

**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 BRIEF OF THE UTILITY REFORM NETWORK
ON TRACK 4 ISSUES**



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I. INTRODUCTION

In accordance with Rule 13.11 of the Commission’s Rules of Practice and Procedure, The Utility Reform Network (“TURN”) submits this Reply Brief on the Track 4 issues related to the retirement of the San Onofre Nuclear Generating Station (“SONGS”). TURN focuses its Reply Brief on arguments certain parties raised in their Opening Briefs that are at odds with TURN’s positions in this case, as expressed in its Opening Brief¹ and the Prepared Testimony (opening and rebuttal) of TURN’s expert witness, Kevin Woodruff.²

II. THE COMMISSION SHOULD AUTHORIZE UTILITIES TO PROCURE UP TO 500 MW OF NEW LOCAL RESOURCES ON AN ‘ALL SOURCE’ BASIS

As stated in TURN’s Opening Brief, TURN generally supports the separate requests of Southern California Edison (“SCE”) and San Diego Gas & Electric (“SDG&E”) for authorization to procure no more than 500 MW, $\pm 10\%$, on an “all source” basis to meet local reliability needs in their service territories, with the caveat that should the Commission find that need in a local area is less than 500 MW, it should only authorize procurement to meet this lower need in that local area.³ As explained in its Opening Brief, TURN makes this recommendation because it believes some procurement will almost certainly be necessary to meet local needs, but that a rush to procure all potential needs should be deferred due to the substantial uncertainties surrounding such needs and means for meeting them.⁴ TURN thus urges the Commission to reject calls for “more procurement now” and wait instead until such issues can be further clarified by future events such as the California Independent System Operator’s (“CAISO’s”)

¹ Opening Brief of The Utility Reform Network on Track 4 Issues, November 25, 2013 (“TURN Opening Brief”). For convenience, TURN will cite all briefs other parties filed in this case on November 25 as simply “Opening Briefs” without repeating their exact titles.

² Mr. Woodruff’s opening testimony is Exhibit (Ex.) TURN-1 and his rebuttal testimony is Ex. TURN-2.

³ TURN Opening Brief, p. 2 and 4-5. As noted therein, SDG&E requested authority to procure a range of 500 to 550 MW of resources.

⁴ *Id.*

publication of its *2013-2014 Transmission Plan*, the results of SCE's current Local Capacity Requirements Request for Offers (which SCE issued pursuant to the Track 1 decision in this docket),⁵ and updates to planning assumptions for the Commission's next Long-Term Procurement Plan proceeding.

Pacific Gas and Electric's ("PG&E's") call for SCE and SDG&E to be given authorizations to procure over 5,000 MW of capacity merits specific reply, both because of its magnitude and PG&E's citation of TURN's testimony in supposed support of its position.⁶ TURN does not object to the Commission developing a "definitive timeline" for revisiting such needs and progress towards meeting them, as PG&E suggests.⁷ But TURN does not believe that SCE and SDG&E should begin efforts to procure capacity to meet *all* such needs at this time, as PG&E's recommendation seems to imply. The inertia created by such a large procurement effort could overwhelm future need analyses and other transmission or resource development efforts; the result could be that SCE and SDG&E meet a need figure that is too high and/or meet such needs with only gas-fired generation. Even the Independent Energy Producers (IEP), a trade group advocating for gas-fired generators in this case, reduced its recommended "no regrets" procurement targets to reflect the local reliability benefits of potential utility transmission projects.⁸

⁵ D.13-02-015.

⁶ PG&E Opening Brief, pp. 3 and 12.

⁷ *Id.*, pp. 17-18.

⁸ IEP Opening Brief, pp. 30 and 32.

III. THE COMMISSION SHOULD NOT AT THIS TIME AUTHORIZE ANY PROCUREMENT BASED ON THE ASSUMPTION THAT LOAD SHEDDING SHOULD NOT BE USED TO MITIGATE THE N-1-1 CONTINGENCY DRIVING LOCAL NEEDS

For reasons stated in TURN’s Opening Brief, TURN still believes the Commission should explicitly decline to authorize procurement of resources to meet a finding of need that is dependent on the assumption that “load shedding” may not be used to mitigate the N-1-1 “Sunrise/SWPL” contingency that drives need in both the Western LA Basin (“LA Basin”) and San Diego Local Reliability Areas (“LRAs”).⁹ Rather, the Commission should defer any resource authorization based on this remote possibility until a thorough benefit-cost analysis is completed and the CAISO’s coming stakeholder process on this issue is concluded.¹⁰ TURN offers the following responses to some arguments parties raised against considering “load shedding” as a measure to mitigate the N-1-1 contingency.

A. The Issue Being Addressed in this Docket Is Whether It Makes More Sense to Use Controlled Load Shedding to Address a Remote Contingency Rather Than to Require Ratepayers to Pay for Additional Resources

As TURN anticipated, at least one party used overheated rhetoric to frame the issue of whether load shedding should be a potential option to mitigate the N-1-1 contingency.¹¹ Specifically, IEP inflated the real issue in this case by using rhetorical tactics such as labeling

⁹ “Sunrise” refers to the Sunrise Powerlink transmission line and “SWPL” refers to the Southwest Powerlink transmission line. Both lines are owned by SDG&E.

¹⁰ TURN Opening Brief, pp. 2-3 and 5-17. In its Opening Brief (p. 25), the CAISO reiterated its intention to address its planning standards in a stakeholder process in early 2014, presumably in recognition of the fact that the CAISO Board of Governors has not adopted the staff’s load shedding approach that the CAISO is advocating in this docket.

¹¹ *Id.*, p. 17.

some parties as “proponents of blackouts” and calling the consideration of load shedding a “radical proposal” followed by “third-world countries.”¹²

TURN is confident the Commission will see through IEP’s rhetoric. But TURN will take the opportunity IEP has provided to frame the dispute over load shedding in this docket in more balanced terms. First, despite IEP’s argument, the term “blackout” is not synonymous with “load shedding” or “dropping firm load.”¹³ Rather, load shedding is a subset of the broader set of all service interruptions or outages; in particular, load shedding is a specific type of outage and is performed in a controlled manner in the interests of system reliability.¹⁴ Other types of outages also include blackouts, a term which generally connotes uncontrolled and unplanned service interruptions, which are quite different from load shedding.

Further, all parties recognize the negative consequences of outages, whether controlled or uncontrolled, and wish to minimize them. But all parties also recognize that outages of either sort are inevitable. *Further, under the CAISO’s planning criteria, both controlled and uncontrolled outages are acceptable outcomes in response to certain highly-unlikely, highly-stressed system conditions.*¹⁵ That is, neither the CAISO planning standards nor any other system planning standards TURN knows of propose that systems be planned such that outages will never happen. A key implication of this recognition of outages as an acceptable result of

¹² IEP Opening Brief, pp. 18-19. As TURN noted in its Opening Brief (p. 17) and below, the Commission has previously accepted the risk of load shedding in approving the environmentally-preferred Southern route for the Sunrise Powerlink. IEP and others might have a different opinion, but TURN does not believe that this decision means the Commission is a “proponent of blackouts” or is presiding over a “third-world” grid.

¹³ IEP Opening Brief, p. 2.

¹⁴ Ex. TURN x SDG&E-1 and RT, pp. 1741:9-1742_5 (Jontry, SDG&E).

¹⁵ Ex. TURN-1, Appendix A, Attachment A-1 (Table 1, North American Reliability Corporation Standard TPL-003-0b, “System Disturbance Following Loss of Two or More BES”).

some extreme system conditions is that customers are not expected to support investments designed to eliminate all plausible causes of outages.

Since everyone opposes outages but everyone also accepts them as a necessary contingency, the issue in this docket is thus not “blackouts” versus “no blackouts”. The issue is whether controlled load shedding or an investment in additional resources is the better means for managing a very specific set of system conditions. As cited above, TURN believes that a full benefit-cost analysis would likely show that the costs of the last incremental investment needed to avoid the use of load shedding to mitigate the N-1-1 contingency would exceed the benefits customers would receive by avoiding such an event. In fact, in both its testimony and its Opening Brief, IEP appeared to recognize the value of benefit-cost analysis of load shedding.¹⁶ The Commission should thus ignore the rhetoric of IEP’s brief and focus instead on the specific system planning issue in this case: whether load shedding is an acceptable means of mitigating the Sunrise/SWPL contingency that is driving local reliability needs in the SCE and SDG&E service territories.

B. Parties’ Arguments that the Commission Should Follow the CAISO’s Lead Fail to Recognize the Commission’s Role in Balancing Customers’ Benefits and Costs

Several parties, including SCE, SDG&E and AES , argue that the Commission should accept the CAISO staff’s assumption that load shedding should not be used to mitigate the N-1-1 contingency as a given, generally invoking the CAISO’s role as the state’s electricity reliability agency.¹⁷

¹⁶ Ex. IEP-2, 14:9-16:12 and IEP Opening Brief, pp. 12-17.

¹⁷ See, for examples, SCE’s Opening Brief, pp. 19-20, SDG&E’s Opening Brief, pp. 26-27, and AES’s Opening Brief, pp. 14-15.

However, as TURN noted, the Commission has responsibility for balancing the benefits and costs of various reliability measures on behalf of the IOUs' customers. In this vein, the Commission has previously said, specifically with regard to local capacity requirements, that it would not adopt a policy of "reliability at any cost."¹⁸ The Commission should continue to exercise its judgment about the balance between reliability benefits and the associated costs.

C. Length and Passion of Arguments against Load Shedding are No Substitute for a Careful Balancing of Benefits and Costs to Customers

Several parties offered detailed qualitative arguments against the assumption that load shedding should be considered as a mitigation for the N-1-1 contingency.¹⁹ As noted above, no one likes or advocates blackouts, and TURN is not dismissing these parties' concerns about the negative impacts of load shedding or other outages. But as with IEP's "blackout" rhetoric, the Commission should not be persuaded to reject the possibility of using load shedding to manage the critical N-1-1 contingency by considering these "parades of horrors" out of the broader context. As noted above, under current planning criteria, customers are not expected to make the investments necessary to avoid all plausible interruptions of service. The issue in this case is whether outages should be implemented on a controlled basis to mitigate the impacts of an unlikely contingency event. And the limited quantitative evidence in the record suggests that the investments needed to eliminate the planned use of load shedding are not cost-effective for customers.

TURN will respond to two of the CAISO's specific statements relevant to such analyses.

¹⁸ D.05-10-042, p. 7.

¹⁹ See, for example, SDG&E Opening Brief, pp. 27-32, and CAISO Opening Brief, pp. 16-19 and 22-25.

First, the CAISO is incorrect when it states, “[n]otably, none of the witnesses conducted an analysis of the societal impacts of load interruptions in terms of economic costs”.²⁰ As reported in TURN’s Opening Brief, IEP provided just such an analysis.²¹ TURN combined IEP’s data with cost data from SCE’s and TURN’s testimony and the data the CAISO provided regarding the likelihood of such events to provide a preliminary estimate of the benefits and costs of investments to avoid load shedding in its Opening Brief. That analysis suggested such investments were not cost-effective.²²

Second, the CAISO and NRG are incorrect about the likelihood of one key input to a benefit-cost analysis: the likelihood of the relevant contingency occurring.²³ Despite their claims,²⁴ there is no evidence that this likelihood is only one in thirteen years; rather the data in the record of this case support a likelihood ranging from once in 21 to 928 years, and likely exceeding once in 30 years.²⁵

D. The Commission Has Already Accepted Load Shedding Risk in Approving Sunrise

The CAISO reiterated that the Sunrise Powerlink provides significant local reliability benefits to the San Diego LRA.²⁶ TURN reminds the Commission that the CAISO ascribes such benefits to Sunrise even though the CAISO warned that the Commission’s choice of the environmentally-preferred Southern route for Sunrise entailed a risk of load shedding that was

²⁰ CAISO Opening Brief, p. 24.

²¹ TURN Opening Brief, p. 11.

²² *Id.*, pp. 8-15.

²³ *Id.*, pp. 11-12.

²⁴ CAISO Opening Brief, p. 17, and NRG Opening Brief, p. 6.

²⁵ TURN Opening Brief, pp. 11-12.

²⁶ CAISO Opening Brief, pp. 26-27.

not present with SDG&E's originally-proposed Northern route.²⁷ TURN appreciates that a higher risk of load shedding, taken alone, is undesirable, but notes again that the Commission explicitly accepted this higher risk in exchange for other positive attributes of the Southern route. The Commission should also make a finding in this case that accepts a higher risk of load shedding in exchange for lower customer rates.

E. Customer Groups Are Concerned with Costs of An Assumption that Load Shedding Should Not Be Used to Mitigate N-1-1 Contingency

NRG stated that the two parties “most immediately held responsible following such an outage event – SDG&E and the CAISO – do not advocate the use of load shedding to mitigate the impacts of the N-1-1 outage”.²⁸ It is neither surprising nor determinative that the entities that would be “held responsible” would want to avoid shedding load. TURN submits that a more important set of parties have expressed skepticism about the CAISO's and SDG&E's desire to avoid load shedding as a mitigation measure for the Sunrise/SWPL contingency: customers. Three parties that explicitly represent the interests of customers – who will bear the costs of procurement authorized based on the “no load shedding” assumption and will most assuredly “have to deal with the aftermath of such widespread outages”²⁹ – are concerned about the uncritical acceptance of the CAISO's approach: TURN, the Office of Ratepayer Advocates (“ORA”) and the California Large Energy Consumers' Association.³⁰ The Commission should recognize these parties' legitimate concerns about the costs their constituents will bear when considering appropriate reliability criteria in this case.

²⁷ TURN Opening Brief, p. 17.

²⁸ NRG Opening Brief, p. 8 (emphasis original).

²⁹ *Id.*

³⁰ ORA Opening Brief, pp. 32-26, and CLECA Opening Brief, pp. 2-7.

F. Even If the Commission Adopts the CAISO’s Position that Load Shedding *Is Not* Acceptable, It Should Still Find that Need in SCE’s Territory is Based on the Assumption that Load Shedding *Is* Acceptable

In its Opening Brief, TURN stated that there was evidence in the record that an investment of only 150 MW in San Diego would eliminate the use of load shedding to manage the N-1-1 contingency in *both* the SCE and SDG&E service territories.³¹ SCE’s Opening Brief also raised this possibility.³² If, despite the arguments of TURN and other customer groups, the Commission decides now that load shedding *is not* an acceptable means of mitigating the N-1-1 contingency, the Commission should still recognize the implications of this evidence and conclude that local reliability needs in the LA Basin LRA should still be based on the assumption that such load shedding *is* acceptable. This finding would be reasonable because the addition of an additional 150-250 MW in San Diego would have the same impact for planning purposes as assuming load shedding would be allowed to mitigate the N-1-1 contingency in the LA Basin.³³

IV. BENEFITS AND COSTS OF NEW RESOURCES AUTHORIZED PURSUANT TO THIS DECISION SHOULD BE ALLOCATED AMONG CUSTOMERS AND LOAD-SERVING ENTITIES PURSUANT TO THE COST ALLOCATION MECHANISM

Advocates for Direct Access (“DA”) customers and the Energy Service Providers (“ESPs”) that sell power to DA customers have offered no credible rebuttal to TURN’s, ORA’s and the IOUs’ recommendations that the net costs of the capacity procured pursuant to this Track 4 be allocated consistent with the Cost Allocation Mechanism (“CAM”).³⁴ TURN offers

³¹ TURN Opening Brief, footnote 39 (p. 14).

³² SCE Opening Brief, pp. 18-19.

³³ At p. 25 of its Opening Brief, SDG&E states that the impact of the consideration of load shedding ranges from 150-250 MW.

³⁴ See ORA’s Opening Brief, pp. 36-37, SCE’s Opening Brief, pp. 15-16, SDG&E’s Opening Brief, pp. 35-37, and PG&E’s Opening Brief, pp. 18-19.

responses to specific aspects of the Opening Brief the Alliance for Retail Energy Markets and the Direct Access Customer Coalition (“AReM/DACC”) below.

A. AReM/DACC Continue to Misstate Key Facts about Commission Policy and IOU Procurement

AReM/DACC continue to misrepresent Commission policy regarding the utilities’ procurement for their bundled customers. Rather than respond to AReM/DACC’s brief line-by-line, TURN will simply restate salient, unrebutted facts that were extensively documented in TURN witness Woodruff’s testimony: (a) SCE and SDG&E have, pursuant to their Bundled Procurement Plans (“BPPs”), already replaced SONGS capacity and energy in their bundled customers’ portfolios to the extent that they can, and (b) the utilities do not have the authority to replace SONGS capacity and energy on a long-term “MW-for-MW” basis as AReM/DACC’s testimony seemed to suggest.³⁵ Contrary to AReM/DACC’s arguments, developing new capacity to maintain reliable service in the LA Basin and San Diego LRAs early next decade will instead require additional investments beyond those enabled by the utilities’ BPPs and the costs of such investments should be allocated equally among all customers pursuant to the CAM.

B. AReM/DACC’s Criticism of TURN’s Rebuttal Ignores Deficiencies in Its Own Testimony

AReM/DACC argue that CAM allocations prevent ESPs and CCAs from “fully manag[ing] their own procurement” and criticize TURN witness Woodruff’s testimony rebuttal of such claims as being “pure speculation.”³⁶ AReM/DACC’s criticism is a classic case of “the pot calling the kettle black.” On cross-examination, AReM/DACC’s own witness, Michael Rochman – who would be reasonably expected to provide the Commission with some useful

³⁵ Ex. TURN-2, 3:10-18 and 8:16-13:13.

³⁶ AReM/DACC Opening Brief, p. 19.

information about the businesses of the parties he is representing – failed to offer any substantiation for the claim of adverse and unfair impacts on ESP operations.³⁷ If AReM/DACC want to demonstrate to the Commission that CAM allocations unduly impinge on their businesses, it should take the advice provided by TURN witness Woodruff and submit testimony on the impacts of CAM allocations based on an actual analysis of ESPs’ businesses.³⁸

C. Application of CAM to Other Utility Reliability Programs Should Be Determined in Relevant Applications

Without knowing the full details of what SCE may propose, AReM/DACC also argue that the CAM should not apply to the net costs of SCE’s proposed “contingent gas-fired generation contracts”.³⁹ Again, as TURN has argued, it is not possible to make such determinations regarding the application of CAM or similar mechanisms to this proposal or other proposals the utilities may make to maintain reliable service in their service territories until the utilities file applications for approval of such programs.⁴⁰ There is thus no need to address CAM allocation for SCE’s proposed contingent gas-fired generation contracts in this docket.

V. TURN’S POSITION ON PRELIMINARY RELIABILITY PLAN

Although the CAISO characterizes TURN’s testimony as consistent with the Preliminary Reliability Plan (“PRP”),⁴¹ TURN wishes to clarify that it takes no position on the PRP’s estimates of need and proposed actions for meeting such need. TURN notes that the PRP is a document produced by Commission and CAISO staffs that has not been vetted in the record of a Commission proceeding. Any Commission action to address local reliability needs must be

³⁷ RT, 2205:19-2206:17 and 2209:17-27 (Rochman, AReM/DACC).

³⁸ Ex. TURN-1, 15:21-24.

³⁹ AReM/DACC Opening Brief, pp. 17-19.

⁴⁰ TURN Opening Brief, pp. 20-21.

⁴¹ CAISO Opening Brief, p. 37.

based on records developed in proceedings such as this docket that afford all parties a full and fair opportunity to review and present evidence regarding such needs and means for meeting them.

VI. CONCLUSION

For the reasons set forth in the opening and rebuttal testimony of Mr. Woodruff, TURN's Opening Brief and this Reply Brief, the Commission should adopt the Track 4 recommendations summarized in Section II of TURN's Opening Brief and the Findings of Fact and Conclusions of Law set forth in Appendix A of that brief.

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