

**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)

**TRACK 4 OPENING BRIEF OF PACIFIC GAS AND
ELECTRIC COMPANY (U 39 E)**

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**TRACK 4 OPENING BRIEF OF PACIFIC GAS AND
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Pursuant to the schedule set forth at page 2304 of the transcript in this proceeding, Pacific Gas and Electric Company (PG&E) provides its opening brief in Track 4 of this proceeding.^{1/}

The California Public Utilities Commission (CPUC or Commission) faces a challenging task in Track 4. It must develop a long-term procurement plan to ensure that local area reliability needs continue to be met in southern California in light of the sudden, unanticipated retirement of 2,246 megawatts (MW) of San Onofre Nuclear Generating Station (SONGS) generation capacity. This task is made all the more challenging because of the key role that the now-retired SONGS played in helping to maintain grid reliability in the face of critical contingencies that might occur. This is not a “business as usual” endeavor, and those who propose that the Commission’s response should be to do nothing, either indefinitely, or for several years, or even for several months, are underestimating the challenges that the Commission, the California Independent System Operator (CAISO), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and other stakeholders are facing to ensure that the grid continues to operate reliably in southern California over the next several years.

1/ Pursuant to the direction of the Administrative Law Judge in his November 4, 2013, e-mail re Briefing Instructions for LTPP Track 4, the attachment to this brief sets forth PG&E’s recommended Findings of Fact and Conclusions of Law.

CAISO, SCE, and SDG&E studies all highlight the critical role that SONGS was expected to play in meeting local reliability needs in southern California through at least 2022. All three studies suggest a local capacity requirements (LCR) shortfall approaching 5,000 MW, with significant shortfalls in the SDG&E area by 2018 and in the SCE area in the 2020 timeframe. Looking at local reliability in southern California across the entire region, there is significant need in 2018 after the Encina power plant retires at the end of 2017, and that need becomes substantially greater in the 2020 timeframe as the remaining once-through cooling (OTC) generation units reach their scheduled retirement dates.

Given that 2018 will be less than four years away when the Track 4 decision resulting from the just-concluded hearings is issued, that the development of significant amounts of new generation resources is likely to take several years, and that the development of new high voltage transmission is likely to take as much as eight to ten years, if not longer, time is of the essence, and the time to take action is now. Arguments for a “do nothing” approach should be rejected.

Specifically, in the upcoming Track 4 decision the Commission should adopt an identified, incremental LCR need of 5,070 MW in southern California. This amount is incremental to the resources identified in Attachment A, Track 4 Assumptions, to the May 21, 2013, Revised Scoping Ruling and Memo of the Assigned Commissioner and Assigned Administrative Law Judge (Revised Scoping Memo). The adopted incremental LCR need should not be artificially reduced by assuming that other not-yet-approved generation and transmission projects will come to fruition. When such projects are approved, determined by the Commission and the CAISO to effectively meet the identified need, and determined to be reasonably likely of completion in the necessary timeframe, then such projects should be counted toward meeting the adopted need.

Consistent with the analysis SCE presented in this proceeding, which is in general agreement with the analysis presented by the CAISO, the Commission should adopt an incremental LCR need for SCE of 3,300 MW of resources. Consistent with the analysis SDG&E presented in this proceeding, which is also in general agreement with the analysis presented by

the CAISO, the Commission should adopt an incremental LCR need for SDG&E of 1,770 MW of resources.

Turning from incremental need to procurement authorization, the Commission should authorize SCE to procure 3,300 MW of resources that are located in such a manner, and have the necessary operating characteristics, so that the procured resources are effective in meeting the identified incremental LCR need in southern California. SDG&E should be authorized to procure 1,770 effective MW of resources that are located in such a manner, and have the necessary operating characteristics, so that the procured resources are effective in meeting the identified incremental LCR needs in southern California.

When approved by the Commission, all incrementally procured resources that have been demonstrated to be effective in meeting the identified incremental LCR need including, but not limited to, resources procured in response to the Track 1 authorization and the Decision (D).13-03-029 authorization (including SDG&E's pending Pio Pico application (Application (A).13-06-015)), should be counted toward meeting that procurement authorization. Likewise, to the extent that transmission solutions are approved, verified to reduce local reliability needs without building new generation, and on track to be completed in the necessary timeframe, the need can also be met by those amounts.

As The Utility Reform Network (TURN) observes in its testimony, no party has presented any coherent, step-by-step plan that indicates how grid reliability in southern California is expected to be maintained over the next several years in light of the SONGS retirement and the upcoming retirements of a significant number of other OTC power plants. It would be helpful if such a plan is articulated as a part of Track 4, a plan that establishes concrete target dates for various resources to come on-line, whether preferred or gas-fired generation resources or transmission facilities, and articulates what the back-up/contingency plans are if those target dates are not met. It is difficult, if not impossible, based on the current record in this proceeding, to envision a year-by-year path of resource retirements and additions that can be expected to maintain grid reliability standards. A clear and concise timeline with milestones for

new resources coming online and decision points to move forward with contingency plans, if needed, would be useful.

As they did in Track 1, direct access (DA) providers and community choice aggregators (CCA) argue that the cost allocation mechanism (CAM) is not applicable for Track 4 resources. However, these parties have pointed to nothing that distinguishes the question of whether CAM should apply here from the question of whether CAM should have applied in Track 1. For the same reasons the Commission applied CAM in Track 1, it should also apply CAM for any resources procured as a result of Track 4.

I. THE COMMISSION SHOULD ADOPT AN INCREMENTAL TRACK 4 LCR NEED OF 5,070 MW FOR SOUTHERN CALIFORNIA

Based on the testimony presented by SCE and SDG&E, PG&E recommends that the Commission should adopt an incremental LCR need in southern California of 5,070 MW. The Commission should adopt an incremental need for SCE of 3,300 MW, and an incremental need for SDG&E of 1,770 MW.

A. The Commission Should Adopt An Incremental Track 4 LCR Need Of 3,300 MW For SCE

1. SCE's Analysis Indicates That Its Incremental Track 4 LCR Need Is 3,300 MW

The Commission should adopt a Track 4 incremental LCR need for SCE of 3,300 MW. This need is incremental to the resources identified in Attachment A, Track 4 Assumptions, to the Revised Scoping Memo.

PG&E's recommended incremental LCR need determination for SCE of 3,300 MW^{2/} is based directly on SCE's identified need recommendation. In its testimony, SCE states "SCE identified an overall need of 2,802 MW."^{3/} SCE goes on to state that "[a]n additional 500 MW (484 MW rounded to 500 MW) of new generation in the LA Basin above the need identified in

2/ PG&E-1, p. 1-2, ll. 22-23.

3/ SCE-1, p. 6, l. 22.

SCE's studies is needed to assure that sufficient resources are available to meet CAISO's expectations of need."^{4/} This recommendation is generally consistent with the results of the CAISO's analysis, which shows a need for 3,022 MW in the Los Angeles (LA) Basin by 2022.^{5/}

Thus, 3,300 MW should be adopted as SCE's Track 4 incremental LCR need.

2. The Track 4 Incremental LCR Need Adopted For SCE Should Not Be Reduced By The 1,400 – 1,800 MW Track 1 Procurement Authorization. These Resources Should Be Counted Toward Meeting The Identified Track 4 Need When SCE Obtains Approval To Procure Them And Demonstrates They Are Effective In Meeting The Track 4 Need

Consistent with the Track 4 assumptions established by the Revised Scoping Memo, the incremental LCR need identified by SCE and the CAISO does not assume that any of the resources authorized in Track 1 would meet the Track 4 need.^{6/} Thus, to the extent that the Track 1 resources procured by SCE are shown to be effective in meeting the LCR need identified in Track 4, the Track 1 resources should count toward meeting it.

However, the adopted Track 4 incremental LCR need should not be reduced at this time based on the Track 1 authorization, since there has not been any demonstration made at this time that the Track 1 resources will be effective in meeting the identified Track 4 LCR need. When SCE proposes and obtains approval of specific Track 1 projects, and demonstrates that they are effective in meeting the identified Track 4 incremental LCR need, then those projects should be counted toward helping to meet the Track 4 need at that time.

3. The Track 4 Incremental LCR Need Adopted For SCE Should Not Be Reduced In Anticipation of Conceptual Transmission Projects Such As The Mesa Loop-In Project

SCE argues that the Mesa Loop-In transmission project could help to "displace the need" for any additional new LCR resources beyond those procured pursuant to its Track 1

4/ SCE-1, p. 7, ll. 1-3.

5/ ISO-1, p. 24, Table 12.

6/ See, Revised Scoping Memo, Attachment A, p. 13.

authorization.^{7/} More specifically, SCE states that the Mesa Loop-In project reduces the need for local reliability resources in the LA Basin by 1,196 MW.^{8/} The Track 4 incremental LCR need adopted for SCE should not be reduced in anticipation of the Mesa Loop-In project.

As acknowledged by SCE in its testimony, this is a conceptual project.^{9/} It has not yet received CAISO approval. Nor has it been presented to the CPUC for approval.

Further, as SCE acknowledged in its testimony and as was discussed by SCE witness Silsbee on cross examination, the Mesa Loop-In project would only be able to reduce the in-basin need for resources by approximately 1,200 MW if an additional 500 – 600 MW of generation were added outside of the basin.^{10/}

In addition, the Mesa Loop-In project loses much of its value if “SDG&E load shed” is not assumed to be used to meet critical SDG&E contingencies.^{11/}

Beyond that, SCE notes that meeting local need via the Mesa Loop-In Project is a higher cost alternative.^{12/}

As a final point, transmission projects generally take many years to permit and construct. SCE acknowledges in its testimony that “siting additional high voltage transmission in an urban area is challenging.”^{13/}

Nonetheless, SCE asserts that the conceptual Mesa Loop-In project should be used to reduce identified need by 1,200 MW. The record here simply does not support that reduction at this time. Nothing in the record provides assurance that the Mesa Loop-In project will be approved by the CAISO and the Commission and constructed in time to meet the LCR need SCE recognizes in the 2020 timeframe.^{14/} When SCE obtains regulatory approval for the Mesa Loop-

7/ SCE-1, p. 3, ll. 1-12.

8/ SCE-1, p. 8, ll. 6-7.

9/ SCE-1, p. 28, Table III-3 l. 10.

10/ SCE-1, p. 8 fn. 8 (503 MW); p. 40, ll. 17-18 (600 MW); Tr. p. 2161, l. 22 – p. 2162, l. 28, Silsbee/SCE.

11/ SCE-1, p. 37, ll. 8-13.

12/ SCE-1, p. 42, Table IV-7.

13/ SCE-1, p. 17, ll. 4-5.

14/ SCE notes that “with SONGS now retired, the compliance dates for the OTC facilities in 2020 become significant milestones. While SCE has not studied the need for generation in 2020, . . .

In project and demonstrates that it is likely to be constructed within the necessary timeframe to address LCR needs in southern California, then it would be reasonable to count the Mesa Loop-In project toward meeting an appropriate amount of the identified need at that time. Absent such additional certainty and a decision regarding the appropriate mix of generation and transmission assets to meet SCE's identified LCR need, SCE's Track 4 LCR need should not be reduced in anticipation of the Mesa Loop-In conceptual transmission project.

4. The Track 4 Incremental LCR Need Adopted For SCE Should Not Be Reduced By 551 MW In Anticipation of Additional Preferred Resources Beyond Those Identified In The Revised Scoping Memo

SCE also argues that “strategically located Preferred Resources” could help to “displace the need” for any additional new LCR resources beyond those procured pursuant to its Track 1 authorization.^{15/} More specifically, SCE states that it assumed that construction of additional preferred resources, beyond those assumed in the Revised Scoping Memo, “results in 551 MW of effective reduction of LCR need.”^{16/} The Track 4 need adopted for SCE should not be reduced in anticipation of the construction of additional preferred resources.

As discussed above, it is premature to reduce SCE's adopted Track 4 need for yet-to-be-procured Track 1 resources. These resources should be counted toward the adopted Track 4 need only after they are presented to the Commission, are approved, and are demonstrated to be effective in meeting the Track 4 LCR need. This should apply equally to any preferred resources that SCE procures pursuant to its Track 1 authorization. The preferred resources should be counted toward meeting the adopted Track 4 need when SCE proposes and obtains approval for them, and demonstrates them to be effective in meeting the incremental Track 4 LCR need.

15/ the LCR need for 2020 is probably similar to the need in 2022.” SCE-1, p. 3, ll. 21-25.
SCE-1, p. 3, ll. 11-12.

16/ SCE-1, p. 11, l. 2.

B. The Commission Should Adopt An Incremental Track 4 LCR Need Of 1,770 MW For SDG&E

1. SDG&E's Analysis Indicates That Its Incremental Track 4 LCR Need Is 1,770 MW

The Commission should adopt a Track 4 incremental LCR need for SDG&E of 1,770 MW. As is the case with respect to PG&E's recommendation for SCE, this need is incremental to the resources identified in Track 4 assumptions put forth in the Revised Scoping Memo.

PG&E's recommended need determination for SDG&E of 1,770 MW^{17/} is based directly on the need that SDG&E identifies.^{18/} As SDG&E describes in comparing its results to the CAISO studies, "[t]he assumptions in the CAISO studies differ somewhat from the SDG&E studies, mainly due to the CAISO assuming that the generation identified in the Pio Pico application was a solution to the generation need, whereas the SDG&E analysis assumed these units in the base case rather than treating it as a solution to LCR need."^{19/} In other words, the 1,770 MW number presented in Table 3 of SDG&E-3^{20/} assumes the Pio Pico project is not in place while the 1,470 MW figure SDG&E also discusses assumes the Pio Pico project is already in place.

SDG&E describes the 1,770 MW (1,470 if Pio Pico were already in place) as "the minimum amount of generation required to meet the LCR need for the San Diego LCR sub-area, assuming no major transmission projects are approved to increase import capability into the San Diego load center."^{21/} This recommendation is generally consistent with the results of the CAISO's analysis, which shows a need for 1,485 MW in the San Diego area by 2022.^{22/}

17/ PG&E-1, p. 1-2, l. 23.

18/ SDG&E-3, p. 12, Table 3.

19/ SDG&E-3, p. 12, ll. 1-4.

20/ SDG&E-3, p. 12.

21/ SDG&E-3, p. 3, ll. 1-4.

22/ ISO-1, p. 24, Table 12. The CAISO presented two results, one of which assumes about 80 percent of the replacement resource development would be in the LA Basin (with the remaining 20 percent located in San Diego), and the other of which assumed about two-thirds of the replacement resource development would be in the LA Basin, and one-third in San Diego. (ISO-1 p. 24, l. 16 – p. 25, l. 2.) The lower overall need is associated with the two-thirds/one-third analysis (compare ISO-1, p. 23, Table 11, p. 23 to ISO-1, p. 24, Table 12), and that is the CAISO result that PG&E is comparing to the SDG&E analysis.

Thus, 1,770 MW should be adopted as SDG&E's Track 4 incremental LCR need.

2. The Track 4 Incremental LCR Need Adopted For SDG&E Should Not Be Reduced By The 298 MW Procurement Authorization In D.13-03-029, Or By The 300 MW Proposed Pio Pico Project. These Resources Should Be Counted Toward Meeting The Identified Track 4 Need When SDG&E Obtains Approval To Procure Them And Demonstrates They Are Effective In Meeting The Track 4 Need

Consistent with the Track 4 assumptions established by the Revised Scoping Memo, the incremental LCR need identified by the CAISO does not assume that the 298 MW of resources authorized in D.13-03-029 would meet the Track 4 need.^{23/} However, as described above, in its analysis SDG&E assumed the Pio Pico resources were in place in its base case. PG&E's 1,770 MW recommendation does not assume that the Pio Rico resources are in place. Thus, to the extent that the D.13-03-029 resources procured by SDG&E, whether Pio Pico or some other resources, are approved and demonstrated to be effective in meeting the LCR need identified in Track 4, these resources should count toward the adopted Track 4 need.

However, the adopted Track 4 incremental LCR need should not be reduced at this time based on the 298 MW D.13-03-029 authorization or the pending Pio Pico application since there has not been any demonstration that the these resources will be effective in meeting the identified Track 4 LCR need. When SDG&E obtains approval of the Pio Pico project and demonstrates that it is effective in meeting the identified Track 4 incremental LCR need, then it should be counted toward helping to meet the Track 4 need at that time.

3. The Track 4 Need Adopted For SDG&E Should Not Be Reduced In Anticipation of Conceptual Transmission Projects Such As The Imperial Valley – SONGS Regional Transmission Project Or The Devers – NCGen Regional Transmission Project

SDG&E presents a range of need estimates in its testimony. The 1,770 MW figure recommended by PG&E (1,470 MW assuming that the Pio Pico projects is already in place, as SDG&E does throughout most of its testimony) assumes no significant regional transmission

^{23/} See, Revised Scoping Memo, Attachment A, p. 13.

projects. SDG&E observes that the Imperial – SONGS regional transmission project would reduce SDG&E need by 850 MW,^{24/} and that the Devers – NCGen regional transmission project would reduce SDG&E LCR need by 650 MW.^{25/}

As acknowledged by SDG&E in its testimony, both of these regional transmission projects are conceptual.^{26/} Neither has received CAISO approval. Nor have they been presented to the Commission for approval.

Transmission projects generally take many years, eight to ten or more, to permit and construct.^{27/} Further, SDG&E already has significant LCR need in 2018.^{28/} Nothing in the record suggests that the regional transmission projects analyzed by SDG&E will be approved by the CAISO, will have obtained the necessary permits, and be constructed in time to meet the local need seen for SDG&E by 2018. Therefore, SDG&E's Track 4 LCR need should not be reduced in anticipation of either the Imperial – SONGS or the Devers – NCGen conceptual transmission projects.

C. The Commission Should Not Delay Its Determination Of The Incremental LCR Need In Southern California To Wait On The Outcome Of The CAISO's Current Transmission Planning Process

Some parties suggest that the Commission should wait on the outcome of the CAISO's current transmission planning process (TPP) before moving forward with its Track 4 decision.^{29/} These proposals for delay should be rejected. Little additional certainty will be provided regarding whether, or when, the transmission projects discussed by SCE and SDG&E will ultimately be built. Time is of the essence. As PG&E described in its rebuttal testimony

Timing is critical to ensure that there will be sufficient time for SCE and SDG&E to develop their respective procurement plans and initiate their respective procurement processes so that new

24/ SDG&E-3, p. 13, l. 7.

25/ SDG&E-3, p. 13, l. 18.

26/ SDG&E-3, p. 13, ll. 2, 12.

27/ Tr, p. 1785, ll. 20-22, Jontry/SDG&E.

28/ See, ISO-1, p. 24, Table 12.

29/ See, e.g., CEERT-1, p. II-6, ll. 18-22.

generation can be built by 2018 and 2022, which are the time periods under consideration in Track 4 of this proceeding. Suggestions for further analysis and delay fail to recognize the immediate need in southern California.^{30/}

The Track 4 decision based on these hearings should not be anticipated to be the Commission's last word on local reliability issues in southern California. At some point, the development of one or more of the discussed transmission projects may gain sufficient certainty so that they can be reasonably relied on to meet a portion of the need for LCR resources in southern California. However, there is not sufficient certainty at this time, nor will there be in the next few months regardless of the outcome of the current CAISO TPP, for the Commission to be able to rely on the timely construction of these conceptual transmission projects to maintain the reliability of the southern portion of the CAISO grid. The determination of LCR need should not be delayed to wait on the outcome of the current CAISO TPP.

D. The Commission Should Reject The Proposals To Assume That Southern California LCR Needs Will Be Met Without Further Action, Based On Hoped-For Development Of Additional Preferred Resources

Other parties argue that additional preferred resources, resources above and beyond those reflected in the Track 4 assumptions put forth in the Revised Scoping Memo, will substantially reduce or completely eliminate the LCR need in southern California, and on that basis argue that the Commission should determine that there is no incremental Track 4 LCR need in southern California.^{31/}

The recommendations to reduce or eliminate the incremental LCR need based on presumed development of substantial additional preferred resources should be rejected. The first step should be to identify the incremental need that must be met. Then, as specific resources are approved that are sited in the necessary locations and have the required operating attributes to contribute to meeting the identified need, those resources should be counted toward meeting the identified need.

30/ PG&E-2, p. 3, ll.1-7.

31/ *See, e.g.*, CEJA-1, Section III, pp. 14-18, 20-28.

As PG&E made clear in its testimony, PG&E supports the use of preferred resources, if feasible and reasonable, to meet the identified LCR need.

PG&E recommends that the multi-prong approach [that PG&E is urging the Commission to adopt] include a technology-neutral selection of preferred and non-preferred alternatives The technology-neutral selection of alternatives should follow selection criteria that consider the feasibility, cost, benefits, and timing of the alternatives available to meet southern California's local reliability needs.^{32/}

But the Commission should not simply assume, at this stage, that these resources will materialize, located in the right places and having the necessary operational attributes. The Commission should recognize that until and unless the hoped-for resources develop in the right places with the right attributes, there is an unmet need that leaves the CAISO grid in southern California in a potentially vulnerable, unreliable state.

II. THE COMMISSION SHOULD AUTHORIZE SCE AND SDG&E TO PROCURE 5,070 MW IN TOTAL OF INCREMENTAL RESOURCES IN THIS TRACK OF THE LONG-TERM PROCUREMENT PLAN PROCEEDING

A. SCE And SDG&E Should Each Be Authorized To Procure To Meet The Incremental LCR Need That Has Been Identified In This Track Of The Proceeding

As discussed above, PG&E recommends that the Commission adopt, in this track of the LTTP proceeding, an incremental LCR need for SCE of 3,300 MW, and for SDG&E of 1,770 MW. Unless resources are developed to address this identified LCR need in the immediate future, the reliability of the CAISO grid in southern California will be significantly compromised.

Because resources must be developed in the immediate future in order to maintain grid reliability, the Commission should authorize SCE to procure its full 3,300 MW of incremental LCR need, and authorize SDG&E to procure its full 1,770 MW of incremental LCR need.

As TURN pointed out in its testimony, there is no “silver bullet” to addressing the local

32/ PG&E-2, p. 2, ll. 1-7.

reliability needs in southern California.^{33/} The Commission should not view the authorization it provides here as the last word it will have on southern California reliability matters. Rather, in a sense, this is the first step in a journey that began, or at least became much more urgent, when SONGS was retired.

The first step should be to identify the full scope of the challenge by identifying 5,070 MW of incremental LCR need in southern California, and the next should be to give SCE and SDG&E the capability to begin to address that full scope by authorizing each of them to procure to meet its full incremental need, 3,300 MW for SCE and 1,770 MW for SDG&E.

B. SCE's And SDG&E's Procurement Authorizations Should Not Be Reduced At This Time Due To The Commission's Authorizations In Track 1 And D.13-03-029, Or Due To SDG&E's Current Pio Pico Application

PG&E urges the Commission to provide authorization to SCE and SDG&E to address the full scope of the LCR needs in southern California. While it may be reasonable to expect that any resources SCE procures pursuant to its Track 1 authorization will be effective in meeting the identified Track 4 needs, the Commission should not make that assumption at this time. Instead, when SCE puts forward specific Track 1 projects for approval it should demonstrate the project's effectiveness in meeting Track 4 needs. At that time, the Commission can make the determination of how much of SCE's Track 4 need remains to be met.

Similarly, the Commission should not assume that all resources that SDG&E procures pursuant to D.13-03-029 are effective in meeting the identified Track 4 needs. Instead, when SDG&E puts forward specific projects, such as the Pio Pico project, for approval, it should demonstrate the project's effectiveness in meeting Track 4 needs. At that time the Commission can make the determination of how much of SDG&E's Track 4 need remains to be met.

C. SCE's And SDG&E's Procurement Authorizations Should Not Be Reduced At This Time Because Of Conceptual Transmission Projects

SCE and SDG&E have each described significant high-voltage transmission projects that

33/ TURN-1, p. 4.

would, if put into place, reduce their respective LCR need. However, at this point the record does not support a conclusion that any of these projects will come to fruition.

Further, even if one or more of the transmission projects described by SCE and SDG&E might ultimately be built, the record does not support the conclusion that they would be operational in the timeframe required to meet SCE's and SDG&E's LCR needs.

Therefore, neither SCE's nor SDG&E's procurement authorizations should be limited at this time based on an assumption, which would be completely unsupported by the record, that one or more of these projects will be operational in time to address the southern California LCR need that has been identified in this track of the proceeding. If and when the reality of these projects and their timing becomes more certain, and one or more of them can be demonstrated to be part of a realistic plan that maintains grid reliability in southern California within the timeframe required, then SCE's and SDG&E's Track 4 procurement authority should be reduced accordingly.

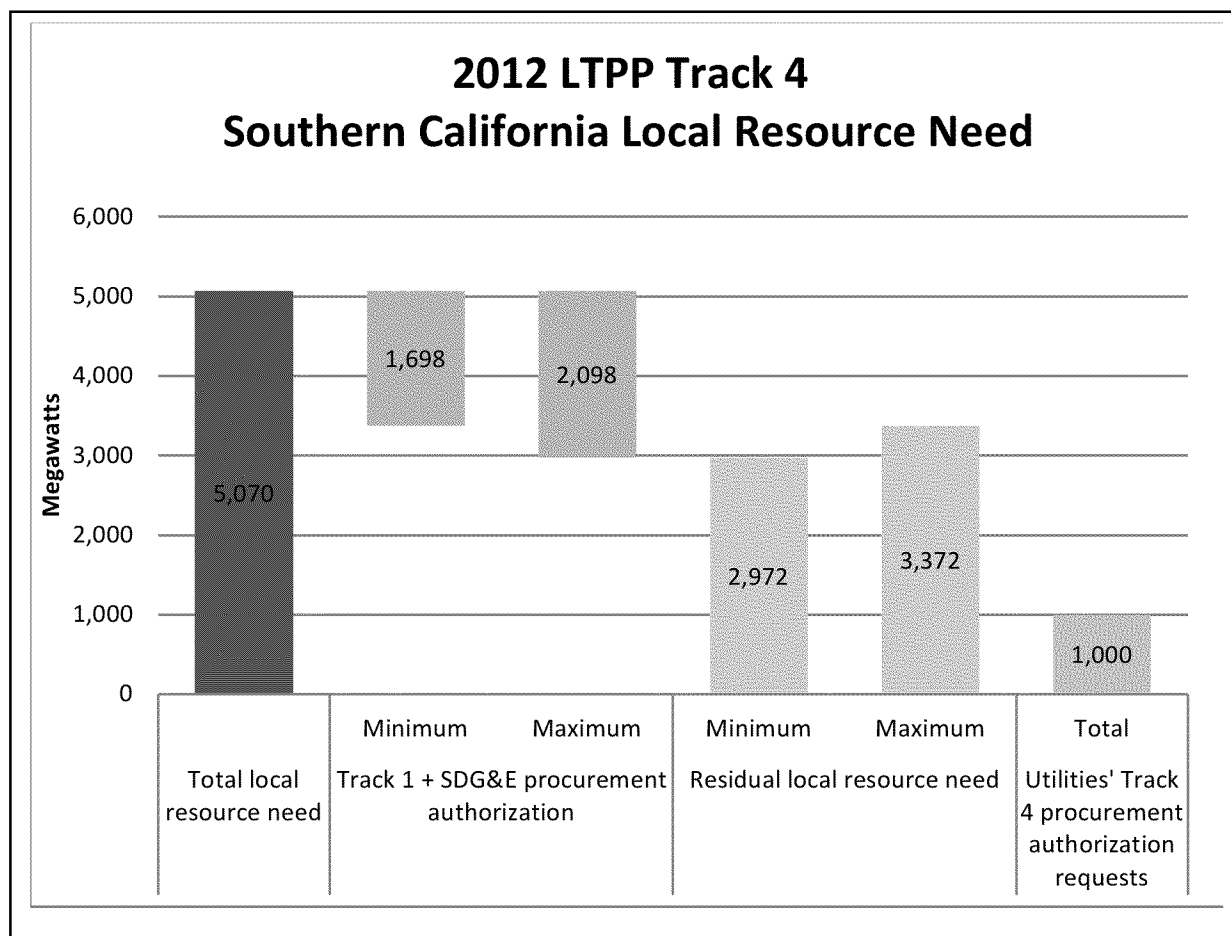
D. SCE's And SDG&E's Procurement Authorization Requests, Totaling 1,000 MW, Are Too Low In Light Of The Demonstrated 5,070 MW Of Incremental LCR Need Facing Southern California In The Immediate Future

While SCE and SDG&E have each recognized that the circumstances they face dictate some procurement authorization as a result of this proceeding, their proposals are too tentative. Each utility requests authorization to procure 500 MW, for a total of 1,000 MW.^{34/} However, as the chart below graphically illustrates, these requests are too low in light of the demonstrated incremental LCR need. Even if one were to assume that the 1400 – 1800 MW authorization SCE received in Track 1 and the 298 MW authorization SDG&E received in D.13-03-029 result in procured resources that are 100 percent effective to meet the Track 4 incremental LCR need, that would still leave an unfulfilled need of a shortfall ranging between 2,972 MW and 3,372 MW. This remaining Track 4 incremental LCR need, assuming that all of the Track 1 and D.13-03-029 authorizations are filled and are effective in meeting Track 4 need, far exceeds the total

34/ SCE-1, p. 3, ll. 14-16; SDG&E-1, p. 5, ll. 1-5.

authorization amounts requested by SCE and SDG&E.

Chart 1
Local Resource Need in Southern California Without SONGS



SCE and SDG&E should be authorized to procure to meet their respective full Track 4 incremental LCR needs, 3,300 MW for SCE and 1,770 MW for SDG&E. When SCE and SDG&E obtain approval for specific projects associated with Track 1 and D.13-03-029 and demonstrate that those approved projects will effectively meet the incremental need identified in Track 4, then those MW should be counted toward meeting the Track 4 incremental LCR need.

E. SCE And SDG&E's Procurement Authorizations Should Not Be Delayed Pending Outcome Of The CAISO's Current Transmission Planning Process

The Track 4 decision cannot be anticipated to be the Commission's last word on local

reliability issues in southern California. At some point in the future the development of one or more of the discussed transmission projects may gain sufficient certainty so that SCE and SDG&E's procurement authorization should be reduced at that time. However, there is not sufficient certainty at this time, nor will there be in the next few months regardless of the outcome of the current CAISO TPP, to determine that these projects will be in place in a timely fashion to help meet the incremental LCR needs in southern California. Therefore, SCE and SDG&E's procurement authorizations should not be delayed pending the outcome of the CAISO's current TPP.

F. SCE's And SDG&E's Procurement Authorizations Should Not Be Reduced At This Time Based On The Assumed Procurement Of Additional Preferred Resources

The procurement authorization should reflect the level of resources that are needed, based on this record, to be procured to meet the identified incremental LCR need. The question of whether some or all of this procurement should be met with preferred resources is separate from the question of what overall level of resources should be procured.

From PG&E's perspective, it should not be inferred that the procurement authorization adopted here should be limited to gas-fired resources. Neither SCE nor SDG&E proposes to limit the types of resources to be procured under the procurement authorization provided in this track. SCE proposes that its authorized procurement be "sourced from any technology, provided the procurement is demonstrated to be consistent with the Preferred Loading Order."^{35/} SDG&E proposes that it be authorized to move forward to procure a mix of resources including energy efficiency, demand response, and supply-side resources including renewable resources, energy storage, and conventional resources.^{36/} PG&E supports these approaches, recommending a technology-neutral selection of preferred and non-preferred alternatives.^{37/}

In short, the procurement authorization adopted here should not be reduced by some

35/ SCE-1, p. 55, ll. 17-18.

36/ SDG&E-1, pp. 4-5.

37/ PG&E-2, p. 2, ll. 1-2.

assumed level of incremental preferred resource procurement beyond the level assumed in the Revised Scoping Memo. The procurement authorization should reflect the identified need, and preferred resources should be eligible to help meet that need.

III. A DEFINITIVE TIMELINE, WITH MILESTONES, SHOULD BE DEVELOPED FOR ADDRESSING THE SOUTHERN CALIFORNIA LCR NEED

As the preceding sections of this brief illustrate, a number of variables and uncertainties confront the Commission, the CAISO, SCE, and SDG&E as they address the incremental southern California LCR needs in light of the SONGS retirement as well as other anticipated resource retirements in southern California over the next several years. There are a number of moving parts, and it is not clear at this time how they will all fit together in the end.

As the preceding sections of this brief also illustrate, the Commission, the CAISO, SCE, and SDG&E do not have the luxury of simply waiting to act until more information becomes available. Lead times for construction of new generation and transmission resources are already reaching to, or beyond, the point where additional resources are needed to be on-line.

In light of this, PG&E recommends that a more definitive timeline be developed, with milestones, showing when the selected alternatives should be operationally available.^{38/} There has been insufficient information to date to develop such a timeline, but the development of such a timeline with milestones for new resources coming online and decision points to move forward with contingency plans if needed would help to illuminate the path forward, and may help to emphasize the challenges ahead in maintaining the reliability of the southern California component of the CAISO grid.

As TURN states, over the next few years the Commission will need to incrementally choose from a series of competing measures to gradually meet the LCR needs in southern California.^{39/} PG&E echoes TURN's thought, but would expand the focus of that thought

38/ PG&E-2, p. 2, ll. 3-5.

39/ TURN-1, p. 4, l. 27 – p. 5, l. 2.

beyond the Commission to include others, as well. The Commission, the CAISO, SCE, and SDG&E will all need to work together over the next few years to choose from a series of competing measures to meet the local reliability needs in southern California. There is enough information here to establish the scope of the challenge, 5,070 MW of incremental LCR need, and to give SCE and SDG&E the necessary procurement authority, 3,300 MW for SCE and 1,770 MW for SDG&E, to address that incremental LCR need. However, there is not enough information at this time to clearly see the path that ensures continued CAISO grid reliability in southern California over the next decade.

The development of a detailed timeline will help to inform the Commission, the CAISO, SCE, SDG&E, and all of the other interested parties in this proceeding regarding whether the ongoing, multi-year effort to address reliability needs in southern California is on track.

IV. CONSISTENT WITH THE TRACK 1 DECISION, THE COST ALLOCATION MECHANISM SHOULD BE APPLIED TO RESOURCES AUTHORIZED TO BE PROCURED IN TRACK 4

In Track 1 of this proceeding the Commission authorized use of the CAM to allocate the net capacity costs of new resources, stating

Section 365.1(c)(2)(A)-(B) holds that in instances when the Commission determines that new generation is needed to meet local or system area reliability needs for the benefit of all customers in the IOU's service area, the net capacity costs for the new capacity shall be allocated in a fair and equitable manner to all benefiting customers, including DA, CCA and bundled load. Simply put, each customer must pay their fair share for the benefits that flow to them from the new generation for the full life of the asset.^{40/}

The Alliance for Retail Energy Markets and the Direct Access Consumer Coalition (AReM/DACC) and the Western Power Trading Forum (WPTF) propose that CAM should not

40/ D.13-02-015, p. 106 (footnote omitted).

be applied in Track 4.^{41/} However, AReM/DACC provides no compelling reason why the cited legislation is not applicable. AReM/DACC points to the fact that SONGS is being retired,^{42/} but that fact does not distinguish Track 4 from Track 1. The retirement of OTC units is an important factor in both tracks. For its part, WPTF simply endorses AReM/DACC's testimony, and provides no arguments beyond those raised by AReM/DACC.^{43/}

As PG&E notes in its testimony, "AReM, DACC and WPTF confuse the issue at hand, which is long-term local capacity needs, with unrelated discussions of bundled procurement and short-term resource adequacy (RA)."^{44/} Consistent with what the purpose was in Track 1, the purpose of Track 4 is to identify whether new generation is needed to meet local area reliability needs in southern California. Thus, consistent with the statute and the Track 1 decision, CAM should be applied to new generation resources procured pursuant to any Track 4 authorization.

V. CONCLUSION

The Track 4 decision resulting from the just-concluded hearings should adopt an incremental LCR need of 5,070 MW for southern California, consisting of 3,300 MW for SCE and 1,770 MW for SDG&E.

The Track 4 decision should authorize SCE to procure 3,300 MW to meet the identified incremental LCR need in the LA Basin, and should authorize SDG&E to procure 1,770 MW to meet the identified incremental LCR need in the San Diego area.

A definitive timeline, with milestones, should be developed for addressing the southern California LCR need in order to help inform all participants to the Long-Term Procurement Plan process of whether SCE and SDG&E's efforts to obtain resources to maintain CAISO grid reliability in southern California remain on track.

41/ DACC-1, p. 2, ll. 10-11; WPTF-1, p. 13.

42/ DACC-1, p. 4, ll. 10-18.

43/ WPTF-1, p. 13.

44/ PG&E-2, p. 6, ll. 12-14.

Consistent with statute and the Commission's decision in Track 1, the CAM should be applied to allocate the net capacity costs of new generation procured pursuant to the Track 4 authorization to all benefitting customers in SCE's and SDG&E's service areas.

Respectfully Submitted,

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ATTACHMENT

Proposed Findings Of Fact And Conclusions Of Law

Proposed Findings of Fact

1. There is a significant need for LCR resources in light of retiring OTC units and the retirement of SONGS.
2. Taken together, the analysis presented by the CAISO, SCE, and SDG&E shows an incremental LCR need for southern California of 5,070 MW, not taking into account any resources procured pursuant to authorizations in D.13-02-015 and D.13-03-029.
3. There is an immediate need to begin an SCE procurement process to meet 3,300 MW of LCR need in the LA Basin, an additional amount of 1,500 MW to 1,900 MW above the procurement authorization in D.13-02-015
4. There is an immediate need to begin an SDG&E procurement process to meet 1,770 MW of need in the San Diego sub-area, 1,472 MW above the procurement authorization in D.13-03-029.
5. The CAM in effect today was established in D.06-07-029 and refined in D.07-09-004, D.08-09-012, and D.11-05-005.

Proposed Conclusions of Law

1. The record in this proceeding supports outcomes which enable the Commission to meet statutory requirements and policy goals with regard to reliability, ratepayer costs, and environmental protection, as well as to require the procurement of sufficient levels of diverse resources in a timely manner.
2. SCE should be required to procure 3,300 MW of resources in the LA basin local reliability area that is effective to meet the LCR need identified in Track 4, an additional amount of 1,500 MW to 1,900 MW above the procurement authorization in D.13-02-015.
3. The resources SCE procures pursuant to the procurement authorization in D.13-02-015 should only be counted toward the 3,300 MW procurement authorization

adopted here to the extent that SCE demonstrates that they are effective in meeting the LCR need identified in Track 4.

4. SDG&E should be required to procure 1,770 MW of resources in the San Diego local reliability area that is effective to meet the LCR need identified in Track 4, an additional amount of 1,472 MW above the procurement authorization in D.13-03-029.
5. The resources SDG&E procures pursuant to the procurement authorization in D.13-03-029 should only be counted toward the 1,770 MW procurement authorization adopted here to the extent that SDG&E demonstrates that they are effective in meeting the LCR need identified in Track 4.
6. If any extensions to the OTC closure deadlines occur, this can be taken into account in future procurement proceedings or in a review of a procurement application by SCE or SDG&E, as appropriate.
7. The CAM established in D.06-07-029 and refined in D.07-09-004, D.08-09-012, and D.11-05-005 remains reasonable for application in this proceeding without modification, and is fair and equitable as required by Section 365.1(c)(2)(A)-(B).