

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)

COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED  
DECISION OF ALJ GAMSON AUTHORIZING LONG-TERM PROCUREMENT  
FOR LOCAL CAPACITY MARKETS



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DECISION OF ALJ GAMSON AUTHORIZING LONG-TERM PROCUREMENT  
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Pursuant to Rule 14.13 of the Rules of Practice and Procedure, The Utility Reform Network (TURN) submits these opening comments on the Proposed Decision (PD) of ALJ Gamson authorizing long-term procurement for local capacity markets in Track 1 of this proceeding. TURN strongly supports the PD.

**I. SUPPORT FOR PROPOSED DECISION**

On the major issue presented in the case – the development of resources to meet future Local Capacity Requirements (LCRs) in portions of the service territory of Southern California Edison (SCE) – the PD would authorize initial steps to meet such needs while (a) allowing non-traditional preferred resources (energy efficiency, demand response, and distributed generation) to play a significant role in this effort and (b) managing customers’ costs. TURN offers some suggestions for changes to the PD that would enhance the ability of SCE and this Commission to manage this effort by considering a wider range of local capacity alternatives and better disciplining the costs of such alternatives.

The PD also correctly rejected certain parties’ specific requests such as the California Independent System Operator’s (CAISO’s) request that capacity meeting local needs “have flexibility characteristics similar to the [Once-Through Cooling] generation”,<sup>1</sup> the proposal of the Alliance for Retail Energy Markets (AReM) and other parties to amend the Cost Allocation Mechanism process,<sup>2</sup> and SCE’s request to file an application to

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<sup>1</sup> PD, Section 8, pp. 89-93.

<sup>2</sup> *Id.*, Sections 9.1 to 9.6, pp. 93-108.

adjust its capital structure to reflect the debt equivalence of any new Power Purchase Agreements it signs.<sup>3</sup>

TURN supports the PD's general authorization for SCE to take steps to facilitate development of resources to meet the LCRs in the Western LA Basin sub-area of the LA Basin and the Moorpark sub-area of the Big Creek / Ventura local reliability areas. In particular, TURN agrees with the PD's analysis and conclusions that:

- There is no need at this time to contract for all of the needs the CAISO recommended for those areas,<sup>4</sup>
- Preferred resources should be expected to help meet local needs and such resources should be allowed the opportunity to compete to meet such needs,<sup>5</sup>
- SCE should be given authority to procure within a MW range of resources,<sup>6</sup> and
- SCE should consider updated information as it proceeds with its procurement.<sup>7</sup>

TURN also supports the PD's statement that this decision represents a "measured first step in a longer process"<sup>8</sup> and noting the Commission's intent to evaluate whether there are additional local needs in California in the next Long-Term Procurement Plan (LTPP).<sup>9</sup>

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<sup>3</sup> *Id.*, Section 10, pp. 110-111.

<sup>4</sup> *Id.*, pp. 2-3.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*, p. 86.

<sup>8</sup> *Id.*, p. 2.

<sup>9</sup> *Id.*

## II. SUGGESTED CHANGES TO THE PROPOSED DECISION

### A. Expand Range of Allowable Gas Procurement

The PD would authorize SCE to procure a minimum of 1,000 MW and a maximum of 1,200 MW of gas-fired resources. This strikes TURN as a fairly narrow range of procurement. The Commission should give SCE more flexibility in choosing the most effective and/or lowest-cost portfolio of resources by expanding this range of gas resource procurement. In particular, the Commission should reduce the minimum range of conventional resource procurement from 1,000 MW to 750 MW or 500 MW and allow SCE to procure additional preferred resources to make up the difference by increasing the proposed 450 MW maximum by the amount of any reductions to conventional resource minimums.

### B. Allow SCE to Procure Synchronous Condensers or Comparable Services from Generators

The PD cites the development of “synchronous condensers” as a possible “transmission fix” that could reduce LCRs.<sup>10</sup> TURN understands that synchronous condensers are basically generators that have been configured to operate as motors equipped to provide voltage support to the grid that can mitigate some local reliability issues. The PD should explicitly allow SCE to consider proposals to refurbish existing units as synchronous condensers or other potential alternative technologies that might meet local needs. Such expansion of procurement options might yield additional competitive offers for managing local reliability.

### C. Implement Price Circuit Breaker to Prevent Non-Competitive Resource Procurement

The Commission should authorized SCE to invoke a price-triggered circuit-breaker to reduce the amount of resources it procures below the lower end of the specified range

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<sup>10</sup> *Id.*, p. 44.

should the prices of such resources be non-competitive. Such a provision would enable SCE and the Commission to better manage customers' costs.

D. Include Specific Price Circuit-Breaker for Storage Procurement

The PD requires SCE to procure at least 50 MW of storage to meet the Western LA Basin sub-area local need. TURN is supportive of efforts to develop storage resources. However, as the PD itself acknowledges, it is not clear that storage resources will be available in either sufficient quantities or at reasonable prices.<sup>11</sup> Given this uncertainty, the PD should be amended to allow SCE to invoke a price circuit-breaker for storage procurement if storage providers cannot provide resources that help meet local reliability at a reasonable price.

E. Clarify Language Regarding Required "Performance Characteristics"

TURN agrees with the PD's finding that SCE "shall use existing Resource Adequacy...program rules...to assess the effectiveness of proposed generation solutions for meeting local capacity requirements".<sup>12</sup> As discussed above, TURN also agrees with the PD's specific rejection of the CAISO's proposal that new capacity have certain flexible characteristics when it said it "will not require SCE to take into account any particular flexible attributes in its procurement process, and will not make acquisition of any flexible attributes a condition of approval" of SCE's resource choices.<sup>13</sup> The PD instead adopts SCE's proposal to "use existing RA program rules to assess the effectiveness of proposed generation solutions for meeting LCR need...[and] to identify its assumptions on the effectiveness of any resource for which the RA program does not provide clear guidance".<sup>14</sup>

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<sup>11</sup> PD, page 60; See also Finding of Fact 25.

<sup>12</sup> PD, Ordering Paragraph 3, p. 124

<sup>13</sup> *Id.*, p. 93

<sup>14</sup> *Id.*, p. 73.

However, some of the PD's other language is more ambiguous and may allow the CAISO to undermine the above findings during the procurement process. For example, Ordering Paragraph (OP) 5 states that resources must "offer the performance characteristics needed to be eligible to count as local Resource Adequacy capacity"<sup>15</sup> and OP 11 directs SCE to "consult with the California Independent System Operator to develop performance characteristics for local reliability".<sup>16</sup> The PD even states that SCE must "consult with the ISO regarding ISO performance characteristics (such as ramp-up time) for local reliability".<sup>17</sup> Since current RA rules do not have any "ramp-up time" requirement for providing local reliability, the references to such requirements are inconsistent with both current RA policy and the PD's other cited findings and should be stricken.<sup>18</sup>

More generally, the PD should be clarified to be clear that any SCE-CAISO consultation on "performance characteristics" will be limited to interpretation of formally-adopted RA rules, such as estimating a resource's NQC or its "effectiveness factor," or making decisions about resource capabilities when formal RA rules do not provide clear guidance.

F. Delay Moorpark Procurement until Next LTPP

TURN appreciates the PD's development of an approved range of procurement for the Moorpark sub-area that was less than the CAISO's recommendation.<sup>19</sup> TURN advocated that no procurement for this sub-area be conducted until the next LTPP cycle. Given the complex direction contained in the PD, SCE's resource procurement to meet LA Basin needs will be a major undertaking in and of itself. Pursuing parallel

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<sup>15</sup> *Id.*, p. 125.

<sup>16</sup> *Id.*, p. 127.

<sup>17</sup> *Id.*, p. 73

<sup>18</sup> See TURN Reply Brief, October 12, 2012, pp. 4-5.

<sup>19</sup> PD, pp. 65-71.

efforts to procure resources for the Moorpark sub-area might strain even SCE's resource procurement capabilities. TURN thus reiterates its position that Moorpark procurement be deferred until the next LTPP and that the PD be amended to this effect.<sup>20</sup>

G. Allow Cost-of-Service Contracts to be Solicited in RFO

The PD appears to equate the terms "cost-of-service contract" and "bilateral contract".<sup>21</sup> Based in particular on OP 8, TURN believes the PD's vision is that a cost-of-service contract for a local reliability resource pursuant to AB 1576 would be reached pursuant to bilateral negotiations between SCE and a plant developer. This is one possible, reasonable outcome of SCE's coming procurement effort. However, it is also possible that a cost-of-service contract could be executed through an RFO process.<sup>22</sup> TURN encourages the PD to direct SCE to solicit cost-of-service contracts in any competitive solicitations so that they can be readily compared to other offers.

H. Correct description of ISO reliability criteria

The PD overstates reliability criteria at page 14 when it reads "The ISO's recommendations for the amount of local capacity required to ensure that there is sufficient capacity to keep the lights on *at all times...*" (emphasis added). Perfect reliability is an impossibility and no planner attempts to reach this standard. Rather, the reliability criterion being summarized at this point in the PD is designed to "keep the lights on" given the combination of a one-in-ten year peak load and two large transmission and generation outages. This combination of contingencies is highly unlikely, but is still less stringent than "keep[ing] the lights on at all times". The PD

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<sup>20</sup> TURN Opening Brief, September 24, 2012, pp. 2 and 14.

<sup>21</sup> PD, p. 84 and Conclusion of Law 14, p. 122.

<sup>22</sup> Similarly, it is also possible for a bilateral negotiation to yield a contract that is not cost-of-service based and resembles a traditional Power Purchase Agreement based on fixed payments and payment formulas

should be amended so that the Commission does not overstate the state's reliability criteria.

TURN appreciates the opportunity provide these comments on the Proposed Decision.

Respectfully submitted,

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