

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)

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



Matthew Freedman  
The Utility Reform Network  
115 Sansome Street, 9<sup>th</sup> floor  
San Francisco, CA 94104  
415-929-8876 x304  
[matthew@turn.org](mailto:matthew@turn.org)  
January 22, 2013

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

Pursuant to Rule 14.13 of the Rules of Practice and Procedure, The Utility Reform Network (TURN) submits these reply comments on the Proposed Decision (PD) of ALJ Gamson authorizing long-term procurement for local capacity markets in Track 1 of this proceeding. The opening comments of many parties provided widely divergent views on the PD and suggestions for its amendment. Though sympathetic to many of the criticisms, TURN re-iterates its support for the PD, which navigated this maze of questions to reach a reasonable overall resolution of the issues in Track 1.

In these reply comments, TURN focuses on two particular sets of issues some parties have raised: (a) the authority the PD would grant SCE to procure up to 1,200 MW of gas-fired resources in the Western LA sub-area and (b) Cost Allocation Mechanism (CAM) policies.

**I. GAS RESOURCE PROCUREMENT LIMIT IN WESTERN L.A. SUB-AREA**

Several parties suggest increasing the limit on procurement of gas-fired resources in the Western Los Angeles (LA) sub-area beyond 1,200 MW.<sup>1</sup> NRG argues that SCE be allowed to propose an additional 1,200 MW of gas-fired resources<sup>2</sup> and AES recommends that such procurement authority be expanded to 3,871 MW (though not necessarily gas-fired resources).<sup>3</sup> As stated in its opening comments, TURN supports the PD's finding that a

---

<sup>1</sup> Specifically, AES Southland (AES), NRG Energy (NRG), SCE and the California Independent System Operator (CAISO).

<sup>2</sup> NRG Comments, pp. 2-3. At p. 8, the PD notes that NRG owns 670 MW of gas-fired capacity in the Los Angeles Basin Local Reliability Area.

<sup>3</sup> AES Comments, pp. 4 and 12. AES also notes on p. 4 that it owns 3,690 MW of gas-fired capacity in the Western L.A. sub-area.

lower procurement limit be authorized. Such a finding is more consistent with the state's energy policy goals and recognizes the uncertainty surrounding long-term local needs.

The same considerations also apply to similar arguments made by SCE in requesting "the flexibility to procure up to a maximum of 2,370 MW upon a showing of need and consistency with the Preferred Loading Order".<sup>4</sup> The CAISO filed comments explicitly supporting SCE's proposal.<sup>5</sup> TURN is sympathetic that some of the adverse circumstances SCE cites might converge in the next year to make procurement of more resources more quickly advisable.<sup>6</sup> But TURN is concerned that allowing SCE full discretion to bring contracts to the Commission for up to 2,370 MW of resources based on its own internal processes could effectively circumvent the intent of the PD. TURN's concern is further heightened by the following CAISO statement:

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 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.*<sup>7</sup>

---

<sup>4</sup> SCE Comments, pp. 11-15; quoted material from p. 15.

<sup>5</sup> CAISO Comments, pp. 1-8.

<sup>6</sup> SCE Comments, p. 11.

<sup>7</sup> CAISO Comments, pp. 7-8; [*emphasis added*].

The Commission should reject efforts to outsource the need determination to the CAISO given their clear bias in favor of maximum resource development and their dismissal of the value of preferred resources. TURN would be astounded if the result of such a process was anything other than a showing that 2,370 MW or more will be needed to meet Western L.A. Basin sub-area needs.

The CAISO then argues that contracts for resources well above the PD's approved 1,500 MW of local need (including non-gas resources) could be signed to meet such needs and the need for them validated after they are signed. Specifically, CAISO argues the following:

*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.<sup>8</sup>*

Given the tendency for signed Power Purchase Agreements (PPAs) and other contracts to develop their own political momentum independent of their merit, TURN is doubtful that a reasoned review of local needs will occur in a forum that is also considering specific executed contracts intended to meet such need. Moreover, it would be highly inadvisable to encourage SCE to contract for capacity, and submit these contracts for approval, on the basis that their need *might* be approved.

Should the Commission want to address concerns that new information may show a need to exceed 1,500 MW, it should consider the approach proposed by the Independent Energy

---

<sup>8</sup> *Id.*, p. 8; emphasis added.

Producers (IEP) in its comments. Under IEP's proposal, SCE could issue an additional RFO in 2014 to address such additional needs rather than wait until action is taken in the 2014 LTPP.<sup>9</sup> In TURN's view, such an RFO should only be issued when the Commission has had a chance to review and validate the impact of such information on local need.

Finally, TURN reiterates the comments it made in its recommendation regarding the nature of the CAISO's consultation with SCE during the coming solicitation process.<sup>10</sup> TURN agrees that SCE should consult with the CAISO when interpreting adopted Resource Adequacy (RA) policy. However, such consultation should not be the forum for rewriting the PD's findings that SCE and the CAISO do not like, such as the PD's determination to not require all such capacity to be flexible. The following statement from the CAISO's comments again caused TURN concern about the potential for legitimate SCE-CAISO collaboration to become a forum for subverting the PD's intent:

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.<sup>11</sup>

The PD should be crystal-clear that such consultation should be limited to matters such as interpretation of current RA policy and other issues explicitly identified in the PD.

## II. COST ALLOCATION MECHANISM

---

<sup>9</sup> IEP Comments, p. 2.

<sup>10</sup> TURN Comments, pp. 4-5.

<sup>11</sup> CAISO Comments, p. 8.

Two parties – the combination of the Alliance for Retail Energy Markets, Direct Access Customer Coalition and the Marin Energy Authority (*hereafter AReM*) and the City and County of San Francisco (CCSF) – requested the PD be amended to adopt AReM’s proposed changes to the CAM. The Commission should ignore these requests and adopt the PD without change regarding these issues.

Among AReM’s complaints is the notion that the PD views “fairness” only from the perspective of bundled customers.<sup>12</sup> TURN agrees that “fairness” should be viewed from two or more perspectives. And viewed this way, some of AReM’s proposals were clearly unfair.<sup>13</sup> For example, imposing a cap on the allocation CAM costs without any consideration for imposing a floor on such costs is clearly intended to minimize AReM members’ exposure at the expense of other customers. AReM’s proposal to levelize the costs of utility resources for purposes of computing the CAM is also designed to minimize its members’ exposure at the expense of other customers. And AReM’s opt-out proposal was similarly skewed to helping DA customers minimize their responsibility for the costs of supporting new generation. The PD is correct for stating that AReM’s proposals do not increase the fairness of current CAM cost allocation.<sup>14</sup>

Respectfully submitted,

MATTHEW FREEDMAN

\_\_\_\_\_/S/\_\_\_\_\_  
Attorney for  
The Utility Reform Network  
115 Sansome Street, Suite 900  
San Francisco, CA 94104  
Phone: 415-929-8876 x304  
matthew@turn.org

Dated: January 22, 2013

---

<sup>12</sup> AReM Comments, pp. 10-11.

<sup>13</sup> TURN Opening Brief, pp. 21-26.

<sup>14</sup> Proposed Decision, p. 102.