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 ALTON ENERGY, INC. ON ALJ QUESTIONS FROM 9/4/13PRE-HEARING CONFERENCE ON TRACK 4 ISSUES

Hal Romanowitz, P.E.
Chief Executive Officer & Party Rep
ALTON ENERGY, INC.
4039 Alton Way
Escondido, California 92025
Telephone: (661) 747-0990
Facsimile: (661) 825-8299
Email: hal@altonenergy.com

Jonathan Word
Director of Strategic Operations
ALTON ENERGY, INC.
4039 Alton Way
Escondido, California 92025
Telephone: (602) 540-6309
Facsimile: (661) 825-8299
Email: word@altonenergy.com

October 14, 2013

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Pursuant to the instructions of Administrative Law Judge David Gamson ("ALJ Gamson") at the September 4, 2013, Pre-Hearing Conference ("PHC") and subsequent September 16, 2013, Assigned Commissioner and Administrative Law Judge's Ruling Regarding Track 2 and Track 4 Schedules, Alton Energy provides reply comments on the questions posed at the PHC by ALJ Gamson for comment regarding Track 4 policy-related issues.

I. INTRODUCTION.

We appreciate the parties who have emphasized the importance of the mix of resources that is procured due to the regulatory decisions from this Proceeding. Many parties have illustrated the importance of a procurement strategy that captures the environmental benefits of Preferred Resources in order to meet critical State Emissions Goals, which also considers a cost-effective All Source Procurement methodology that meets the system reliability and flexibility requirements. Such is particularly the case in determining a specific procurement approach for the substantial capacity retirement of the carbon free San Onofre Nuclear Generating Station ("SONGS"), and in careful consideration of the status of OTC and other retirements.

It is crucial that in order to meet the ARB emissions reduction goals of 80% GHG reductions by 2050, that the formerly carbon free SONGS capacity be replaced as much as

possible with near carbon-free Preferred Resources coupled with energy storage. Such can be paired with a nominal amount of the most efficient natural gas generation, but only to the extent that is absolutely necessary, and with a clear understanding of the need for a less than 30 year phase out of the majority of Gas Fired Generation (GFG). If the State is to have any chance of meeting its GHG reduction goals, we cannot afford to have an over-procurement of conventional carbon generation. Even the procurement of any such GFG with an expectation of even 30 year life is a potential serious problem, and a 50 year life expectation is simply out of the question.

There are several September 30 Party Comments that are noteworthy of emphasis, and critical evaluation in this regard. We believe that with careful procurement decisions, and a thoughtful and ongoing process, that reliable, cost effective operation can be achieved.

II. PREFERRED RESOURCES, ENERGY STORAGE, LIMITED EFFICIENT GAS, NEED PROPER THOROUGH ANALYSIS, AND STRATEGIC PROCUREMENT SO STATE GHG GOALS ARE MET.

We agree with SCE that the mix of resources procured may matter, and that an over reliance on any one Preferred Resource "may diminish the overall effectiveness of that resource technology in meeting LCR need."[1] They mention that CAISO is evaluating the LCR value of Preferred Resources. This type of evaluation is critical if we are to achieve the state legislation and regulation mandates for a low carbon energy future. In order for Preferred Resources to provide their utmost value and capacity credit, Preferred Resources must have an opportunity to be thoroughly evaluated. Such is necessary so that they can participate on a level playing field, in the arenas where they are proven and known to provide equal or superior services as conventional resources.

[1] SCE Sep 30, page 3.

Much of the services and capacity value of renewable energy and Preferred Resources is well documented. The referenced potential reduction in 'overall effectiveness' does not need to occur, especially as we enter into a pivotal environment that includes the potential widespread integration of energy storage. The unlikely ineffectiveness of Preferred Resources to meet critical system reliability needs can be partially or entirely mitigated by strategic coupling with energy storage. Such coupling may allow Preferred Resources an advantage over conventional resources, due to their ability to provide the same needed system benefits with the addition of carbon reduction. Therefore, we urge the Commission in this Track of the LTPP and any future procurement planning to thoroughly evaluate Preferred Resources in the context of available energy storage. It is important to create an All Source Procurement methodology that treats all technologies, or combinations of technologies, as equal opportunities to provide the needed system benefits. Such analysis now changes the paradigm of what a Preferred Resource has the potential to be, and a holistic approach will reduce any potential ineffectiveness or chance of over-procurement of Preferred Resources. We agree with SDG&E's comments that CAISO's "determinations will be critical i[n] resolving the question of the availability of preferred resources to meet local capacity need."[2]

CAISO has issued its awaited white paper[3] on this subject on September 4, 2013, followed by interaction in their processes through the month. It is clear that CAISO is not prepared for a full consideration of Preferred Resources and Transmission in their current 2013-2014 TPP cycle, which is designed to inform the Commission. Such will not happen before their

[2] SDG&E Sep 30, Page 7.

[3] CAISO, "Consideration of alternatives to transmission or conventional generation to address local needs in the transmission planning process" (Sep. 4, 2013), p.4., as referenced by Sierra Club and other parties.

next cycle, so informed and vetted Preferred Resource and Transmission input will not be available from CAISO until likely late January 2015, at the earliest.

SCE has asked for an immediate approval of 500 MW of new GFG from this process to be combined with and supplement the Track 1 LTPP Decision. There is a clear indication that SCE believes further gas generation decisions can wait for several years. Doing so would allow CAISO to catch up and adequately inform the Commission, who could make a proper decision consistent with State Policy and Goals. Several Parties have suggested, we think correctly, that some of the retirement of OTC and other generators can likely be delayed, to allow proper time for the Commission to achieve State Goals in the best way. We suggest agreement with such an approach, as it is far better to suffer a few years of added GHG emissions from a few essential retiring facilities, than to suffer for 30 to 50 years of long term GHG emissions, in the LA Basin, or Southern California by prematurely selecting what are very likely to be not needed resources. Such can be avoided if the Commission and CAISO can work together with the rest of the Stakeholders, in an orderly and cost effective manner to make maximum and best use of the massive Preferred Resources that are already available, with more to come. A number of Parties recognize in their comments that Transmission and Energy Storage are very likely to enhance these existing and future available Preferred Resources to allow the State to meet its GHG Goals.

III. CAISO IS FOCUSED ON AVOIDING NEW TRANSMISSION, BUT NEW TRANSMISSION IS LIKELY ESSENTIAL TO MOST EFFECTIVELY INTEGRATE PREFERRED RESOURCES AND ENERGY STORAGE AT THE SCALE NEEDED TO MEET STATE GOALS.

CAISO clearly indicates that its analysis,[4] which is to be used to inform the Commission, has a primary objective of considering alternatives to new transmission or conventional

[4] CAISO, "Consideration of alternatives to transmission or conventional generation to address local needs in the transmission planning process" (Sep. 4, 2013), p.4., as referenced by Sierra Club and other parties.

generation in their transmission planning process. While such an objective has some merits, in its current application, it appears such an approach will cause the improper selection of GHG emitting resources, whereas large-scale Preferred Resources and Energy Storage should instead be selected. It is important to not have an over emphasis on smaller scale distributed generation and demand response, at the potential cost of avoiding efficient transmission upgrades that would help integrate and link large-scale cost-effective carbon-free renewables and bulk energy storage. In addition to distributed resources, it is the integration of carbon free energy and capacity at a substantial scale that will allow the State to meet its ambitious and critical environmental goals. The CAISO transmission planning process must support this goal, and properly and adequately inform the Commission so it can perform its role.

We believe that with a thorough and careful analysis, that modest transmission expansion will expand and better link the current weakly connected West LA Basin, Ventura-Big Creek, and parts of San Diego together into a stronger, larger LCA. This will allow far better integration of the massive Preferred Resources that geographically are very close, and create a substantially better, more cost effective result, and one that actually meets State Goals.

We clearly see a massive set of cost effective Preferred Resources and Energy Storage that would be centrally located, that would powerfully contribute to the reliability of a cost effective firm energy supply in this area that contains so much of California's Load. We must not forget the importance of a large, strong LCA, as we work hard to make maximum use of distributed resources, EE and DR, and energy storage to convert zero-carbon energy resources into a firm dispatchable energy and capacity supply. Our need for massive carbon free resources is great, if we are to meet State Goals. Effective Transmission Expansion planning must focus on playing a role in doing such, not in avoiding new transmission. This Commission must be

properly informed by all Parties, and we must work through to a strong, well vetted, timely result. We need an improved CAISO input, or some alternative, to achieve such, and it appears CAISO could do this in their next TPP cycle, but unfortunately not in the current one.

SCE appears to set a proper view of the real need, it has shown that with its Probabilistic analysis that very little resource is likely needed in this Track 4, and that judicious use of new transmission facilities will provide a substantially different and better result. The SCE approach needs to be expanded and focused, or wait for CAISO to do such studies.

IV. LTPP OVERLAP WITH ENERGY STORAGE PROCUREMENT

We acknowledge SCE's comments that the Commission "should not require SCE to accelerate its procurement of energy storage more quickly than established in the Energy Storage OIR Proposed Decision (PD) in an attempt to meet LCR need. On the other hand, because SONGS is now permanently closed, any Track 4 procurement authorization should allow for procured resources, including energy storage, to be available as soon as practical."[5] SCE should be able to procure appropriate Preferred Resources as the opportunity is appropriate. This proceeding should consider energy storage in its own context. Whereas the Energy Storage (ES) OIR PD seeks to achieve "Market Transformation" of particularly emerging technologies, it does not evaluate bulk energy storage from an optimized cost-effectiveness standpoint, and at the scale that is truly able to compete with conventional generation in the LTPP. Technologies that are able to compete directly with gas, such large-scale pumped hydro storage, have been excluded from the ES OIR PD, and the Commission has encouraged pumped hydro developers to seek procurement partnership with the utilities, particularly in the context of the LTPP. Any potential procurement in the LTPP should be undertaken in a manner that allows all technologies

[5] SCE Sep 30, Page 6

to compete on a level playing field with one another, cost-effectively, and with the sole focus of providing the needed system benefit as efficiently and sustainably as possible.

SDG&E notes, "given the Commission's action in the R.10-12-007, SDG&E submits that procurement of ES resources should occur through the separate process contemplated in the ES PD rather than through the supply-side RFO proposed in SDG&E's Track 4 Testimony."[6] While we agree that the procurement of certain technologies is best suited for the specific process created via the ES OIR PD, we do not agree that this should be too generally applied to all energy storage resources, and neither does the Commission in its ES Proposed Decision.

We strongly support the Commission's position in the recent Energy Storage OIR Proposed Decision, when they illustrate that "we encourage the utilities to consider pumped storage projects in all-source solicitations for new resources, and see no reason why the evaluation metrics and protocols developed in the context of the Storage Framework designed in this decision cannot be used as a basis to evaluate pumped storage projects in other proceedings or solicitations. We encourage the utilities to do so."[7] Furthermore, we strongly urge that the Commission follows through on the specific analysis and workshop of pumped hydro.

We agree with PG&E that "supports the Long-Term Procurement Plan (LTPP) proceeding as the appropriate forum to align with the Storage OIR for procurement authorization to satisfy need."[8] We also support the Commission's goal in the Storage OIR for Market Transformation of energy storage, and we hope that the same goal will result in a favorable outcome in the LTPP. Specifically, we would like to request that further to the Commission's support of large pumped hydro storage from the Storage OIR, that it is given the proper

[6] SDG&E Sep 30, Page 2.
[7] CPUC Energy Storage Proposed Decision (Rev.1), October 11, 2013, Page 34.
[8] PG&E Sep 30, Page 2.

consideration, analysis, and procurement process in the LTPP so that there is an adequate opportunity to compete with all other technologies that are able to cost-effectively meet the LCR requirements.

CalWEA makes an important point that "as the primary reliability concern is the ability to supply firm capacity in peak demand periods in the local area, we would expect multi-hour storage capability to be one of those attributes."[9] This is a critical distinction for why pumped storage must be given the analysis that it merits in the LTPP, due to its long-duration and time shifting capability of large quantities of carbon-free renewables, at the scale necessary to meet state GHG goals.

We appreciate PG&E's sentiment that "given the retirement of the San Onofre Nuclear Generation Station (SONGS) and the scheduled once-through cooling (OTC) retirements in southern California, time is of the essence and resources must be procured as quickly as possible."[10] We strongly agree that time is of the essence. However, we advocate that resources must be procured as effectively and thoughtfully as possible, *not* as quickly as possible. The Commission should evaluate all State Goals and System Requirements, and procurement should take place in a manner that fully capitalizes on the wide range of efficient technologies that are available for an unprecedented opportunity to create an All Source Procurement process that truly creates the Market Transformation that is possible.

There is a substantial amount of carbon free nuclear generating capacity being retired, as well as a substantial amount of OTC retirement. If California is to have any chance of reaching its low carbon potential, and meeting ARB emissions reductions goals of 80% reduction by 2050, resources must not be procured quickly, but strategically and thoughtfully. If this means

[9] CalWEA Sep 30, Page 5.
[10] PG&E Sep 30, Page 2.

that the retirement of some OTC plants is delayed, then this may be better than rushing to procure conventional gas generation that ultimately may fail to meet State ARB Emissions Goals.

In order to achieve an 80% reduction in emissions, it is critical that large-scale bulk energy storage (with carbon free renewables) be procured in the LTPP, far beyond what is called for in the Storage OIR. The last thing that California needs is more conventional resources that are later forced to retire because they are incapable of operating in a manner that meets adequate environmental regulation, such as SONGS and OTC plants. Such would create a huge stranded cost later down to the road, and be unfair to ratepayers. If there are options on the table now to increase the integration of large quantities of Preferred Resources, particularly through the coupling with large-scale energy storage, then such options must be fully analyzed and incorporated, quickly, before California is put on a destructive path and fails to meet critical State goals.

We strongly agree with CalWEA, "Track 4 presents a perfect opportunity to deploy needed and cost-effective storage resources." Furthermore, as opposed to proceeding too quickly towards procurement of additional carbon resources, we support CalWEA's position that "planning to extend the lives of OTC facilities by a few years, should that prove necessary, is potentially the most cost-effective means of providing an extra, optional, margin of time to enable the full potential of preferred and storage resources to be cost-effectively deployed to meet local reliability needs."[11]

[11] CalWEA Sep 30, Page 5.

V. CONCLUSION

We thank the Commission for consideration of these Comments. We look forward to collaborating further in this Proceeding to help facilitate a timely and meaningful framework for the successful creation of a long-term opportunity for bulk energy storage, specifically pumped hydro, and other cost effective energy storage solutions with increased penetration of zero carbon resources into the California energy mix. Only in this way will the State cost-effectively meet its stated Policies and Goals without an unnecessary and unfortunate retrenchment, and loss of such a promising future for the State.

Respectfully submitted,

/s/
Hal Romanowitz
CEO & Party Rep
ALTON ENERGY, INC.

/s/
Jonathan Word
Director of Strategic Operations
ALTON ENERGY, INC.

Date: October 14, 2013