policy implementation. The use of common assumptions is a good development, and IEP would be concerned if the narrow interests of some parties in this proceeding undermine the careful balance that has been achieved.

Some parties wrongly suggest that the CAISO's use of a 1-in-10 peak load forecast for the LCR studies is unnecessarily conservative, but these parties may misunderstand the use of this assumption. Use of a 1-in-10 peak load forecast does not mean that the CAISO is

[13] Exh. IEP-01, pp. 20-22 (Monsen/IEP).

planning only for one extreme day that will occur only once in ten years. Even if the forecast is exactly right, there will be many other days during the forecast period when peak load will approach the level of the 1-in-10 assumption and test the resilience of the system. Moreover, during extended hot spells, the system can be taxed more severely by temperatures that remain relatively high overnight than by higher daytime temperatures. The 1-in-10 assumption is a useful approximation for a variety of conditions that can stress the electric system much more frequently than once every ten years.

Some parties suggest that involuntary load shedding, rather than prudent planning and preparation, is an appropriate response to the contingencies that inevitably arise on the transmission system.[14] This idea is misguided for several reasons. First, resource planning that relies on involuntary load shedding makes no sense when the existence of a variety of demand response programs provides a means for consumers to voluntary choose to shed load. There is simply no need to plan a system that relies on involuntary load shedding to maintain grid reliability except in emergencies. Second, the Commission should sternly reject any notion that involuntary load shedding—rotating outages, brownouts, and blackouts—is an acceptable response to anything other than the most extreme contingencies. Involuntary load shedding has dire consequences for businesses, industries, customers dependent on medical equipment, hospitals, schools, and ordinary residential customers. While outages sometimes occur and selective outages are sometimes the only way to prevent larger-scale blackouts, outages should always be only a last resort, when no other options are available.[15]

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[14] *E.g.,* CEJA's Opening Brief, p. 11 ("CAISO also failed to evaluate and include DR, load shedding, and other potential transmission operational responses that could lower the LCR it calculated."); CLECA's Opening Brief, pp. 18-20.

[15] By contrast, voluntary load shedding programs can be a useful tool in managing unexpected contingencies. The expansion and development of the smart grid should expand opportunities for voluntary load shedding.

The criticisms of the CAISO's 1-in-10 load forecast and the suggestion that involuntary load shedding is an acceptable planning tool ignore the importance that the Commission and the Legislature have placed on maintaining the reliability of the electric grid. As noted previously, reliability is emphasized in the Public Utilities Code, in the statutes that created the CAISO, and in the original Energy Action Plan. As discussed in the next section, the loading order is an important component of the Energy Action Plans, but reliability is even more important due to the economic and social disruptions that occur when outages occur.

B. Consideration of Preferred Resources, Including Uncommitted Energy Efficiency, Demand Response, Combined Heat and Power, and Distributed Generation, in Determining Future LCR Needs

Several parties make claims about obligations created by the loading order adopted in Energy Action Plan II. The loading order sets the state's goals for meeting electricity needs, but the elements of the loading order interact with the procurement process in different ways. IEP will address each of these preferred resources.

1. Uncommitted Energy Efficiency

Several parties strenuously advocate that unless specific MW targets are reserved for future uncommitted EE, the procurement process would violate the loading order, implying that the state, through the Commission's procurement decision, would be abandoning EE. This is simply not true. The Commission and the CEC have aggressively pursued EE for over three decades, and will continue to do so. Much of the current levels of EE is a product of sound and rational policies related to building efficiency, appliance standards, and similar programs. The fruits of past investment in EE are manifested in a demand forecast that is much lower than it otherwise would have been.

Most recently, the Commission has accelerated its historical commitment to EE. For the 2006-2008 planning cycle, for example, the Commission authorized $2.2 billion in

ratepayer funds to procure EE savings.[16] For 2010 through 2012, the Commission authorized $3.1 billion for EE programs.[17] For 2013 and 2014, the three largest electric utilities are requesting a total of over $1.75 billion in funding for EE programs.[18] Thus, any suggestion that the Commission is ignoring the loading order's priority for EE disregards the multi-billion dollar investment the Commission has already made and continues to make in EE. Moreover, the continuing benefit of that investment and EE's position in the loading order are reflected in the greatly reduced demand forecast used to develop the LCR.

Criticisms of the CAISO's forecasts of EE misunderstand both the role of EE and the nature of the LCR studies in the procurement process. The LCR study consists of two basic steps: (1) and forecast of demand in the local area, and (2) a calculation of the amount of resources that are needed to meet certain reliability criteria for the local area for the planning period. After considering the LCR studies, the *Commission*, not the CAISO, authorizes the utilities to procure the resources deemed necessary to ensure reliability in the local area.

The CAISO uses the CEC's projections of *committed* EE as part of its demand forecast. Using higher levels of *uncommitted* EE would substitute policy goals and good intentions for an objective, realistic, and conservative approach to evaluating future demand.

One modest improvement to the LCR's assumptions might soften some of the criticism. The CAISO's LCR studies used EE information from the CEC's 2009 IEPR,[19] because that was the best information available at the time. Since then, the CEC has approved the 2011 IEPR. Updating the EE figures to use the data from the 2011 IEPR would capture some of the resources that moved from uncommitted to committed status since 2009.

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[16] D.12-05-015, p. 5.
[17] D.12-05-015, p. 7.
[18] See A.12-07-001 (PG&E, $859.7 million), A.12-07-002 (SDG&E, $218.9 million), A.12-07-004 (SCE, $678 million).
[19] CAISO's Opening Brief, p. 25.

2. Demand Response

In this proceeding, the advocates for DR have emphasized the high value that DR brings to energy markets and the ability of DR to compete directly with more conventional resources. In the PJM Interconnection, for example, 14,000 MW of DR cleared in the most recent Reliability Pricing Model auction.[20] DR is able to compete with other resources today, and is able and willing to bid if given the opportunity. Rather than carving out a special procurement mechanism for DR, the Commission should provide that opportunity through all source-solicitations in which DR is eligible to bid, facing the same or comparable performance obligations as all other bidders.

3. Combined Heat and Power

CHP currently has a special procurement reservation. As a result of the QF Settlement Agreement, the utilities are obligated to procure no less than 3,000 MW of CHP over 48 months by means of at least three CHP-only procurements. These procurements will not only comply with the settlement, but they will also provide critical data about the scope and scale of additional CHP that can be competitively procured to serve California load. In addition, as noted by CHP advocates, CHP provides value to ratepayers from a efficiency and GHG emissions reduction perspective. Before considering a set-aside for CHP beyond the CHP procurement already scheduled to occur, the Commission should use the scheduled CHP solicitations and the all-source solicitation arising from this LTPP proceeding to test the availability, competitiveness, and cost-effectiveness of CHP.

4. Distributed Generation

Currently, renewable DG resources have an abundance of special programs. These DG-only procurement programs ensure that DG procurement will continue, and they

[20] Exh. EnerNOC-2, p. II-4 (Hoffman/EnerNOC).

provide a means to test DG competitively against other resources. Before expanding the special procurement of DG, the Commission should use the existing DG procurement mechanisms and the all-source solicitation to test the availability, competitiveness, and cost-effectiveness of DG.

C. Appropriate Assumptions Concerning Retirement of OTC Generation

The Implementation Plans submitted to the State Water Resources Control Board by the owners of plants using OTC are the best sources of assumptions about retirements or other steps that owners of OTC generation may take to comply with OTC regulations.

D. Transmission and Other Means of Mitigation

Transmission and distribution upgrades are another option for reducing the level of LCR and even for eliminating local reliability areas. These options should be considered as part of the LCR study and pursued if they are the most cost-effective way of meeting LCR needs.

III. DETERMINATION OF LCR NEED SPECIFIC TO LA BASIN AND BIG CREEK/VENTURA AREA

A. LA Basin

The CAISO LCR analysis suggests that Southern California Edison Company (SCE) should be authorized to procure between 2,370 MW and 3,741 MW of resources in the LA Basin. The exact amount procured will depend on a number of factors, particularly including (1) the location of the resources in relation to retiring OTC generation and associated transmission facilities and (2) the status of the SONGS units. In light of the Commission's efforts to promote the use of consistent planning assumptions by the CEC, CAISO, and Commission, and in the absence of persuasive evidence of any systematic bias in the CAISO studies, the Commission should respect the CAISO modeling effort and observe a rebuttable presumption that the studies accurately identify the range of need for the resources required to ensure grid reliability.

B. Big Creek/Ventura Area

Because of the way the CAISO determines how much generation is needed in a local area to withstand certain contingencies, the CAISO's conclusion that 430 MW is needed in the Big Creek/Ventura area should be read as a conclusion that between 216 MW and 430 MW are needed. SCE recommends putting off procurement for Big Creek/Ventura until the 2014 LTPP, to gain time to refine analyses and update trends. SCE also thinks that transmission upgrades may reduce the LCR for this area.

As noted above, the CAISO's technical analyses should be afforded a rebuttable presumption that they accurately identify the range of need. IEP concludes that it is better to have the procurement of needed resources in the Big Creek-Ventura underway, if not completed, to hedge the risk that demand will increase more than currently projected.

IV. PROCUREMENT OF LCR RESOURCES AND INCORPORATION OF THE PREFERRED LOADING ORDER IN LCR PROCUREMENT

A. Incorporation of the Preferred Loading Order in LCR Procurement

Several parties attempt to use the loading order to argue that no procurement of gas-fired generation should be allowed. The Center for Energy Efficiency and Renewable Technologies (CEERT), for example, asserts that "the Commission must not act to grant procurement authority that serves to disrupt, impede, or reverse California's 'efforts to overhaul the State's electricity infrastructure' to reduce fossil fuel dependence and greenhouse gas (GHG) emissions and criteria pollutants in sensitive urban areas."[21]

These arguments ignore the fact that all three editions of the Energy Action Plan and related Commission decisions recognize that clean gas-fired generation will continue to play an important supporting role in California's resource mix. The initial Energy Action Plan stated

[21] CEERT's Opening Brief, p. 9, quoting Exh. CEERT-01, p. 13 (Caldwell/CEERT).

as an express goal the need to "Ensure Reliable, Affordable Electricity Generation," and to that end proclaimed, "The state needs to ensure that its electrical generation system, including reserves, is sufficient to meet all current and future needs, and that this reliable and high quality electricity comes without over-reliance on a single fuel source and at reasonable prices."[22]

Energy Action Plan II, under the heading, "Electricity Adequacy, Reliability and Infrastructure," stated:

> Significant capital investments are needed to augment existing facilities, replace aging infrastructure, and ensure that California's electrical supplies will meet current and future needs at reasonable prices and without over-reliance on a single fuel source. Even with the emphasis on energy efficiency, demand response, renewable resources, and distributed generation, investments in conventional power plants will be needed. The State will work to establish a regulatory climate that encourages investment in environmentally-sound conventional electricity generation resources.[23]

Under the same heading, the 2008 Update to the Energy Action Plan stated:

> As we seek a cleaner energy future in pursuit of our AB 32 goals, we remain cognizant of our responsibility to ensure the reliability of our system. Even with energy efficiency, demand response, and renewable resources, investments in conventional power plants and transmission and distribution infrastructure will still be needed.[24]

Thus, contrary to the arguments of some parties, the Energy Action Plan does not prohibit procurement of gas-fired resources to meet reliability needs.

To be clear, IEP does not favor any particular technology in the procurement resulting from Track I in this proceeding. IEP supports an all-source solicitation, in which all technologies may compete on a fair basis, to fill any resource need the Commission finds in Track I. Some parties essentially argue that the Commission should delay any procurement now because things may change over the planning horizon. Taken to their logical conclusion, these

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[22] Energy Action Plan, p. 6.
[23] Energy Action Plan II, p. 10.
[24] 2008 Update to the Energy Action Plan, p. 15.

arguments would result in the procurement of few, if any, resources to meet the demands of renewable integration, OTC replacement, or other reliability needs. When grid reliability is at stake, however, resource planning cannot be based on hopes and wishes.

B. Other Commission Policies and Consideration Affecting LCR Procurement

IEP has no comments on this section.

C. If a Need Is Determined, How the Commission Should Direct LCR Need To Be Met

Once a long-term LCR need is identified, the best way to ensure that the identified need is met at the least cost to ratepayers is for the utility (SCE in this case) to conduct an all-source solicitation for the specific attributes or products that the system requires to maintain local reliability. "All-source" means just that—any resource that can provide the desired attribute or product should be eligible to bid. Set-asides or "siloes" for specific types of resources or technologies are not necessary or appropriate at this point.[25]

IEP has called for utilities to clearly define the products or attributes that they seek in a solicitation; any resource that can provide the product would be eligible to bid. Similarly, TURN identifies a need for "clear criteria for determining the ability of preferred resources to comply with, and count towards, Resource Adequacy (RA) requirements."[26]

Preferred resources may also compete in all-source solicitations to meet the specified product needs. As noted above, most of the preferred resource types (except energy efficiency) are already primed to compete in all-source solicitations. According to EnerNOC and the California Large Energy Consumers Association (CLECA), DR resources can provide the flexibility, dispatchability, and other operational characteristics the CAISO may identify in its

[25] See TURN's Opening Brief, p. 15 ("TURN does not support the adoption of set-asides or procurement 'siloes' for any subset of preferred resources.")
[26] TURN's Opening Brief, p. 14.

LCR or renewables integration studies, and DR resources are already participating in markets in other regions.[27] Similarly, the California Energy Storage Alliance (CESA) suggests that storage can meet LCR needs as long as the attributes the system requires are clearly defined and fully and fairly valued. Under IEP's conception, storage can compete alongside other resources to provide the products the system needs. In addition, storage resources can combine with other resources, for example intermittent resources, to provide a firm, deliverable product that can provide RPS-eligible energy and meet the grid's reliability requirements. At this point, IEP sees no reason to create a special procurement program for storage.

EE is the one preferred resource that does not fit well into the framework of an all-source solicitation. EE is not easily assembled into packages that can be bid into a competitive solicitation. For the most part, EE is either the result of unpredictable individual decisions or the beneficiary of utility programs that, as mentioned above, are already well funded by ratepayers, with a goal of capturing all cost-effective EE. EE most resembles a nondispatchable baseload resource. For these reasons, EE in its present form may not be suitable for an all-source solicitation. Instead, the level of the Commission's ongoing investment in EE respects the priority given to EE in the loading order.

If an all-source solicitation fails to attract sufficient bidders (for example, in specific subareas) or if other indicia of anticompetitive behavior appear, SCE should be authorized to negotiate a cost-based power purchase agreement with qualifying generators, as authorized by Public Utilities Code section 454.6.[28]

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[27] EnerNOC's Opening Brief, pp. 1, 2, 9; CLECA's Opening Brief, pp. 21-22.
[28] Exh. IEP-01, pp. 9-10 (Monsen/IEP).

D. Appropriate Methods of Procurement

As discussed above, the primary method of procurement should be a competitive all-source solicitation, complemented in appropriate cases by the authority to negotiate cost-based power purchase agreements under Public Utilities Code section 454.6.

E. Timing of Procurement

The procurement the Commission authorizes in Track I should be initiated and completed in 2013.

V. INCORPORATION OF FLEXIBLE CAPACITY ATTRIBUTES IN LCR PROCUREMENT

A. If a Need Is Determined, Should Flexible Capacity Attributes Be Incorporated into Procurement

IEP has repeatedly emphasized the need to "[d]efine with specificity the products that CAISO believes it needs to ensure reliability under greater levels of renewables."[29] The definition of these flexible products is the subject of Phase 2 of the current RA proceeding. If a decision defining flexible products is issued in the RA proceeding before the initiation of the procurement authorized in this proceeding, then the value added by resources that are able to provide the defined products should be recognized in the bid evaluation. Full recognition of the flexible products, however, requires completion of the CAISO's studies on renewable integration, which will quantify the need for specific flexible products.

B. Additional Rules, Not Already Covered by Resource Adequacy (RA) Rules, To Govern LCR Procurement

IEP has no comments on this section.

VI. COST ALLOCATION MECHANISM (CAM)

IEP has no comments on the topics in this section.

[29] Exh. IEP-01, p. 22 (Monsen/IEP).

VII. OTHER ISSUES

A. SCE Capital Structure Proposal

Any risk that SCE perceives related to procuring the resources authorized in this proceeding should be raised and evaluated in the cost of capital proceeding, not through a special application as SCE proposes.

B. Coordination of Overlapping Issues Between R.12-03-014 (LTPP), R.11-10-023 (RA), and A.11-05-023

IEP has no comments on this section.

C. SCE Statewide Cost Allocation Proposal

IEP has no comments on this section.

D. CAISO Backstop Procurement Authority To Avoid Violating Federal Reliability Requirements

IEP has no comments on this section.

E. Energy Storage

CESA argues that storage should be not merely a preferred resource, but "at the *top of the list* of preferred resources."[30] IEP agrees with CESA that "RFOs need to fully and fairly value the attributes needed by the system and that can be provided by the widest variety of potential bidding resources," including storage.[31] The broad designation of "energy storage" includes a number of different technologies with different characteristics that can provide a variety of services that can promote a more stable and reliable grid. For example, storage can shift supply from off-peak to on-peak hours, earning the differential between off-peak and on-peak energy prices. Storage can smooth out production from variable renewable energy sources, helping the facility avoid imbalance charges. Storage could even be used to increase demand through charging during times when overgeneration stresses the grid, which could help

[30] CESA's Opening Brief, p. 2.
[31] Exh. CESA-2, pp. 6-7 (Lin/CESA).

associated baseload generating facilities avoid negative market prices. Storage can be dispatchable and fast-ramping and thus may qualify to provide additional attributes identified in the CAISO's ongoing renewable integration studies.

While IEP recognizes the potential value of storage, the extent to which storage can actually provide these products at the lowest cost to ratepayers is best determined in an all-source solicitation and not outside of any such solicitation. Accordingly, the Commission should resist CESA's assertion that storage should be at the top of the list of preferred resources. In IEP's view, the proper role for storage is as a new entrant in the competition to provide clearly defined attributes the CAISO identifies (including a Net Qualifying Capacity rating for RA purposes) and needed to maintain the reliability of the grid, not as another emerging technology seeking special treatment.

VIII. CONCLUSION

This proceeding has too often taken on the flavor of a contest between parties favoring preferred resources, particularly EE, and those emphasizing reliability. IEP has tried to clarify that EE is not inconsistent with reliability, and that reliability can be enhanced by the contributions of preferred resources. The key to reconciling these two ideas is to define the needed resources as specifically as possible, then commence a competitive solicitation open to all resources that are capable of providing the defined product.

To that end, IEP respectfully urges the Commission to:

- Authorize SCE to procure between 2,370 MW and 3,741 MW of resources in the LA Basin and up to 430 MW of resources in the Big Creek/Ventura local area, through all-source competitive solicitations.

- Allow SCE to negotiate a cost-based Power Purchase Agreement for a specified duration if SCE can show that solicitations for procurement of resources in the local area drew few bids or were not competitive.
- Wait for the completion of studies on the need for, and preferred characteristics of, flexible resources before authorizing specific procurement of flexible resources to meet either local or system needs.
- Allow preferred uncommitted resources to participate in all-source solicitations to meet the identified LCR needs, subject to performance obligations equivalent or comparable to those required of other resources. If selected, these resources would count as committed resources for future planning purposes.
- Do not create new set-asides or expand existing set-asides for procurement of preferred resources at this time, pending the results of all-source solicitations.

Respectfully submitted this 12th day of October, 2012 at San Francisco, California.

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