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)

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COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON THE TRACK 1 PROPOSED DECISION

In this phase of the LTPP proceeding, the Commission is considering local capacity needs for the LA Basin and Big Creek/Ventura areas of the Southern California Edison (SCE) service territory. To establish these needs, the California Independent System Operator Corporation (ISO) presented the results of its once through cooling (OTC) studies showing the local needs that are likely to occur when the generating resources in these areas must shut down or repower to meet environmental requirements. On December 21, 2012, ALJ Gamson issued a Proposed Decision (PD) authorizing SCE to procure new resources in both areas. The ISO is pleased that the PD was issued expeditiously because, as explained in testimony, it is urgent that the procurement process begin so that the needed resources will be in place when the OTC units are taken offline. The ISO also appreciates the Commission's confidence in its study methodology and many of its recommendations. However, the ISO has serious concerns about the level of resources authorized for procurement in the SCE area. In accordance with Rule 14.3 of the Commission's procedural rules, the ISO hereby submits its comments on the PD and recommendations for changes to the final order.

I. Introduction

The ISO strongly supports the PD conclusions that the ISO's power flow and contingency analysis is the appropriate method for determining local resource needs and procurement decisions.[1] The PD also correctly concludes that 1) the OTC plants will close in accordance with the SWRCB schedule;[2] 2) that the ISO's transmission planning assumptions are reasonable;[3] and, 3) that the ISO's need recommendations should not be adjusted for demand response.[4]

The ISO supports the procurement process adopted by the PD and appreciates the clarity the PD provides on resource selection up to the imposed 1500 MW limit. However, for the reasons described below, the ISO believes that the 1500 MW procurement level is much too low and that SCE should, at a minimum be authorized to solicit offers up to the level recommended in the trajectory case. The 1500 MW limit is insufficient, particularly with known planning uncertainties. For instance, the partial or total loss of SONGS is a real uncertainty that can only exacerbate, not ameliorate, procurement needs in Southern California. Furthermore, while the ISO strongly supports clean energy technology and intends to work closely with SCE and the Commission to facilitate the ability of preferred resources to participate in the solicitation process, there is significant risk that the assumed levels of energy efficiency and distributed generation will not materialize in time to meet reliability needs. This possibility puts at risk SCE's ability to procure and construct new conventional resources to meet the OTC retirement dates.

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[1] PD, pp. 36-40
[2] *Id.,* p. 42
[3] *Id.*, p. 44
[4] *Id.*, p. 54

In light of these risks, the ISO strongly recommends that SCE also be granted flexibility to procure incremental capacity up to 2370 MW, should the need arise. This additional flexibility could be provided without altering the authorized capacity procurement amount set forth in this decision and with appropriate Commission approval and oversight of any incremental capacity procurement. For instance, if the NRC reports that SONGS cannot return to service, it would be imprudent to wait for the next LTPP proceeding and still another RFO round to conclude before needed incremental capacity can be procured. This potential problem can be easily remedied in this decision by simply granting SCE the authority to cure an identified deficiency given appropriate Commission oversight and approval of any incremental procurement above the 1500 MW limit. The ISO believes this is a reasonable compromise given that the PD sets such a low procurement level.

II. Argument

A. The Minimum Authorization Level Adopted in the PD is not Supported by the Record and Creates a Reliability Risk.

The ISO urged the Commission to authorize new resource procurement in a range of 2370-3741 MW based on the results of the trajectory scenario. The trajectory scenario is one of the four scenarios developed through collaboration between the ISO, the CPUC and stakeholders and used in the 2011/2012 ISO transmission planning process.[5] As noted in the PD, the ISO believes that the trajectory scenario represents the most realistic renewable resource build out because it is best aligned with commercial interest information, and contains reasonable levels of distributed generation (DG) and

[5] Exs. ISO-1, p. 4; ISO-6, p.8.

committed energy efficiency reflected in the CEC load forecast.[6] In response to criticism that the ISO's need recommendation was not based on sufficient quantities of preferred resources, the ISO testified repeatedly that overly optimistic estimates of energy efficiency impacts and distributed energy resources could put grid reliability at risk.[7]

Nonetheless, the PD proposes to authorize procurement of new resources at an absolute minimum level, based on the environmentally constrained scenario (that contains over 1500 MW of DG) and an adjustment for uncommitted energy efficiency taken from the ISO's sensitivity study in the amount of 2461 MW.[8] Specifically, based roughly on results from the ISO's sensitivity study and the environmentally constrained scenario, the PD finds that SCE should be authorized to procure a range of 1050 MW as a minimum and 1500 MW as maximum procurement target for the LA Basin.[9] For the Big Creek/Ventura area, the PD authorizes procurement in the range of 215-290 MW, based on the notion that the ISO's 430 MW recommendation was likely to be overly conservative because the underlying studies did not include the level of preferred resources addressed in the LA Basin discussion.[10]

These procurement authorization levels are not supported by the record and should not be used as maximum levels beyond which SCE would be precluded from bringing additional resources forward for consideration. Although numerous parties to the case advanced arguments for preferred resource adjustments to the ISO's calculations, the course chosen by the PD was disavowed by the ISO and has no foundational basis. Specifically, the environmentally constrained scenario contains a level of DG that the

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[6] PD, p. 20-21.
[7] See, *e.g.* Ex. ISO-6, 18.
[8] PD, p. 50.
[9] *Id.,* pp. 63-65.
[10] *Id.,* pp. 70-71.

ISO believes to be unrealistic and not likely to develop.[11] The PD seems to acknowledge this by authorizing SCE to procure up to 1519 MW in DG *above* the 1500 MW maximum.[12]

The PD then compounds the uncertainty inherent in the environmentally constrained case by adding in a level of uncommitted energy efficiency-2461 MW-drawn from the planning assumptions provided to the ISO by the CEC and the CPUC for use in the sensitivity study described in Mr. Sparks' supplemental testimony.[13] The PD acknowledges that this level of uncommitted energy reflected a forecast for the SCE system and not the LA Basin.[14] Furthermore, while it is true that the ISO modeled this level in the sensitivity study requested by the CEC and the Commission so that the deficiency need resulting from this (and other) assumptions has been accurately calculated, the 2461 MW number has no foundation in the record of this proceeding with regard to how it was derived.[15] It is also much too high for the LA Basin/Big Creek/Ventura local areas when compared to the system uncommitted energy efficiency levels recently approved in Track 2. The ISO notes that the uncommitted energy assumptions for the base scenario in the Track 2 planning assumptions is 3103 MW *for the entire system.*[16]

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[11] Ex. ISO-2, pp. 6-7.
[12] PD, p. 58.
[13] Ex. ISO-2, p. 3.
[14] *Id.*, p. 21
[15] Assuming that this assumption was the uncommitted energy efficiency level developed as part of the planning assumptions in R.10-05-006, Mr. Rothleder introduced his testimony from R.10-05-006 in which the ISO cautioned against using the assumptions in the environmentally constrained scenario (among others) to make decisions about the need for additional system resources for renewable integration. See Ex. ISO-17, pp. 44-45.
[16] D.12-12-010; see workpapers for planning scenarios at http://www.cpuc.ca.gov/PUC/energy/Procurement/LTPP/ltpp_history.htm The uncommitted energy assumption is higher in the high DG/DSM scenario.

The ISO recognizes, and appreciates, the Commission's concerns with striking a balance between system reliability, reasonable rates and a clean environment.[17] As noted above, the ISO supports these goals and is working on market-based mechanisms to make clean energy technologies and demand response available to the grid operator as supply resources. However, the PD does not strike an appropriate balance because optimistic environmental assumptions have outweighed the very real reliability uncertainties created both by the OTC requirements (which are also based on environmental concerns), and the future of the SONGS units. Although the PD states that the risk of procurement error in either direction (over or under) is equal and not asymmetric, as the ISO argued, the proposed procurement authorization level skews the risk of under procurement in the local areas and heightens the possibility that needed resources will not be procured in time to meet local needs and therefore puts at risk the compliance deadlines of the OTC units.

The ISO believes that these risks and the Commission's desire to strike a fair balance between competing objectives can be addressed in the procurement phase of this LTPP Track 1 proceeding, as discussed in the next section.

B. The Commission Should Authorize a Higher Level of Resource Procurement Consistent with SCE's Comments.

Despite the ISO's concerns with the procurement authorization level, the procurement process outlined in the PD at Section 7 and based on SCE's recommendations, is reasonable and the ISO can support it. The process contemplates that SCE will begin a procurement process during which it will follow the loading order and assess the availability and cost-effectiveness of preferred resources and energy

[17] PD, pp. 35-36.

storage resources that can offer the necessary characteristics required by the ISO to meet or reduce local area needs.[18] SCE will then work with the ISO to determine the effectiveness of these resources.[19] SCE may use either, or both, bilateral contracting or the RFO solicitation process to procure resources. To the extent that an RFO solicitation is undertaken, the bidding elements must include a requirement that the resource will meet the identified reliability constraint identified by the ISO, the resource must be incremental to the assumptions used in the ISO studies and the consideration of costs and benefits must be adjusted by their relative effectiveness factor at meeting the identified constraint.[20] SCE has been directed to complete the procurement process and submit applications for resource approval in late 2013 or early 2014 so that the 7-9 year process for procuring certain resources can be expeditiously accomplished.[21] This process framework provides a solid means by which the viability of preferred resources can be assessed and, if such resources meet the ISO's needs, procured on a technology-neutral basis. The PD recognizes that the ISO has an important role in assisting SCE with developing the preferred resource characteristics needed to meet LCR needs so that these characteristics can be included in the procurement process. To that end, the ISO and SCE are already engaging in regular discussions regarding these topics.

Nonetheless, this process cannot make up for the insufficient procurement authorization level proposed in the PD. The ISO understands that SCE will propose a solution on this point in its comments on the PD. Specifically, SCE proposes that the 1500 MW (with 1200 MW cap on thermal resources) described in the PD be considered

[18] *Id.*, Finding of Fact 44.
[19] *Id.*, Conclusion of Law 13.
[20] *Id.*, p. 87.
[21] *Id.*, p. 89.

a procurement minimum, but that the Commission approve procurement of new resources up to a 2370 MW maximum in the LA Basin subject to a finding of need for resources above 1500 MW that will be established during the approval process. The ISO is willing to assist with this need analysis as part of the study process that will be conducted to determine the sufficiency of preferred resources in meeting LCR needs. It is anticipated that the need for additional resources above the 1500 MW threshold will be driven by further assessment of the uncertainties surrounding preferred resource development described by the ISO in its testimony, as well as updated information about the SONGS unit outages, and this information can be taken into consideration in the ISO's analysis of the procured resources.

The approach suggested by SCE provides the Commission with a simple vehicle for accomplishing the objectives set forth in the ISO testimony. By allowing SCE to solicit and contract for incremental capacity up to the ISO's recommended local deficiency level, and then conducting an updated needs analysis for the amount over 1500 MW, the Commission will have another opportunity to balance competing concerns in the face of uncertainties which could be more well-defined by 2014. Using the resource authorization process for parties to challenge the need for resources above 1500 MW will allow the Commission to expeditiously conduct this assessment and approve resources. For all of these reasons, the Commission can maintain the 1500 MW procurement limit and simply modify the PD authorizing up to 2370 MW of resource procurement, consistent with the proposal described in SCE's comments.

C. Future LTPP Proceedings Should Include Tracking Preferred Resource Development

As noted above, within the procurement framework described in the PD the ISO will work with SCE to evaluate preferred resources under consideration to determine whether they can meet LCR needs. A similar process should be incorporated in every future LTPP proceeding to track the development of preferred resources and evaluate whether the study assumptions approved in prior LTPP cycles are realistic. The ISO strongly believes that planning assumptions that are to be incorporated into local and system need analyses, particularly those for distributed generation and energy efficiency, must be compared against historical performance and any new pertinent information on the future development potential of these resources be closely examined. By doing so, the ISO and interested parties will have the information needed to shape programs and policies that will facilitate environmental goals while maintaining grid reliability.

Respectfully submitted,
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ATTACHMENT A
PROPOSED MODIFICATIONS TO FINDINGS OF FACT AND CONCLUSIONS OF LAW

Modified Findings of Fact

18. The ISO Environmentally Constrained scenario sensitivity analysis includes a reasonable maximum level of uncommitted energy efficiency for the LA basin local reliability area to establish a minimum procurement level.

22. There ~~will be~~ could be more distributed generation available in the LA basin local reliability area than was included in the ISO Trajectory scenario.

23. The ISO's Environmentally Constrained scenario includes an optimistic and therefore the ~~reasonable minimum~~ maximum level of distributed generation for the LA basin local reliability area for the purposes of ~~determining~~ establishing a minimum level of ~~the~~ LCR need in this proceeding.

24. The ISO's Environmentally Constrained scenario sensitivity analysis includes a ~~reasonable~~ maximum level of uncommitted CHP for the LA basin local reliability area for the purposes of ~~determining~~ establishing a minimum level of ~~the~~ LCR need in this proceeding.

32. The ISO's Environmentally Constrained scenario sensitivity analysis includes the highest ~~reasonable~~ levels of uncommitted energy efficiency and uncommitted CHP in all of the scenarios studied by the ISO. This forecast shows an LCR need of 1,042 MW for the LA basin local area for effective sites.

~~34. It is reasonable to assume 50% of the CEC's forecast of uncommitted energy efficiency and CHP levels will exist in order to determine a maximum LCR procurement level for the LA basin local area.~~

~~35. In order to determine a maximum LCR procurement level for the LA basin local area with 50% of the CEC's forecast of uncommitted energy efficiency and uncommitted CHP, it is reasonable to consider a figure approximately halfway between the Environmentally Constrained scenario and the Environmentally Constrained scenario sensitivity analysis.~~

34. The ISO's Trajectory Scenario is reasonable for establishing a maximum procurement level. The Trajectory Scenario best aligns with commercial interest and contains reasonable levels of distributed generation and committed energy efficiency. The range of LCR deficiency in the Trajectory Scenario for the LA Basin is 2370-3741 MW.

35. Due to future uncertainties about load forecasts, siting considerations, the development of preferred resources and SONGS availability, it is reasonable to authorize SCE to solicit resources above the 1500 MW level and up to 2370 MW. For resources above 1500 MW, SCE must make a showing of need during the approval process.

~~42. The most likely size for at least one replacement plant in the Moorpark sub-area of the Big Creek/Ventura local area is 215 MW, as this is the size of two existing OTC units in that area.~~

42~~3~~. Consistent with the Commission's findings with respect to the LA Basin, t~~T~~here is an immediate need to begin a procurement process to meet LCR needs of between ~~215 and~~ 290 MW and 430 MW in the ~~Moorpark sub-~~ Big Creek/Ventura area.

Modified Conclusions of Law

4. SCE's procurement process should have no provisions specifically or implicitly excluding any resource from the bidding process due to technology, except that SCE may procure up to ~~for amounts above~~ 1,200 MW of conventional resources in the LA basin local area and ~~a requirement to procure~~ 50 MW of energy storage resources.~~,~~ For resources above 1500 MW for which SCE seeks approval, SCE must have provisions designed to be consistent with the Loading Order approved by the Commission in the Energy Action Plan and § 454.5(b)(9(C) and, in collaboration with the ISO, must make a showing of need for such additional resources.

~~5. The ISO models overstate the LCR need for the LA basin local area and the Big Creek/Ventura local area.~~

6. Adoption of an LCR need range using the ISO's Environmentally Constrained scenario with uncommitted energy efficiency as the minimum level of resource procurement and the ISO's Trajectory scenario as the maximum level of resource procurement ~~which takes into account between 50% and 100% of uncommitted energy efficiency and uncommitted distributed generation resources, and allows for the potential of demand resources and energy storage resources which may meet ISO technical criteria for meeting LCR needs,~~ is consistent with the applicable statutory and regulatory requirements for procurement of preferred resources, including the Loading Order.

7. SCE should be authorized to start the process to procure a minimum of 1,050 to 1500 MW and a maximum of ~~1,500~~ 2370 MW in the West LA sub-area of the LA basin local reliability area. No more than 1,200 MW minimum should be from conventional gas-fired sources 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, unless SCE, in collaboration with the ISO, makes a showing of need for additional resources above 1500 MW, including the need for conventional gas fired resources above 1200 MW .

10. SCE should be authorized to start the process to procure a minimum of 215 MW to 290 and a maximum of ~~290~~ 430 MW in the ~~Moorpark sub-area of the~~ Big Creek/Ventura local reliability area.

Modified Ordering Language

1. In this decision, we authorized Southern California Edison Company to procure between a minimum of 1,050 to ~~and~~ 1,500 Megawatts (MW) and a maximum of 2370 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. Procurement must abide by the following guidelines:

a. At least a minimum of 1,000 MW, but no more than 1,200 MW, of this capacity must be from conventional gas-fired resources;

b. At least 50 MW of capacity must be procured from energy storage resources;

c. Up to 450 MW of capacity may be procured through preferred resources consistent with the Loading Order of the Energy Action Plan and/or energy storage resources. Distributed generation procured as part of this authorization must be incremental to the 1,519 MW of distributed generation already forecast to be available in the LA Basin in the California Independent System Operator Environmentally Constrained portfolio. To the extent that 1,519 MW of distributed generation has not already been authorized in other Commission decisions, such authorization is granted here.

d. SCE must establish a need and compliance with the Loading Order to order to obtain approval of resource offers above 1500 MW and up to 2370 MW.

2. Southern California Edison Company is authorized to begin a process to procure between a minimum of 215 to ~~and~~ 290 Megawatts and a maximum of 430 MW of electric capacity to meet local capacity requirements in the ~~Moorpark sub-area of the~~ Big Creek/Ventura local reliability area.