

**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.

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REPLY BRIEF OF SIERRA CLUB CALIFORNIA ON TRACK 1 ISSUES

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INTRODUCTION

Neither CAISO nor SCE makes a case justifying the extreme amount of Local Capacity Requirements (“LCR”) procurement requested by both parties. As many parties explain, CAISO presents the Commission with its LCR and Once-Through Cooling Generation Studies (“LCR Study”) that contain overly conservative input assumptions and worst-case conditions. As a result, CAISO recommends procurement of dramatically inflated LCR need. CAISO wants the Commission to go on an extravagant buying spree that will negatively affect ratepayers and California’s clean energy policies. As argued by Sierra Club and other parties, following the loading order, incorporating preferred resources into the sensitivity analysis and analyzing other factors such as the new load forecast and potential transmission fixes support a finding of no or very little LCR need. The Commission should affirm California’s clean energy policies and reject CAISO’s fossil fuel inspired vision of the future.

SCE finesses CAISO’s proposal by requesting authorization up to the amount of LCR need proposed by CAISO, while simultaneously requesting “flexibility” to determine LCR need through its own private analysis after the Commission has made a decision on the upper bound of LCR need. SCE accepts CAISO’s analysis even though it refused to do an independent in-depth analysis of CAISO’s finding. SCE’s cursory analysis shows that if SCE actually procured the full authorization as CAISO intends, SCE’s creditworthiness could be affected. Instead, SCE recommends that it redo CAISO’s whole analysis in the future. Although not claiming zero as its number, even SCE hopes and expects that it will procure less than its authorized amount. SCE offers to present its new, future analysis and revised LCR need number through an application, but SCE conditions its approach on being authorized the “flexibility” to determine its own LCR need number and the mix of resources it chooses. In essence SCE’s proposed “flexibility” is an end-run around the process in the Long-Term Procurement Plan proceeding.

This end-run threatens the ability of the numerous intervenors to fully participate in important policy decisions that will affect the fundamental nature of California's energy system.

The LCR need can and should be revisited in the next round of the LTPP. During the next proceeding, SCE should present its analysis of the LCR need and make its case justifying its own procurement; then the parties can make their own cases and fully participate in energy planning. If the decision is put off two years, the amount of time it will take SCE to do its analysis, then more analysis of transmission and the preferred resources discounted by CAISO, the increased development and use of energy storage, and the diminishing load will all result in no LCR need. If not, the next round of the LTPP can fill in the gaps.

ARGUMENT

I. The Commission Should Not Rely on CAISO's LCR Study, because CAISO's Assumptions are Unreasonable and Result in an Overestimation of Need.

A. CAISO's Failure to Adequately Consider Preferred Resources Reveals Fundamental Flaws in its LCR Study.

CAISO's overly conservative assumptions undermine preferred resources and the loading order. As many parties explain, the procurement process in California is dictated by the loading order which creates a hierarchy of preferred resources that must be procured before conventional generation.¹ For example, the Division of Ratepayer Advocates ("DRA") explains that "CAISO's OTC summary results greatly overestimate the residual LCR needed by excluding a number of resources that, pursuant to Commission policies and decisions, should be available to meet LCR need in 2021 and 2022."² CAISO admits, and other parties agree, that it utilizes

¹ See, e.g., Opening Brief of the Division of Ratepayer Advocates on Local Reliability Issues ("DRA Br.") pp. 11, 6-17; California Environmental Justice Alliance's Track I Opening Brief ("CEJA Br.") pp. 4-5; Opening Brief on Track 1 of the California Large Energy Consumers Association ("CLECA Br.") p. 26.

² DRA Br., p. 7.

highly conservative assumptions in its LCR study.³ The fundamental question facing the Commission is the reasonableness of CAISO's assumptions.

CAISO severely discounts the contribution of uncommitted energy efficiency, uncommitted combined heat and power ("CHP") and incremental demand response, while arguing that CAISO is supportive of the loading order,⁴ creating a disconnect between its study design and its rhetoric. In addition to Sierra Club California ("Sierra Club"), the California Environmental Justice Alliance ("CEJA"), the California Large Electric Consumers Association ("CLECA"), EnerNOC, and the Utility Reform Network ("TURN") all assert that using the findings from the trajectory case are unreasonable and would result in an overestimation of LCR need, because CAISO's analysis does not sufficiently consider preferred resources.⁵ CEJA explains that CAISO uses numerous conservative assumptions including the use of unreasonable input assumptions for energy efficiency ("EE"), demand response ("DR"), combined heat and power ("CHP"), and distributed generation.⁶

Similarly, DRA argues that, in order to comply with the loading order, the Commission should authorize procurement "assuming that uncommitted EE, DR, and CHP will actually materialize."⁷ To do so, DRA recommends either adopting its analysis, or considering DR resources in the CAISO sensitivity analysis.⁸ EnerNOC shares DRA's position on CAISO's treatment of DR resources and agrees that any LCR need determination should consider the

³ Opening Brief of the California Independent System Operator Corporation (CAISO Br.), p. 7; CEJA Br., pp. 1-2, 8-14; Opening Brief of the Center for Energy Efficiency and Renewable Technologies in Local Reliability Track 1 ("CEERT Br.") pp. 13-17; DRA Br. p. 7. CLECA Br., pp. 3-7.

⁴ CAISO Br., p. 39-40.

⁵ Opening Brief of Sierra Club California on Track 1 Issues ("Sierra Club Br.") p. 4-11; CEJA Br., pp. 14-25; CEERT Br., p. 30; DRA Br., p. 29; Opening Brief of EnerNOC, Inc., in Local Reliability Track 1 (EnerNOC Br.) p. 15; CLECA Br., pp. 20-25; Opening Brief of the Utility Reform Network ("TURN Br.") p. 6 ("[t]he Commission should . . . ensure that preferred resources identified in the state's loading order – Demand Response (DR), Energy Efficiency (EE), Combined Heat and Power (CHP) and Distributed Generation (DG) – are given due weight in any determination of LCR needs.")

⁶ CEJA Br., pp. 14-25..

⁷ DRA Br., p. 29.

⁸ DRA Br., p. 29.

benefits DR can offer to the grid.⁹ CEERT also stresses that preferred resources must be taken into account, especially given the environmental constraints on building new conventional generation in the L.A. basin.¹⁰ In contrast, SCE, PG&E, GenOn and the Independent Energy Producers Association, state that they support CAISO's treatment of preferred resources, without any additional analysis.¹¹ CEERT succinctly explains that if the Commission approves CAISO's assumptions, the Commission will be endorsing a finding of need that is likely to result in reliance on fossil resources and exclusion of preferred resources.¹²

B. Using its Own Conservative Standards, CAISO's Plans for a Contingency that is Too Extreme.

CAISO alters NERC and WECC standards with its own, more stringent planning standards,¹³ creating a greater LCR need.¹⁴ CAISO explains that it uses these assumptions because local capacity areas are small and present fewer generation and transmission options that can meet LCR need.¹⁵ Yet, that rationale better suits an approach that prioritizes preferred resources, in compliance with the loading order.¹⁶ Unlike conventional resources, which face significant permitting and siting challenges in a densely populated and highly polluted area such as the LA Basin,¹⁷ preferred resources can be sited in smaller areas and can be sited in less time

⁹ EnerNOC Br., p. 15.

¹⁰ CEERT Br., p. 2.

¹¹ Southern California Edison Company's (U 338-E) Opening Brief on Track I Issues (SCE Br.), pp. 5, 9; Pacific Gas and Electric Company's (U 39 E) Track 1 Opening Brief (PG&E Br.), p. 1; Opening Brief of GenOn Energy, Inc., on Track 1 Local Reliability Issues (GenOn Br.), pp. 2, 5; Opening Brief of Independent Energy Producers Association on Track 1 Issues ("IEP Br."), p. 7.

¹² CEERT Br., p. 13.

¹³ Opening Brief on Track 1 of the California Large Energy Consumers Association (CLECA Br.), pp. 9-12; CAISO Br., p. 6; CEERT Br., pp. 10-11.

¹⁴ See, e.g., CEJA Br., pp. 13-14; CEERT Br., pp. 14-16.

¹⁵ CAISO Br., p. 7.

¹⁶ See EnerNOC Br., p. 15, quoting SCE-01, p. 14. ("For the LA Basin, in particular, such demand reduction resources, like dispatchable DR, are a further benefit to addressing the complications and time required to site a gas-fired generation in an „urban center“ that „limits access to sites for LCR generation“ and imposes strict air pollution and emission restrictions.")

¹⁷ CEERT Br., p. 2, 29-30.

than conventional resources.¹⁸ Furthermore, CLECA explains that there are several alternatives to new generation that have not been fully explored.¹⁹ As a result, it would be premature to authorize procurement up to the inflated amount proposed by CAISO. In fact, CAISO evaluates extreme contingencies that have never occurred.²⁰

II. With Appropriate Adjustments to the Sensitivity Study, the Commission Should Find a Zero LCR Need.

As discussed in Sierra Club's opening brief, CAISO's LCR sensitivity study is the appropriate place to begin the analysis of LCR need even though the values for preferred resources were either too low or non-existent.²¹ This analysis was performed "at the request of the state energy agencies."²² Other parties, such as CEJA, NRDC, CEERT, and Vote Solar, argue that the sensitivity study, which incorporates some uncommitted EE and CHP resources, provides for a better assessment of California's future energy needs.²³ CEJA analyzes preferred resources that CAISO omitted, and argues that the sensitivity study should be the starting point for any LCR need analysis, finding that "[i]f CAISO had included all reasonably expected resources, it would likely have found no need."²⁴ This corresponds with Sierra Club's estimate of no LCR need when preferred resources are considered.²⁵

NRDC, similarly, argues for a finding that includes "a reasonable portion, if any, of the 1,042 MW to 1,677 MW that CAISO asserts is needed by 2021, after considering that...there may be non-generating solutions to meet LCR needs and that uncommitted efficiency and

¹⁸ DRA Br., p. 33.

¹⁹ CLECA Br., p. 25, pp. 3-22.

²⁰ CEJA Br., p. 8; Sierra Club Br., p. 6.

²¹ Sierra Club Br., p. 20-25.

²² ISO-09, p. 2.

²³ CEJA Br., pp. 32-33; Opening Brief of the Natural Resources Defense Council ("NRDC Br.") p. 2; Track 1 Opening Brief of the Vote Solar Initiative (Vote Solar Br.), p. 4.

²⁴ CEJA Br., p. 32.

²⁵ See Sierra Club Br., p. 19-25.

preferred resources significantly reduce LCR needs in the LA Basin.”²⁶ Unlike NRDC, Vote Solar adopts the range stated in the sensitivity study as the upper limit of its recommended LCR need finding, but neglects to consider the additional preferred resources and other factors not accounted for in the sensitivity study results that Sierra Club, CEJA and NRDC describe in their opening briefs.²⁷ For example, the study includes LCR values of 1,121 MW of EE and 180 MW of CHP for the Western LA Basin, the area that drives the LCR need.²⁸ Both of these numbers, however, are too low and the sensitivity study does not even consider demand response.²⁹

A. Demand Response Should be Included in the LCR Calculation.

CAISO dismisses the ability of DR to meet LCR need and goes so far as to exclude DR from the sensitivity analysis. CAISO argues that DR cannot meet local need.³⁰ To fulfill CAISO’s expectations, DR must be dispatchable, durable, and location-based, and be able to restore system stability within 30 minutes.³¹ CAISO asserts that DR cannot meet those requirements.³² Yet, EnerNOC and CEJA present evidence to the contrary. EnerNOC reiterates the fact, also raised in the evidentiary hearing, that DR must be dispatchable as soon as 2013 in order to qualify for local resource adequacy (“RA”).³³ In fact, there are already applications awaiting approval for locally dispatchable DR resources that will come online in 2013 and 2014 in PG&E territory.³⁴ In SCE territory, it is estimated that 1,000 MW of demand reduction resources will be available by 2017 and that there will be 1,900 MW of DR program enrollment

²⁶ NRDC Br., p. 10 (citation omitted).

²⁷ Sierra Club Br., pp. 19-25; CEJA Br., pp. 31-39; NRDC Br., pp. 11-13.

²⁸ See, e.g., CEJA Br., p. 33.

²⁹ See *infra* Sections. II.A, B, & C.

³⁰ CAISO Br., p. 28-29.

³¹ CAISO Br., p. 42, quoting ISO-06, pp. 12-13.

³² CAISO Br., p. 28-29.

³³ Opening Brief of EnerNOC, Inc., in Local Reliability Track 1 (EnerNOC Br.), p. 9; Tr., Vol. 3, p. 433, lines 5-10.

³⁴ EnerNOC Br., pp. 9-10.

by 2014.³⁵ DRA and CLECA also challenge CAISO's failure to consider DR.³⁶ DRA suggests that if barriers do exist to using demand response for reducing LCR need, the Commission should focus on removing those barriers and account for a reasonable amount of DR in the LCR calculation.³⁷ Accordingly, CAISO's omission of DR from the sensitivity study is inappropriate. As explained in Sierra Club's opening brief, reducing the LCR need result from sensitivity study would greatly reduce the need for LCR procurement.³⁸

B. The LCR Need Should Be Reduced by a Larger Amount of Energy Efficiency.

If, as the Sierra Club recommends, the Commission uses the sensitivity analysis as a starting point for determining LCR need, more energy efficiency will need to be incorporated into the analysis. The energy efficiency estimates, however, used in CAISO's original analysis and in the sensitivity analysis omit savings from energy efficiency programs that are currently achieving reductions.³⁹ Some parties contest the inclusion of additional energy efficiency savings in the OTC study assumptions, but do not provide any analysis that challenges the existence of the energy efficiency programs listed by NRDC.⁴⁰ For example, San Diego Gas & Electric ("SDG&E") is in favor of including energy efficiency resources only when they are "cost-effective, reliable, and feasible"⁴¹ and "are reasonably expected to occur"⁴² but does not consider energy efficiency programs omitted by CAISO that are in effect and reducing load now.⁴³ SDG&E also questions the amount of EE that will materialize but, like CAISO, it

³⁵ CEJA Br., p. 19, quoting CEJA-01, p. 12, quoting SCE Smart Grid Deployment Plan.

³⁶ DRA Br., pp. 29, 30-31; CLECA Br., pp. 20-22.

³⁷ DRA Br., pp. 30-31.

³⁸ Sierra Club Br., pp. 19-25.

³⁹ NRDC Br., p. 11-12.

⁴⁰ Opening Brief of San Diego Gas & Electric Company (U 902 E) on Track I Issues ("SDG&E Br.") pp. 7-8; PG&E Br., p. 4; IEP Br., pp. 4-6.

⁴¹ SDG&E Br., p. 9.

⁴² SDG&E Br., p. 10.

⁴³ SDG&E Br., pp. 9-10.

provides no supporting evidence. The Commission should affirm that implementation of the loading order will result in significant EE savings by incorporating a much more reasonable estimate of uncommitted energy efficiency into the analysis.

C. CAISO has Omitted CHP Resources that Are Highly Likely to Appear in the Next Ten Years.

CAISO ignores CHP resources that will be online during the planning period. As discussed in Sierra Club's opening brief, the CHP estimates used in CAISO's analysis are outdated. The California Energy Commission ("CEC") commissioned a study by ICF to update the outdated estimates upon which the CAISO based its CHP assumptions.⁴⁴ Like the CEC, the Commission should update the LCR study assumptions for CHP to more closely reflect reality. CEJA offers a reasonable suggestion for a CHP estimate: the amount of CHP listed in the SCE settlement (1,402 MW) in which SCE, among other parties, has entered.⁴⁵

III. LCR Need Should Be Addressed During the 2014 LTPP.

Given the time frames necessary for new generation, the Commission could authorize procurement in the 2014 LTPP without endangering grid reliability.

A. Further Study Should Be Conducted before Determining an LCR Need Number.

CAISO's LCR study is insufficient and although the sensitivity study could be adjusted to determine an LCR need or lack thereof, the record shows that further study could reveal a different and better approach to addressing LCR constraints that entails compliance with the loading order and planning for the successful implementation of California's clean energy policies. For example, the LCR analysis should include a value for distributed generation that is greater than the value in the sensitivity analysis. The sensitivity analysis includes 1,519 MW, but

⁴⁴ Sierra Club Br., p. 15, quoting CCC-01, p. 7, lines 27-32.

⁴⁵ CEJA Br., pp. 20-21, 23.

the Governor's energy plan will most likely result in even a higher amount of distributed generation in SCE's service area.⁴⁶ In contrast, CAISO asserts that the distributed generation range for the LCR area is 271 MW – 687 MW, is the more appropriate number.⁴⁷ Rather than projecting that the Governor's policy goals will be implemented, CAISO assumes the opposite. More study of the penetration of distributed generation in the SCE service area should be considered. In fact, SCE proposes to study this in its future analysis.⁴⁸

Furthermore, several parties explain that transmission alternatives could reduce the LCR need by the end of the planning period, but CAISO has not sufficiently examined these alternatives.⁴⁹ For example, CEJA recommends that "[t]he Commission should not authorize procurement for additional generation resources as a thorough investigation of the available transmission upgrades and mitigations has not been conducted."⁵⁰ SCE also explains that if its proposed studies show that preferred resources could replace new generation that new transmission studies would need to be completed.⁵¹ Furthermore, the role that energy storage can play in the next ten years has not been adequately considered, even though the Commission is required to analyze and facilitate the use of energy storage.⁵² Additionally, use of the most recent load forecast will reduce LCR need because it shows that demand is shrinking in the SCE service area.⁵³

Deferring procurement authorization, if procurement is even necessary, to the 2014 LTPP will allow for a better understanding of the role preferred resources can play in meeting this need. As DRA states, "accepting the CAISO's recommendation to procure now for 2021 LCR

⁴⁶ CEJA Br., pp. 23-25.

⁴⁷ CAISO Br., p. 25.

⁴⁸ SCE Br., p. 12.

⁴⁹ *See, e.g.*, CEJA Br., pp. 27-31; CEERT Br., pp. 25-30.

⁵⁰ CEJA Br., p. 31.

⁵¹ SCE Br., p. 12.

⁵² Order Instituting Rulemaking, R.10-12-007 (Dec. 21, 2010) pp. 1-5.

⁵³ Sierra Club Br., p. 24; CEERT Br., p. 8.

need... would yield a worst [*sic*] result: LCR „need“ will be met only with conventional generation in excess of actual requirements.”⁵⁴ The Commission, as Mr. Fagan recommends, should treat the LTPP as an iterative process that considers all the non-generation alternatives that can reduce LCR need.⁵⁵ This delay would allow time to study those alternatives and result in a more accurate need finding that does not preclude preferred resource use and promote over-procurement. Similarly, Sierra Club agrees with the parties that urge the Commission to not decide issues of operational flexibility until Track 2 of the proceeding, when those issues are scheduled to be analyzed.⁵⁶

B. SCE Fails to Make a Sufficient Showing to Justify LCR Need Procurement in this LTPP.

As discussed in Sierra Club’s opening brief, SCE’s lack of analysis fails to comply with AB 57.⁵⁷ SCE recommends that the Commission grant it the flexibility to determine how much need actually exists.⁵⁸ This recommendation, however, highlights the lack of confidence SCE has in CAISO’s need determination, because SCE proposes to redo CAISO’s analysis in the future. SCE uses this uncertainty as the predicate for its request to have unlimited “flexibility” in determining the actual LCR need in its future and the resource mix that would meet this need.⁵⁹ The Commission should reject this request. Sierra Club agrees with CEERT’s recommendation that “[u]nder no circumstances, given the impact on ratepayers and state policy, should the

⁵⁴ DRA Br., p. 33.

⁵⁵ Tr., Vol. 5, p. 924, line 18 – p. 925, line 9.

⁵⁶ CEERT Br., pp. 38-39, 43; CLECA Br., p 29.

⁵⁷ Sierra Club Br., pp. 11-13.

⁵⁸ *See, e.g.* Tr., Vol. 4, p. 605, lines 13-19 (Cushnie) (“Demand side programs can reduce the LCR need. The question is...how much can we rely upon them and how effective are they in reducing the LCR need. That is something the technical studies will ultimately be needed to be done to determine.”); SCE Br., p. 3 (“As SCE’s witness, Colin Cushnie, noted during cross-examination, the Commission should give SCE considerable flexibility in meeting the LCR needs of its system.”)

⁵⁹ SCE Br., p. 9.

Commission approve SCE's request to be given „discretion“ as to when and how to procure these resources.”⁶⁰

SCE and CAISO both state that procurement in the LA Basin cannot wait until the next LTPP.⁶¹ CAISO argues that we need to rush to procurement because its “preferred” choice for filling LCR need has long lead times, but CAISO undermines its position that procurement must start immediately by admitting in its opening brief that it will take five to seven years to procure and build natural gas plants.⁶² CAISO also states, and DRA agrees, that need findings presented in this iteration of the LTPP suggest that if any need exists, it will appear in 2021 at the earliest.⁶³ SCE should be able to meet need without difficulty if procurement is authorized five to seven years before 2021, or between 2014 and 2016. Moreover, DRA asserts that

the urgency conveyed by the CAISO and SCE is overstated because using existing sites to develop repowered generation that complies with OTC compliance requirements would likely take less than seven years. Mr. Fagan explains that because the transmission infrastructure is in place, and replacement generation could use existing air permits, the use of existing generation sites for repowered generation is akin to having an “ace in the hole.”⁶⁴

Furthermore, CAISO fails to distinguish between combustion turbines (“CTs”) and combined cycle turbines. NRDC points out that testimony reveals that some CTs only have a three to five year development time.⁶⁵ The potential deployment of CTs serve as added assurance that addressing any LCR need that may exist in the 2014 LTPP will not harm grid reliability.

⁶⁰ CEERT Br., p. 37; *see also* DRA Br., p. 28 (rejecting SCE's request for flexibility if the Commission adopts a LCR need number greater than 278 MW).

⁶¹ SCE Br., p. 10; CAISO Br., p. 3.

⁶² CAISO Br., p. 3.

⁶³ CAISO Br., p. 34; DRA Br., p. 2.

⁶⁴ DRA Br., p. 33.

⁶⁵ NRDC Brief, p. 16.

C. Even SCE Argues that the Decision about Big Creek LCR Need can be Deferred Until the Next LTPP.

SCE states in its opening brief that any need in the Big Creek LCR area can be addressed in the 2014 LTPP. CAISO estimates that the Big Creek LCR area's need is much smaller than the LA Basin need, and SCE says that the need can be met more quickly in the Big Creek area.⁶⁶ The Commission should find that the Big Creek need determination is currently zero and that any decisions regarding Big Creek can be deferred to the next LTPP. Many parties agree with this recommendation.⁶⁷

D. Alternatively, the Commission Should Adopt DRA's Recommendation for LCR Need.

Alternatively, if the Commission decides that some LCR need is necessary, the Commission should adopt DRA's recommendation. DRA recommends that the Commission authorize up to 278 MW for the Western LA Basin in 2022 and "reevaluate the need for more authority in the 2014 LTPP."⁶⁸ Rather than use the sensitivity analysis as its starting point, DRA's expert Mr. Fagan uses load and resource tables to calculate an LCR need. Mr. Fagan incorporates reasonable values for preferred resources that CAISO excludes from its analysis. Although CAISO argues that Mr. Fagan's analysis is inadequate because Mr. Fagan did not perform a power flow analysis, CAISO's witness Mr. Sparks admits that the CAISO's analysis and Mr. Fagan's reach results that are relatively similar.⁶⁹ Vote Solar's critique of Mr. Fagan's

⁶⁶ SCE Br., pp. 10-11; CAISO Br., p. 34.

⁶⁷ DRA Br., p. 27; CEJA Br., p. 39; CEERT Br., pp. 30-31; TURN Br., p. 14; NRDC Br., p. 13; EnerNOC Br., pp. 15-16.

⁶⁸ DRA Br., p. 32.

⁶⁹ DRA Br., pp. 9-11.

use of a different methodology⁷⁰ fails for the same reason. The main difference between the two approaches is CAISO's failure to consider preferred resources.⁷¹ DRA provides a credible alternative for assessing LCR need. If the Commission does not adopt Sierra Club's and CEJA's approach to calculating LCR by using the sensitivity study and incorporating reasonable values for preferred resources, Sierra Club urges the Commission to adopt DRA's recommendation.

IV. Consequences of Over-Procurement are Significant and Not Considered in CAISO's Studies.

CAISO wholly underestimates the economic and environmental harm that over-procurement could inflict. CEERT, in its opening brief, cites DRA and CEJA testimony and reiterates that over-procurement can lead to “„underutilized, stranded assets, to the detriment of [utility] customers” and „crowd[ing] out” renewables and other preferred resources from the market, at a significant cost to both the environment and ratepayers.”⁷² DRA's opening brief discusses an additional unintended consequence of over-procurement. Ironically, an overly conservative procurement authorization could discourage investors and developers who might be considering building new conventional fossil generation resources.⁷³ DRA uses the Oakley Project as an example: the project arose due to PG&E's need for 800 MW to 1,200 MW of new generation, but when the economy declined and need diminished, the project was no longer necessary and its application was rejected.⁷⁴ DRA recommends that “the Commission should

⁷⁰ Vote Solar Br., p. 5. Vote Solar also proposes to split the difference between competing proposals, but this approach lacks any supporting evidence and fails to consider the addition of preferred resources to the sensitivity analysis as discussed *supra*. (*Id.*) CEERT's proposal for an upward limit of the same 1800 MW of LCR need should also be rejected as too high, because it does not sufficiently incorporate preferred resources. CEERT Br., p. 30.

⁷¹ DRA Br., pp. 9-11.

⁷² CEERT Br., p. 11 (quoting CEJA-01, p. 32 and citing DRA-03, p. 3).

⁷³ DRA Br., pp. 31-32.

⁷⁴ *Id.*

prevent similar undesirable outcomes that might flow from granting SCE authority ranging up to 3,741 MW that would subsequently not be needed.”⁷⁵

Another financial concern for SCE would be the threat of debt equivalence. Over-procurement of new conventional generation would increase that risk, while preferred resources would not pose those same financial risks.⁷⁶ Considering high risks of financial harm for developers, IOUs, the environment, and the public, Mr. Sparks’ belief that under-procurement is more dangerous than over-procurement is misplaced and not supported by the evidence.⁷⁷

CAISO testimony about the risks of over-procurement vs. under-procurement completely disregards California’s clean energy policies. PG&E notes in its reply testimony that the infiltration of preferred resources is dependent on many different actors, including utilities and regulators.⁷⁸ Depending on the actions taken by these actors, the state’s policy goals for preferred resources “may or may not actually occur.”⁷⁹ If regulators and utilities adopt plans in which they fail to meet preferred resource goals, they will fail to meet preferred resource goals. Claiming that preferred resources should not be included in the planning process because it is unclear whether utilities, regulators, and other actors will use them in the future is faulty reasoning and displays a thorough misunderstanding of the purpose of planning. As stated in EnerNOC’s reply testimony, “[i]f the value of the policy is to „fill in the gaps” that will arise in a utility’s portfolio after central station generation resources are procured, than [*sic*] DR and EE are hardly preferred resources, but residual resources.”⁸⁰ Investing in additional gas-fired generation because of fears

⁷⁵ *Id.*, p. 32.

⁷⁶ *Id.*, pp. 36-38.

⁷⁷ ISO-02, p. 4, lines 28-29.

⁷⁸ PG&E-01, p. 20, lines 23-26; *see also* PG&E Br., pp. 4-5.

⁷⁹ PG&E-01, p. 20, lines 25-26.

⁸⁰ EnerNOC-03, p. III-1, lines 28-31.

rather than facts would delay California’s progress towards its clean energy goals, at ratepayers’ expense.

Parties who argue for a more comprehensive consideration of the risks of over-procurement base their arguments on what is in the best interest of ratepayers. CLECA states that the risks created by over-procurement would be significant and urges the Commission to consider the real impact over-procurement would have on ratepayers:

It is appropriate for the Commission to consider here whether it or California ratepayers have the same view of risks compared to costs as the CAISO...End use customers face regular outages due to problems on the distribution system. The most stringent 1-in-10 or 100 year outage standard for generation will not change this. Customers, not the CAISO, pay the bills for additional generation and transmission to meet the CAISO’s more stringent standards.⁸¹

DRA, CEERT, and CEJA also express concern about the ramifications of over-procurement for ratepayers, as cited above. The Commission should act with ratepayers’ best interests in mind and disregard CAISO’s overly conservative assumptions and need finding in favor of a final need determination that incorporates preferred resources and considers the harms over-procurement would cause.

V. The Record is Insufficiently Developed to Determine the Best Method of Procurement.

Sierra Club agrees with DRA’s point, that the initial workshop on September 7 to address the best of method of procurement, reveals that “the topic is complex and will likely require significant time to resolve all the issues.”⁸² Sierra Club does not address the workshop comments in this brief. However, Sierra Club notes that the record developed during the evidentiary hearings is insufficient to provide an effective solution that implements the loading order and successfully incorporates preferred resources in the procurement process. Even CAISO recognizes that more work needs to be done to level the playing field and successfully integrate

⁸¹ CLECA Br., p. 18.

⁸² DRA Br., p. 32.

preferred resources into the procurement process.⁸³ Additionally, Sierra Club agrees with CEJA’s recommendation that the Commission “should . . . require consideration of how procurement of various resources will affect achievement of GHG reduction goals.”⁸⁴

CONCLUSION

For the foregoing reasons, the Commission should adopt the recommendations proposed by Sierra Club in its opening brief.⁸⁵ Alternatively, if the Commission does not accept Sierra Club’s recommendation of zero LCR need for the LA Basin, Sierra Club recommends adoption of DRA’s proposed maximum LCR need of 278 MW.

Respectfully submitted,

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⁸³ CAISO Br., pp. 45-46.

⁸⁴ CEJA Br., pp. 44; see also CEJA Br, pp. 43-46.

⁸⁵ Sierra Club Br., p. 1.