

**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)

**OPENING COMMENTS OF NRG ENERGY, INC. ON  
PROPOSED DECISION AUTHORIZING LONG-TERM  
PROCUREMENT FOR LOCAL CAPACITY REQUIREMENTS**

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**I. INTRODUCTION**

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), NRG Energy, Inc. (“NRG”)<sup>1</sup> submits its opening comments on the Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements issued on December 21, 2012 in this Long-Term Procurement Plan (“LTPP”) proceeding (“PD”). Pursuant to the cover letter accompanying the PD, opening comments are due January 14, 2013.

NRG’s comments focus on the procurement authorization identified in the PD for the LA Basin and Big Creek/Ventura local reliability areas. As discussed below, the record supports procurement authorization in the full amounts advocated by the California Independent System Operator (“CAISO”). At a minimum, the Commission should afford Southern California Edison Company (“SCE”) greater flexibility to procure additional resources if SCE shows that such additional procurement is needed to meet the local area reliability requirements, up to the amounts advocated by the CAISO. NRG also identifies a factual error in the PD regarding one of NRG’s generating assets that should be corrected in the final decision.

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<sup>1</sup> On December 14, 2012, GenOn Energy, Inc. merged into a subsidiary of NRG Energy, Inc. Both NRG Energy, Inc. and GenOn Energy, Inc. are parties to this proceeding. Going forward, NRG Energy, Inc. will represent the interests previously represented by GenOn Energy, Inc. in this docket. For purposes of these comments, “NRG” refers to both NRG Energy, Inc. and GenOn Energy, Inc.

## **II. THE RECORD SUPPORTS PROCUREMENT AUTHORIZATION IN THE FULL AMOUNTS ADVOCATED BY THE CAISO.**

NRG's testimony in this proceeding focused on demonstrating how much time is required to develop and complete construction of new natural gas-fired generation facilities in California. The PD correctly references the seven- to nine-year project development timeline that was established through testimony and hearings. *See, e.g.*, PD, pp. 61, 70, 89; Finding of Fact 28.

Despite recognizing that it takes between seven and nine years to develop and build new generation, the PD declines to adopt the procurement amounts shown by the CAISO's studies to be needed by 2020 for the LA Basin and Big Creek/Ventura local reliability areas. Given the length of time required for project development, the likely practical impact of underestimating the amount of new generation required to maintain local reliability is to extend operation of the once-through cooled ("OTC") facilities in those local reliability areas beyond the deadlines imposed by the California State Water Resources Control Board ("Water Board") Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling. If the reduced amounts authorized in the PD are not sufficient to meet the local capacity requirements in 2021 (which the CAISO studies indicate will be the case), there will not be sufficient time to develop additional capacity before the Water Board's compliance deadlines. The proper balancing of the Water Board's environmental goals and the CAISO's obligation to maintain grid reliability suggests that the Commission should adhere to the CAISO's procurement recommendations.

### **A. The Commission Should Afford SCE Flexibility to Procure Additional Capacity in the LA Basin Local Reliability Area, Up to the Amounts Recommended by the CAISO.**

The CAISO recommends that the Commission authorize procurement of 2,400 megawatts of new capacity in the LA Basin local reliability area. The PD instead authorizes no more than 1,200 megawatts of gas-fired generation. The PD accurately

summarizes the evidence in support of the CAISO's recommendation, demonstrating that the record supports a final decision adopting the CAISO's recommendation.

In light of the substantial difference between the CAISO's recommendation and the PD's recommendation for the LA Basin, the Commission could improve the outcome by granting SCE additional flexibility to procure additional gas-fired generation beyond 1,200 megawatts, up to a maximum of 2,400 megawatts, provided it is demonstrated that the additional capacity is needed to meet the local reliability needs. The showing of need for the additional capacity (*i.e.*, the amount above 1,200 MW) would be made in SCE's application seeking approval for its procurement contracts.

Given the extended timeline to build new generation in California, insufficient procurement authorization in this proceeding likely means that some combination of OTC resources will be called upon to operate beyond their Water Board compliance deadlines. Granting SCE, in conjunction with support from the CAISO, flexibility to procure additional gas-fired generation as necessary would help prevent that outcome.

**B. The Commission Should Afford SCE Flexibility to Procure Additional Capacity in the Big Creek/Ventura Local Reliability Area, Up to the Amounts Recommended by the CAISO.**

Unlike the LA Basin, where the record shows varying outcomes under different scenarios, the record shows a need for 430 megawatts of replacement capacity in Big Creek/Ventura under all four of the scenarios addressed in the CAISO studies. The PD's proposal to reduce the recommended 430 megawatts to a range of between 215 and 290 megawatts is not consistent with the CAISO studies. While the disparity is smaller than in the LA Basin in terms of total megawatts, the likely practical impact of underestimating the amount of new generation needed for local reliability will be the same – existing OTC units will need to continue operating beyond their deadlines.

The Commission also could improve the outcome in Big Creek/Ventura by granting SCE additional flexibility to procure additional gas-fired generation beyond 290 megawatts, up to a maximum of 430 megawatts as recommended by the CAISO, provided it is demonstrated that the additional capacity (*i.e.*, the amount above 290 MW) is needed to meet the local reliability needs. Again, this showing would be made in SCE's application seeking approval for its procurement contracts.

Although the authorized amount may be too low, the PD takes an important step forward by requiring the start of the procurement process to ensure that at least some minimum amount of existing OTC capacity can be replaced. Authorizing procurement up to 290 megawatts will provide a timely partial step forward toward recognizing the Water Board's compliance deadlines applicable to OTC resources in the Big Creek/Ventura local reliability area. Thus, while it would be prudent to afford SCE the additional flexibility recommended above, the PD correctly allows between 215 and 290 megawatts to move forward toward timely construction.

### **III. THE COMMISSION SHOULD CORRECT THE DESCRIPTION OF MADALAY UNIT 3, WHICH IS NOT AN OTC UNIT.**

The PD contains a factual error that should be corrected in the final decision. Specifically, Table 1 on pages 8-9 of the PD provides a list of OTC units in the LA Basin and Big Creek/Ventura local reliability areas. Table 1 shows Mandalay Unit 3 as an OTC unit, but Mandalay Unit 3 does not utilize OTC technology. There are only four units in Big Creek/Ventura that are OTC facilities: Mandalay Units 1 and 2 and Ormond Beach Units 1 and 2. Thus, Table 1 should be corrected by deleting the reference to Mandalay Unit 3.

Notably, the CAISO did not assume that the Mandalay Unit 3 capacity would retire for purposes of its study, but instead assumed that it would continue to be available to meet local capacity requirements during the study period. Thus, the proper classification of Mandalay Unit 3 as non-OTC does not impact the CAISO's need determination in Big Creek/Ventura, even

if one assumes that Mandalay Unit 3 will continue operating after the presumed retirement of Mandalay Units 1 and 2.

#### IV. CONCLUSION

Based on the foregoing, the Commission should modify the PD to provide SCE with added flexibility to procure new gas-fired generation beyond the megawatts identified in the PD. The Commission should also correct the PD by eliminating the reference to Mandalay Unit 3 as an OTC facility.

January 14, 2013

Respectfully submitted,

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## APPENDIX

### Proposed Changes to Findings of Fact, Conclusions of Law and Ordering Paragraphs

(Additions shown in bold, underline text; deletions shown in strikethrough text)

#### Proposed Changes to Findings of Fact:

5. In the Big Creek/Ventura local area, the Ormond Beach and Mandalay power plants are OTC plants with ~~five~~ **four** units which are required to comply with SCRWB regulations to substantially reduce water use before 2021. In total, these units currently have ~~more than~~ **almost** 2000 MW of capacity.

33. A maximum LCR procurement level will protect ratepayers from excessive costs resulting from potential over-procurement, **but it is also reasonable to afford SCE flexibility to procure additional gas-fired resources up to the minimum amount recommended by the ISO, provided SCE demonstrates in its application that such additional resources are needed to meet the LCR needs.**

43. There is an immediate need to begin a procurement process to meet LCR needs of between 215 and 290 MW in the Moorpark sub-area, **but it is also reasonable to afford SCE flexibility to procure additional resources up to the minimum amount recommended by the ISO, provided SCE demonstrates in its application that such additional resources are needed to meet the LCR needs.**

#### Suggested Changes to Conclusions of Law:

5. The ISO models **provide a reasonable methodology for forecasting** ~~overstate~~ the LCR need for the LA basin local area and the Big Creek/Ventura local area.

7. SCE should be authorized to start the process to procure a minimum of 1,050 MW and a maximum of 1,500 MW in the West LA sub-area of the LA basin local reliability area, **with the flexibility specified below.** No more than 1,200 MW should be from conventional gas-fired sources **(unless SCE demonstrates in its application that additional conventional sources are needed to meet the LCR needs, in which case the maximum shall be 2,400 MW)** up to 450 MW may be from preferred resources in addition to resources already authorized or required to be obtained via Commission decisions in energy efficiency, demand response, RPS and relevant dockets.

10. SCE should be authorized to start the process to procure a minimum of 215 MW and a maximum of 290 MW in the Moorpark sub-area of the Big



Creek/Ventura local reliability area **(unless SCE demonstrates in its application that additional conventional sources are needed to meet the LCR needs, in which case the maximum shall be 430 MW).**

12. If there is additional information about the viability of preferred resources and/or transmission alternatives in the Moorpark sub-area of the Big Creek/Ventura local reliability area and West LA sub-area of the LA basin local reliability area when SCE files its Application for approval of contracts, that information should be considered at that time **and may support approval of the additional resources that we afford SCE flexibility to consider in this decision.**

**Suggested Changes to Ordering Paragraphs:**

1. In this decision we authorize Southern California Edison Company to procure between 1,050 and 1,500 Megawatts (MW) of electrical capacity in the West Los Angeles sub-area of the Los Angeles basin local reliability area to meet long-term local capacity requirements by 2021, **with the flexibility to procure the additional amounts as specified below.** Procurement must abide by the following guidelines:

**d. In addition to the resources specified above, we will afford SCE flexibility to procure additional gas-fired resources if SCE demonstrates in its application that such additional resources are needed, up to a combined maximum total of 2,400 MW of gas-fired resources.**

2. Southern California Edison Company is authorized to begin a process to procure between 215 and 290 Megawatts of electric capacity to meet local capacity requirements in the Moorpark sub-area of the Big Creek/Ventura local reliability area. **In addition, we will afford SCE flexibility to procure additional resources if SCE demonstrates in its application that such additional resources are needed, up to a combined maximum total of 430 MW.**