

**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

R.12-03-014  
(Filed March 22, 2012)

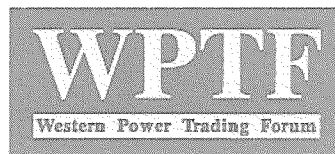
**OPENING COMMENTS OF THE WESTERN POWER TRADING FORUM  
ON THE TRACK 1 PROPOSED DECISION**

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**Table of Contents**

I. OVERVIEW OF OPENING COMMENTS ..... 1

II. OPENING COMMENTS ..... 2

    A. There is a Continued Need to Coordinate Actions Taken in the LTPP and  
        RA Proceedings .....2

    B. Further Preconditions Should be Established with Respect to the  
        Authorization for SCE to Enter into Bilateral LCR Agreements. ....4

    C. The Storage Authorization Should be Permitted Rather Than Mandated. ....5

III. CONCLUSION..... 6

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In accordance with Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Western Power Trading Forum<sup>1</sup> (“WPTF”) respectfully provides these opening comments on the December 21, 2012, proposed decision of Administrative Law Judge (“ALJ”) David M. Gamson in Track 1 of the Long-Term Procurement Plan (“LTPP”) proceeding (“PD”). WPTF takes no position at this time on the sections of the PD not addressed in these opening comments, but reserves the right to reply to the opening comments of other parties on such other sections as we find necessary.

**I. OVERVIEW OF OPENING COMMENTS**

The Scoping Memo for Track 1 of this current LTPP cycle provided for a Local Reliability Track to consider authorizing procurement of new infrastructure for local reliability purposes.<sup>2</sup> Much of the PD therefore focuses on authorization for Southern California Edison Company (“SCE”) 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-

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<sup>1</sup> WPTF is a California non-profit, mutual benefit corporation. It is a broadly based membership organization dedicated to enhancing competition in Western electric markets in order to reduce the cost of electricity to consumers throughout the region while maintaining the current high level of system reliability. WPTF actions are focused on supporting development of competitive electricity markets throughout the region and developing uniform operating rules to facilitate transactions among market participants.

<sup>2</sup> See May 17, 2012, Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge, at p. 3.

term local capacity requirements (“LCRs”) by 2021 and to procure between 215 and 290 MW of the Moorpark sub-area of the Big Creek/Ventura local reliability area.

WPTF believes that these authorizations need to be considered in conjunction with efforts in the Commission’s resource adequacy (“RA”) proceeding to develop a fully functional capacity market in the state. We also offer comments herein with respect to the authority granted SCE to enter into bilaterally negotiated cost-of-service contracts for electricity generated by replacement or repowered projects per P. U. Code § 454.6. Finally, brief comments herein relate to the requirement that 50+ MW must be procured by SCE from energy storage resources

## **II. OPENING COMMENTS**

### **A. There is a Continued Need to Coordinate Actions Taken in the LTPP and RA Proceedings**

WPTF has maintained that explicit multi-year forward procurement obligations should be added to the RA program, in the context of having such obligations managed through a centralized capacity market. More specifically, we have recommended that the Commission should establish a 3-5 year forward capacity procurement obligation including system, local, and when necessary flexible capacity, but only as a transition until biddable flexibility products in the ancillary service markets are in place. Moreover, the defined capacity procurement obligations should be accompanied by a forward RA capacity auction and reconfiguration auctions administered by the California Independent System Operator that will account for all supply necessary to meet forward capacity procurement obligations. In prior comments we have noted that the CAISO capacity auctions ultimately should encourage the development of new resources, sustain needed existing resources, and diminish, or possibly eventually replace, the need for procurement of new resources through the LTPP process.

However, the current PD grants SCE authority to enter into long-term contracts to meet its LCR needs without consideration of the likely evolution to a capacity market structure, even while the PD acknowledges that SCE has also expressed a preference for capacity market procurement in the following excerpt:

In general, SCE would prefer not to procure resources to meet system needs and to make long-term commitments that would subsequently be rendered less valuable by changed circumstances. SCE “prefers procurement of new LCR generation through a new multi-year forward procurement auction, such as a capacity market or a new generation auction administered by the CAISO” but acknowledges that such a mechanism is not currently available.<sup>3</sup>

Having made this observation, the term “capacity market” never again appears in the PD. WPTF believes this is an error. It is critical that the Commission coordinate procurement authorizations with other planned market structure reforms.

Careful analysis is required in order to ensure that any decisions made with respect to multi-year procurement obligations are consistent with competitive wholesale and retail market design; that they provide price transparency; and that appropriate incentives are offered for the development of products and services that support renewable integration. The PD does not adequately address these issues and it should be revised to acknowledge the need for careful coordination of the procurement authority made herein with the ongoing market design reforms – especially with respect to the Commission’s goal to move towards implementation of a new multi-year forward procurement mechanism and capacity market, as SCE, WPTF and other parties support.

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<sup>3</sup> PD, at p. 23, citing Exhibit SCE-1 (Cushnie) at 1.

**B. Further Preconditions Should be Established with Respect to the Authorization for SCE to Enter into Bilateral LCR Agreements.**

Section 7.3.1 of the PD provides that SCE may also enter into bilaterally negotiated cost-of-service contracts for electricity generated by replacement or repowered projects per P. U. Code § 454.6. WPTF believes that such bilaterally negotiated cost of service contracts should be used in limited circumstances. The PD in fact agrees that such contracts should be “allowed under § 454.6 under specified circumstances which are likely to result in a procurement process as a result of this decision. Therefore, § 454.6 cost-of-service contracts are an option that SCE will be able to use in situations where there is significant market power that would be detrimental to ratepayers.”<sup>4</sup>

WPTF agrees with the precondition to bilateral contracting that there must be a showing of market power. However, that is not sufficient. In addition, there should also be a demonstration that there has been a failed RFO. This would synchronize with the UOG procurement rules established in D.12-04-046 which specifies that UOG may be procured only after a corresponding utility RFO has failed.<sup>5</sup> As a general rule, the Commission’s stated preference is for competitive solicitations as they create downward pressure on prices that benefit ratepayers. Bilateral transactions, untested by competitive offers, run the risk of increasing ratepayer’ costs with above-market prices. However, if there has been a dermonstrably failed RFO, such bilateral negotiations may be warranted. WPTF thus recommends that this clarification be added to the PD.

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<sup>4</sup> PD, at p. 84. This is also reiterated in Conclusion of Law 14, at p. 122.

<sup>5</sup> See D.12-04-046, pp. 37-38 and OP 6.

**C. The Storage Authorization Should be Permitted Rather Than Mandated.**

The PD provides that at least 50 MW of the LA Basin authorization must be procured from energy storage resources.<sup>6</sup> WPTF is supportive of the development of new and innovative storage technologies and believes that it is critical that deployment goals and responsibilities be explicitly defined. However, it is equally important that Commission action not circumvent the operation of competitive markets, which will ultimately be much more effective in determining the technologies that will most economically and efficiently provide the products and services needed to reliably integrate increasing amounts of intermittent resources. Furthermore, the statute provides that storage has to be cost-effective to be considered for procurement.<sup>7</sup>

In other words, Commission action can and should focus on providing analysis and assessment of storage technologies and their potential contribution to renewable integration, but should studiously avoid picking technology winners and losers, as competition will do that much more effectively, and will be much more consistent with the Commission's competitive market policies. Rather than mandating a minimum level of storage resources be included as part of SCE's procurement plan for the LA basin local area, the Commission should rather permit the utility to consider such options and encourage storage suppliers' participation in the RFOs that will be held to meet SCE's LCR needs. To the extent that storage most cost-effectively meets such pre-defined needs, it will prevail in the solicitation to acquire the needed services. WPTF has consistently favored market-based approaches to procurement, whether the item to be procured is conventional or renewable energy or services such as energy storage. This approach will better serve ratepayers and provide incentives for storage development that will be truly cost-effective

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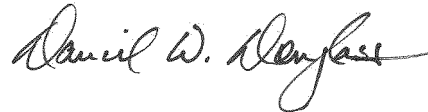
<sup>6</sup> PD, at pp. 2, 60 and 80.

<sup>7</sup> [Citation]

### III. CONCLUSION

WPTF thanks the Commission for its attention to the issues discussed herein and asks that it revise the PD to adopt the recommendations discussed above.

Respectfully submitted,



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