

**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 13-12-010  
(Filed December 19, 2013)

**REPLY COMMENTS OF THE INDEPENDENT ENERGY  
PRODUCERS ASSOCIATION ON WORKSHOP  
PLANNING ASSUMPTIONS**

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On December 18, 2013, the Commission’s Energy Division convened a workshop to present proposed Standardized Planning Assumptions for use in the 2014 Long Term Procurement Plan (LTPP) proceeding. The Independent Energy Producers Association (IEP) submits these reply comments on the opening comments on the proposed Standardized Planning Assumptions submitted on January 8, 2014.

The goal of the LTPP process should be to inform the Commission of the implications of various paths from “here” (the existing resource base) to “there” (the resources needed to reliably meet forecasted demand and to comply with statutory requirements and policy goals) over the 10-year planning horizon. IEP is concerned that the positions advocated in some of the opening comments on the planning assumptions threaten to undermine the planning process by attempting to insert the party’s preferred outcome into the base case, thus distorting the definition of “here” that is the critical first step of the LTPP analysis and in effect assuming the outcome of the resource procurement analysis before the process begins. As a result, the Commission could be deprived of the key information it needs to determine the optimum

procurement authorization, the ultimate result of Phase 2 of this proceeding. IEP elaborates on this point and other topics in these reply comments.

**I. THE FOCUS OF THE ASSUMPTIONS AND SCENARIOS SHOULD BE TO INFORM THE COMMISSION ABOUT THE EFFECTS OF CERTAIN POLICY CHOICES**

Parties' opening comments expressed a wide diversity of opinion regarding the Standardized Planning Assumptions. Few parties support conducting the analysis associated with this LTPP proceeding using the Standardized Planning Assumptions as proposed. Many parties take issue with the proposed scenarios. Many parties dispute one or more of the proposed assumptions or sensitivities. What particularly concerns IEP is that many parties' opening comments appear to reflect an attempt to influence the results of the planning process by altering the assumptions and variables embedded in the Trajectory Case, *i.e.*, the base case from which various scenarios may be modeled to assess policy impacts.

If the planning analysis is distorted by assumptions that are based on advocacy rather than fact, the Commission could be deprived of the information it needs to arrive at the best possible decisions on the need for resources and the costs and risks associated with different means for meeting that need. IEP is increasingly concerned that the Planning Assumptions and Scenarios approach presented at the December 18 workshop could undermine overall planning and sound decision-making, and the opening comments of some parties validate that concern.

The planning process should inform policymakers about the tradeoffs between different means for meeting resource needs and policy objectives in light of system constraints. From IEP's perspective, the proposed planning approach inappropriately mixes apples (base case facts) and oranges (assumptions for meeting needs associated with different scenarios), rendering decision-making more problematic and potentially threatening grid reliability. When the integrity of the base case is undermined, then the accurate consideration and evaluation of

various resource choices to meet the need identified for possible future scenarios is also undermined.

As San Diego Gas & Electric Company (SDG&E) noted in its opening comments, this approach creates an inherent distortion of the need calculation that is one of the primary purposes of the LTPP proceeding. SDG&E points out:

Finally, it is critical that the Staff Proposal and all subsequent studies draw a clear distinction between those assumptions that are based on resources that currently exist versus those that represent potential resource options for meeting identified need. The intermixing of these types of assumptions (existent versus non-existent) that is evident in the proposed assumptions has historically created a distortion as to the need calculation. All need determinations should be based on the difference between what resources are in existence today and what will be required to reliably service customers in the future.<sup>1</sup>

IEP concurs with SDG&E on this point. Furthermore, the risk of unreliable planning due to inaccurate characterization of the base case will be exacerbated over time through successive LTPP proceedings, if the characterization of the base case is not fixed. Accordingly, IEP urges the Commission to correct this problem now as part of Phase I of the 2014-2016 LTPP proceeding.

To remedy this methodological planning problem, the Assigned Commissioner and ALJ should adopt an approach for planning based on a true base case. IEP generally agrees with SDG&E that “only those resources that are currently in existence should be included in the base case.” IEP’s refinement is that resources that have begun construction during the pendency of the LTPP proceeding (as determined by the California Energy Commission (CEC) or confirmed by the Commission for those resources not tracked by the CEC) should be included in

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<sup>1</sup> SDG&E’s Opening Comments, p. 3 (emphasis in original).

the base case as existing resources with specified online dates, because of the high probability that the resources will become operational by their expected on-line dates.

Once an accurate base case is defined, based on existing available resources, the Commission can appropriately proceed to estimate need under a limited set of alternative scenarios designed to simulate likely future conditions. After estimating that need, the Commission can examine a range of possible means for meeting the identified need under different procurement policies. Some of the approaches for meeting need under some scenarios might be tested using a range of sensitivities by adjusting various assumptions defined for the individual scenario to best inform the Commission about the tradeoffs between different paths to achieve the desired goals. Each scenario must be constrained by the necessity to (a) maintain overall electric service reliability and (b) adhere to statutory obligations.

In this context, IEP recommends consideration of the following methodological approach for long-term planning and procurement:

- a. **Define the Base Case To Reflect What Exists Today.** The base case should reflect two key components, namely (a) forecasted demand as determined in the adopted CEC “managed” demand forecast (which incorporates projections of additional achievable energy efficiency), and (b) existing supply resources, including currently available demand response, that are available today to meet the forecasted demand and new supply projects that are under construction (as determined by the CEC or otherwise confirmed by the Commission for projects not tracked by the CEC).
- b. **Determine Initial Need.** Initial need is defined as the difference between the adopted CEC managed demand forecast and the supply resources, including demand response, assumed in the base case to meet that forecasted demand. Initial need is the resource gap that needs to be filled, and it sets the stage for identifying which resources ought to be used to fill

the need the Commission ultimately identifies in Phase I of this proceeding.

- c. **Adopt Scenarios to Establish a Range of Possible Futures for Assessing Options to Fill the Need.** Scenarios should be adopted for testing alternative resource plans for meeting need. As described more fully below, IEP recommends the following scenarios:
  1. **Economic Expansion/High Demand;**
  2. **Clean Tech Innovation/Low Demand;**
  3. **GHG Goals Assuming Existing Policy Mandates;**
  4. **GHG Goals Relaxing Existing Policy Mandates;** and
  5. **Generation Fleet Modernization** (addressing assumptions on the retirement, replacement, or repowering of existing resources).
- d. **Adopt Assumptions for Use in Testing Various Resource Plans for Each Scenario.** Once the base case and scenarios are determined conceptually, the Commission should call for a second round of comments and reply comments in which parties address specific assumptions needed to develop the resource plans to meet the need identified in the scenarios. These assumptions can be used to build various resource plans and sensitivity cases to meet the need in the adopted scenario.
- e. **Examine Alternative Procurement Paths for Each Scenario.** Rather than testing a single plan under each scenario, the analysis should test multiple approaches for meeting need. This testing will help the Commission and the parties understand the trade-offs associated with different procurement approaches or paths. These paths would take widely different approaches to meeting the two constraints for the analyses (*e.g.*, maintaining system reliability and observing statutory requirements).
- f. **Perform Sensitivity Analyses as Time Permits or Necessity Dictates.** After each identified scenario and path has been examined, time may permit deeper analysis of certain cases through sensitivity analysis. The results of the scenario analyses would inform the choices of important

sensitivity cases that should be considered (*e.g.*, Diablo Canyon in or out).<sup>2</sup>

As it models various paths to meet the overall system need, including local and flexible capacity needs, the Commission also must set certain parameters that potentially constrain modeling outcomes or impact policy choices. For example, IEP recommends that modeling should respect two of the Commission’s prime responsibilities, namely (a) maintaining electric system reliability, and (b) complying with statutory obligations, such as AB 32’s greenhouse gas (GHG) emission reduction goals (2050 and intermediate goals), the Renewable Portfolio Standard (RPS), and SB 1122’s bio-energy requirements.<sup>3</sup>

Under IEP’s recommended approach, limiting the base case to existing resources is not meant to suggest that past Commission procurement decisions are to be revisited. Rather, it merely suggests that the resources authorized in past procurement decisions are not included in the base case until they become operational (or begin construction). The assumption that these resources will come online can continue to be a condition of a scenario as determined by the Commission when it defines the scenarios.

To allow policy makers to compare the results of the modeling of the different scenarios and to understand how different procurement paths compare from a least-cost/best-fit perspective, IEP recommends examining three metrics: (1) the Net Present Value of total costs over the planning horizon, (2) the average utility rates resulting from the scenario, and (3) GHG reductions (if any) relative to interim GHG targets.

IEP is mindful of the past history of overly ambitious plans for LTPP modeling efforts and how those plans have needed to be modified as events unfolded. As a result, IEP’s

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<sup>2</sup> Note that Diablo Canyon in or out may be part of a scenario, too.

<sup>3</sup> IEP’s proposed “GHG Goals Relaxing Existing Policy Mandates” scenario would focus on reducing GHG emissions while examining the effects of relaxing the RPS, bioenergy, and similar resource procurement mandates.

proposed approach allows the Commission to make trade-offs between the range of studies proposed and the available time to complete studies within the two-year LTPP window. In particular, IEP's proposal fits well within the overall framework for the current LTPP proceeding.<sup>4</sup>

## II. DESCRIPTION OF IEP'S PROPOSED PLANNING APPROACH

IEP recommends five different scenarios for examination in this LTPP proceeding. These scenarios encompass a broad range of alternative futures.

- a. **Economic Expansion/High Demand.** This scenario examines the resource options needed to meet a return to the robust economic growth seen in California prior to the Great Recession. It would foresee higher electric demand due to greater economic activity and population growth. It would show greater levels of housing starts, industrial activity, and business formation. Consistent with the Natural Resources Defense Council's observation, this scenario should also show higher levels of energy efficiency because of increases in new construction.<sup>5</sup>
- b. **Clean Tech Innovation/Low Demand.** This scenario examines the least-cost resource options available assuming major improvements in energy efficiency technology, improvements in conventional generation efficiency, control of GHG emissions (through Carbon Capture), optimistic cost and performance assumptions for storage, and continued declining cost curves for renewable and conventional resources. Because of assumed improvements in energy efficiency technology, this scenario would likely result in lower levels of demand to be met by generation than other scenarios.
- c. **GHG Goals Assuming Existing Policy Mandates.** This scenario focuses primarily on meeting mid- and long-term GHG goals while observing existing legislative and policy mandates for resource procurement. It is most

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<sup>4</sup> IEP presents a possible schedule below.

<sup>5</sup> NRDC's Opening Comments, p. 4.



analogous to the Trajectory scenario described in Energy Division’s draft planning assumptions.

- d. **GHG Goals Relaxing Existing Policy Mandates.** This scenario would examine different resource plans assuming a reduced regulatory overlay (*i.e.*, little or no “siloining” of procurement). It is somewhat different from the other scenarios considered because it does not require strict adherence to existing statutory requirements for resource procurement (*e.g.*, RPS targets). Instead, it aims to identify the potential costs of different policy mandates on meeting GHG goals. This scenario would not be constrained by an inflexible need to meet RPS goals, distributed generation targets, storage targets, or bioenergy requirements, and would consider the option of unlimited use of unbundled (Compliance Category 3) Renewable Energy Credits.
- e. **Generation Fleet Modernization.** This scenario would examine the costs associated with a changeover of the existing generation fleet to new technology through retirement, replacement, refurbishment, or repowering of existing conventional and renewable resources. As Calpine noted, some renewable resources may not be able to secure revenues that allow them to remain economically viable after the end of their existing power purchase agreements.<sup>6</sup> Similarly, some existing conventional resources may retire sooner than their expected 40 years of commercial operation unless there are changes in procurement policies or market rules. For this scenario, IEP recommends assuming a more rapid retirement of existing generation facilities than expected, *e.g.*, 25 years after commercial operation date or at the end of power purchase agreements (for combined heat and power and renewable qualifying facilities (QFs)).

IEP suggests evaluating the “bookends” of the range of possible resource mixes to help the Commission determine how to procure resources under these alternate scenarios. To examine the impacts of different procurement policies, IEP recommends developing three sets of

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<sup>6</sup> Calpine’s Opening Comments, p. 2.

10-year resource plans for each scenario. These resource plans would provide the bounding cases for different policy approaches for procurement of additional resources in the current and future LTPP proceedings. The three bookend paths would be:

- a. 100% conventional resources.
- b. 50%-50% preferred resources-conventional resources.
- c. 100% Preferred Resources.

IEP recognizes that it may not be necessary to examine each path for each scenario if it is clear by inspection that it will not be possible to meet the modeling constraints for particular paths. Once the Assigned Commissioner and ALJ decide on the appropriate scenarios to be examined in this LTPP proceeding and the parties have had an opportunity to provide input regarding the appropriate assumptions to be used for modeling, the Assigned Commissioner and ALJ should work with Energy Division and stakeholders to determine the appropriate paths for each scenario. As noted above, it may be more important to examine alternative sensitivity cases for particular scenarios than to fully evaluate all paths for each scenario. These types of decisions would be reached either at the end of Phase 1 or early in Phase 2 of this LTPP proceeding.

Once all of the 10-year paths (plus, as appropriate, alternative sensitivity cases) have been constructed and evaluated, it would be useful to develop longer-term resource plans for one to three different scenarios. At this point, it is not possible (or even advisable) to define the longer-term plans for evaluation. Instead, IEP recommends that the parties should review the results from each of the 10-year plans for each path for each scenario, identify the one to three paths that are of the greatest interest, extend the resource plans to 20 years, and simulate the performance of those plans. Consistent with IEP's prior recommendation, any longer-term plan would have to meet all reserve and reliability requirements and mid-term GHG targets.

While the above discussion focuses on evaluation of system need, IEP recognizes that there is also a need for evaluation of local needs. The analytical and computational challenges of determining local needs are much greater than for system needs or flexibility requirements. As a result, IEP recommends evaluating a subset of the scenarios and paths identified above in the determination of local needs. IEP recommends evaluating two scenarios initially: the Economic Expansion/High Demand and the GHG Goals Relaxing Existing Policy Mandates scenarios. Because of the importance of conservatism in local reliability modeling, these two scenarios would provide a reasonable basis for local system modeling. The California Independent System Operator (CAISO) should provide input into the feasibility of modeling multiple procurement paths under each scenario. At a minimum, the CAISO should examine a blended resource procurement path for each scenario.

### **III. SCHEDULING CONCERNS**

IEP's proposed approach does not impact the proposed schedule for this LTPP proceeding significantly. As recognized by several parties,<sup>7</sup> another round of comments on planning assumptions is necessary before starting the modeling effort in Phase 1. The following is a potential schedule to implement IEP's proposed approach.

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<sup>7</sup> *E.g.*, SCE's Opening Comments, p. 12; PG&E's Opening Comments, pp. 1-2.

<b>Phase 1: Determining Need Proceeding Milestone</b>	<b>Date</b>
Ruling on Proposed Standardized Planning Assumptions	4 <sup>th</sup> Quarter 2013
Comments/Reply and Party Alternative Proposals on Proposed Standardized Planning Assumptions	January 15, 2014
Assigned Commissioner and ALJ Ruling on Scenarios and Process	February 5, 2014
Comments/Reply Comments on Assumptions for modeling Scenarios	February 19/26, 2014
Assigned Commissioner and ALJ Ruling on Assumptions (which would encompass an Assigned Commissioner's Ruling on Joint Assumptions, Scenarios and RPS Portfolios for 2014 LTPP and 2014-15 Transmission Planning Process)	March 26, 2014
Presentation of initial local and system need assessment for adopted scenarios	August 29, 2014
Workshop to discuss initial local and system need assessment	September 8, 2014
Initial Testimony on need assessment (if needed)	October 6, 2014
Rebuttal Testimony on need assessment (if needed)	October 13, 2014
Hearings on need assessment (if needed)	October 20-21, 2014
Opening/Reply Briefs on need assessment	November 10/24, 2014
PD on need assessment	December 22, 2014
Opening/Reply Comments and Commission Decision on Need	1 <sup>st</sup> Quarter 2015
<b>Phase 2: Filling the Need Proceeding Milestone</b>	
Presentation of modeling results and workshop regarding alternate resource paths to fill need	2 <sup>nd</sup> Quarter 2015
Testimony and hearings regarding recommended procurement authorization (and, if necessary, alternate modeling results)	Late 3 <sup>rd</sup> Quarter 2015
Commission Decision regarding procurement authorization	Late 4 <sup>th</sup> Quarter 2015

As can be seen from this schedule, IEP's proposal is consistent with the schedule outlined in the order instituting this proceeding. IEP's approach would allow the Assigned Commissioner and ALJ to issue the initial ruling on assumptions and process in the first quarter of 2014, which is consistent with the proposed schedule in R.13-12-010. IEP's proposed schedule leads to a proposed decision in December 2014, and it provides for a final Commission authorization of procurement by the fourth quarter of 2015.

IEP's proposed approach should streamline the Commission's consideration of the resources that it should authorize for procurement to meet the identified need. IEP recognizes that the procurement authorization is a policy decision based on the Commission's assessment of costs and risks associated with different procurement paths. Since IEP's proposed approach does not rely on any single assessment of need, it could reduce the need for hearings related to procurement authorization, since there would be few factual disputes related to the modeling that would be the basis for the Commission's procurement authorization.

#### **IV. REPLY TO COMMENTS ON THE ENERGY DIVISION'S PROPOSED PLANNING SCENARIOS AND ASSUMPTIONS**

As noted above, IEP's primary recommendation is that the Commission should revise the methodological approach underlying the Energy Division's proposed Planning Assumptions and Scenarios. If the Commission does not adjust Energy Division's approach, IEP offers the following reply to comments on the Energy Division's proposal.

##### **A. Treatment of the Environmental Adder Should Be Non-Discriminatory**

Some parties questioned the environmental scoring component embedded in Energy Division's Assumptions and Planning Scenarios.<sup>8</sup> The RPS Calculator imposes a \$40/MWh "environmental adder" on certain transmission-interconnected projects while no such

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<sup>8</sup> California Wind Energy Association's Opening Comments, p. 4; Large-scale Solar Association's Opening Comments, p. 3.

additional cost is imposed on distribution-interconnected facilities. IEP fails to understand the reason for drawing a distinction between transmission- and distribution-interconnected projects in this regard, particularly in light of the different utilities' different definitions of distribution voltage. Furthermore, IEP is unaware of any reason to discriminate among generating facilities based solely on the voltage level of the generator's interconnection. As a result, IEP is concerned that Energy Division's approach may be arbitrary and may unnecessarily discriminate against projects based solely on the voltage level of their interconnection.

**B. Assumptions Regarding Deliverability Should Be Non-Discriminatory and Consistent with Procurement and RPS Rules**

In the RPS Calculator, Energy Division proposes to impose a full deliverability requirement on utility-scale renewable energy projects. This approach has the effect of imposing additional costs on renewable projects interconnecting at the transmission level rather than the distribution level. Some parties have noted that this approach is arbitrary and inconsistent with prior Commission decisions on RPS procurement.<sup>9</sup> To the extent any deliverability treatment is assigned in the planning process, assumptions about the level of deliverability ought to be comparable and non-discriminatory in the absence of a clear policy suggesting otherwise. In the past, the Commission has rejected proposals to impose a deliverability requirement in the context of RPS procurement. IEP recommends that this adopted policy should also apply to all generators selected using the RPS Calculator, not just projects connecting at transmission-level voltages.

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<sup>9</sup> California Wind Energy Association's Opening Comments, pp. 2-3.

**C. Incorporation of Integration Cost Adders**

Energy Division's proposal is silent on the application of integration cost adders for renewables. The Commission should develop integration cost adders so that they can be included in the determination of need phase (Phase 1) of this proceeding.

**V. CONCLUSION**

The Commission should resist parties' attempts to confound the planning process by incorporating their preferred resources and policies into the base case. To give the Commission the best information about the implications of various resource choices, the base case should reflect the current view on managed demand and the existing resource base, not parties' wishes of what the future should be. IEP has outlined an approach that is intended to aid the Commission as it determines the best path for moving from here (the current resource base) to there (the resources needed to reliably meet forecasted future demand and achieve certain policies).

For the reasons stated in these reply comments, IEP respectfully urges the Commission to adopt the approach to the planning process advocated by IEP.

Respectfully submitted January 15, 2014 at San Francisco, California.

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