

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)

**THE OFFICE OF RATEPAYER ADVOCATES' COMMENTS
ON THE PRELIMINARY SCOPE OF THE 2014 LONG-TERM
PROCUREMENT PLANNING PROCEEDING**

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I. INTRODUCTION

Pursuant to the Order Instituting Rulemaking (OIR) filed on December 19, 2013, the Office of Ratepayer Advocates (ORA) submits the following comments on the preliminary scoping memo and procurement issues to be addressed in the 2014 long-term procurement plan proceeding (LTPP), Rulemaking (R.)13-12-010. ORA provides these comments on the schedule and scope of the 2014 LTPP in anticipation of the pre-hearing conference (PHC) scheduled for February 25, 2014. ORA recommends that the Commission:

- Adopt a schedule for Phase 1 that allows adequate time to incorporate the procurement authorization from Tracks 1 and 4 of the 2012 LTPP as well as results from the California Independent System Operator Corporation's (CAISO) 2013 – 2014 Transmission Planning Process (TPP);¹
- Allot time in the Phase 1 schedule to include the results from stochastic modeling;
- Consider the investor-owned utilities' (IOU) Bundled Procurement Plans in 2014;
- Address Procurement Rules issues beginning in 2015.

ORA recommends consideration of the following issues because of their impact on procurement policies:

- A methodology to calculate the integration cost adder for intermittent resources;
- Updates to greenhouse gas (GHG) compliance instrument procurement rules that could facilitate the least-cost procurement of GHG and revised GHG targets; and
- Revised Combined Heat and Power (CHP) targets.

II. PRIORITIZATION OF ISSUES

A. **The Commission Should Adopt a Schedule for Phase 1 That Allows Adequate Time to Incorporate the Procurement Authorization from Tracks 1 and 4 and the CAISO's TPP Results**

ORA supports the OIR's proposal to consider local, system and operating flexibility resource need simultaneously as part of Phase 1 of the 2014 LTPP followed by a determination of resources that will be used to fill this need in Phase 2, which is scheduled to begin in 2015. This is reasonable given that a needs determination at the local level impacts the needs determination in the system level, and that both system and local needs determination impact

¹ See Appendix A for ORA's proposed schedule for the 2014 LTPP.

operating flexibility resources needs. For that reason, ORA supports this two-phased process to examine system, local and operating flexibility need simultaneously and update any needs determination in Phase 2 when the results of the CAISO's 2014 – 2015 transmission planning process (TPP) results can be incorporated. However, in order for this phased approach to succeed, the process should include milestones for the incorporation of information critical to the modeling. First, the Commission will need to finalize the standard planning assumptions before Phase 1 modeling can begin since these inputs feed into the system, local, and operating flexibility modeling as well as the IOUs' Bundled Procurement Plans. Second, parties cannot begin to model local and system need accurately without accounting for all authorized need in both Tracks 1 and 4 of the 2012 LTPP, as well as the CAISO's 2013 – 2014 TPP results, which should include new transmission projects such as the Mesa Loop-In and additional reactive power. These inputs are all critical to the system level modeling. The schedule for Phase 1 should give parties ample time for these resource additions to be included in the modeling and also allow enough time for parties to vet the input assumptions. Modeling should not commence until these procurement authorization amounts and transmission resource additions and/or additional reactive power solutions are accounted for.

It would be reasonable to have a proposed decision on Phase 1 of the 2014 LTPP by the first quarter of 2015 if the Commission can finalize decisions on both the standard planning assumptions and Track 4 of the 2012 LTPP by the end of the first quarter of 2014. This would allow parties to begin system and local modeling in the spring of 2014 and continue through summer of 2014. Parties could reasonably file testimony on system and local need by early fall 2014, followed by hearings and briefs in the fourth quarter of 2014. If the Commission chooses to begin the Phase 1 analysis and modeling **before** the additional Track 1 and 4 resource additions and 2013 – 2014 TPP results are finalized, ORA recommends the Commission either 1) modify ORA's proposed schedule below to accommodate inclusion of this pertinent information into the input assumptions or 2) adhere to ORA's proposed schedule and subtract any procurement authorization not included as inputs from the need determination results of the 2014 LTPP need analysis at the beginning of Phase 2.

B. Phase 1 Would Ideally Include Sufficient Time to Incorporate Stochastic Modeling into the Operating Flexibility Modeling.

Ideally, Phase 1 would include sufficient time in the schedule for Southern California Edison Company (SCE), the CAISO, and other stakeholders to conduct stochastic modeling to

confirm the deterministic modeling results of operating flexibility. Although stochastic modeling is in the early stages of adaptation to the LTPP, it has the potential to provide additional clarity and robustness to the evaluation of need. Focusing attention on stochastic modeling now will allow it to develop as a tool for modeling in this LTPP cycle and future LTPP cycles. Similar to the schedule proposed for the system and local need, if the Commission finalizes decisions on the standard planning assumptions and Track 4 of the 2012 LTPP by the first quarter of 2014, parties can begin the deterministic and stochastic modeling through spring and summer of 2014 followed by testimony, hearings and briefs in fall and winter of 2014.²

C. The Commission Should Consider the Bundled Procurement Plans as Soon as Feasible in 2014

The IOUs' Bundled Procurement Plans (BPP) detail the IOUs' individual procurement processes, policies and strategies using the Commission-established standard planning assumptions and guidelines set forth in Public Utilities Code Section 454.5. The 2012 LTPP cycle did not include review of the IOUs' Bundled Procurement Plans even though the BPPs are a standard component of the LTPP as set forth in Public Utilities Code Section 454.5, which requires the Commission's "review and approval" of utility procurement plans.³ ORA therefore agrees that the Commission should require the IOUs to file Bundled Procurement Plans in the 2014 LTPP cycle to reflect any changes that have occurred in their bundled procurement plan strategies because of Commission decisions. The schedule of dates for the 2014 Bundled Procurement Plan phase of the LTPP should allow inclusion of final standard planning assumptions, which are necessary inputs to the IOUs' Bundled Procurement Plans.

The IOUs' 2014 Bundled Procurement Plans should also incorporate changes needed because of the Commission's final decision on the 2012 LTPP Track 3 procurement rules.⁴ This should allow a decision on the Bundled Procurement Plans by the second quarter of 2015, assuming that the IOUs are required to file their BPPs in the summer of 2014—allotting enough time for them to incorporate the finalized standard planning assumptions. Parties could file

² See Appendix A for ORA's proposed schedule for the 2014 LTPP.

³ PUC Code 454.5(e): "The commission shall provide for the periodic review and prospective modification of an electrical corporation's procurement plan."

⁴ The Commission issued a proposed decision regarding 2012 LTPP proposed rules on January 28, 2014, which is available at <http://docs.cpuc.ca.gov/SearchRes.aspx?DocFormat=ALL&DocID=86120325>

testimony in the third quarter of 2014 followed by hearings and briefs, if necessary, in the first quarter of 2015.⁵

D. Consideration of Procurement Rules Should Commence in 2014

The Commission and stakeholders will focus on system, local, and operating flexibility modeling need in Phase 1 of the 2014 LTPP and on reviewing updates to the IOUs' Bundled Procurement Plans. The Commission recently issued a proposed decision on January 28, 2014 on Track 3, the procurement rules track of the 2012 LTPP, so consideration of most procurement rules should begin in 2015, with the exception of a renewable integration cost adder⁶ as discussed below in Section III A of these comments.

Consideration of a renewable integration cost adder will likely require more time to resolve than other procurement rules issues listed as within the scope of this proceeding given the complexity of the inputs. Workshops and rounds of comments will likely be necessary to establish the methodology and formula to calculate an integration cost adder. ORA therefore recommends that the Commission begin working on the integration cost adder in 2014 to ensure enough time to fully review this issue. If necessary, the Commission could issue a separate decision on the renewable integration cost adder as it did for the Cost Allocation Methodology (CAM) issue in the 2010 LTPP.⁷

III. RECOMMENDED ADDITIONAL PROCUREMENT RULE ISSUES

Given the time and resources needed in the 2014 LTPP to resolve the need determination in Phase 1, procurement authorization in Phase 2, and review of the bundled procurement plans, ORA limits its recommendations on additional procurement rule issues to issues of the highest priority.

A. Integration Cost Adder

As part of Phase 1 of this LTPP cycle, the Commission will determine whether flexible resources⁸ are needed to integrate increased amounts of intermittent resources on the grid. Even

⁵ See Appendix A for ORA's proposed schedule for the 2014 LTPP.

⁶ An integration cost adder attempts to reflect the cost of integrating intermittent resources into the grid.

⁷ D.11-05-005.

⁸ OIR, p. 10.

if the conclusion is that there currently is no need to procure flexible resources,² the Commission should consider the adoption of an integration cost adder (or component) in this proceeding. An integration cost adder attempts to reflect the cost of integrating intermittent resources into the grid and any costs incurred related to:

“manage the intermittency (i.e., variability and uncertainty) of a generator’s output... includ [ing] the additional system costs required to provide sufficient balancing reserves including [load] following, frequency regulation, and other new integrating services instituted by the [CAISO], such as flexible ramping.”¹⁰

Currently, in the IOUs’ Request for Offer (RFO) evaluation process, there is no methodology to reflect the value of resources that are intermittent versus resources with output that is more certain. An integration cost adder would allow a utility to evaluate competing bids.

“The value of the integration cost component will necessarily differ by resource, depending on the level of variability (i.e., fluctuations in generator output) and uncertainty (i.e., predictability of the generator output) of the specific generator.”¹¹

Consideration of an integration cost adder is not listed as an issue potentially within the scope of this proceeding. ORA believes it meets the standard for inclusion within the LTPP, which the OIR defines as:

“Any procurement-related issue(s) not already considered in other procurement-related dockets expressly listed in Table 1 (or some other docket opened in the future to cover procurement related issues) below may be considered, subject to the following conditions. The issue(s) must:

- (1) Materially impact procurement policies, practices and/or procedures;
- (2) Be narrowly defined; and
- (3) Demonstrate consistency with one or more of the LTPP proceeding goals.”¹²

First, the integration cost adder is not being timely considered in any of the procurement dockets listed in Table 1 of the OIR, even though there has been some consideration of integration costs in the RPS proceeding. “Integration adders” was listed as an issue in the RPS

² Track 2 of R.12-03-014 showed no immediate need for flexible resources, so the Track was cancelled. September 16, 2013 ruling.

¹⁰ Southern California Edison Company’s Comments on Assigned Commissioner’s April 5, 2012 Ruling Requesting Comments On New Proposals Related To Renewables Portfolio Standard Procurement Plans, filed May 23, 2012 in R.11-05-055 (SCE RPS Comments), pp. 2-3.

¹¹ SCE RPS Comments, pp. 2-3.

¹² OIR, p. 14.

OIR.¹³ The May 23, 2012 “Assigned Commissioner’s Ruling Identifying Issues and Schedule of Review for 2012 Renewables Portfolio Standard Procurement Plans Pursuant To Public Utilities Code Sections 399.11 Et Seq. and Requesting Comments on New Proposals” sought comments on integration costs as a component of “Standardized Variables in [least cost best fit] LCBF Market Valuation.”¹⁴ A September 12, 2012 “Amended Scoping Memo and Ruling of Assigned Commissioner” stated that:

“after reviewing the work to date in this proceeding, I identify the following topics as most significant to address in improving the administration of the RPS program and the value it brings to Californians...Improvements to least cost best fit (LCBF) methodology and evaluation of bids for RPS procurement, including but not limited to:... [review of] integration cost adders.”¹⁵

The Commission has not yet adopted an integration cost adder in the RPS proceeding, although its most recent RPS decision, Decision (D.)13-11-024, recognized the importance of adopting an integration cost adder:

“It is clear from party comments and the statements by SCE and PG&E in their 2013 draft RPS procurement Plans that the Commission should move forward as soon as possible on this issue.”¹⁶

While the Commission declined to adopt an integration cost adder in D.13-11-024, it noted that:

“The question of how increasing amounts of intermittent generation are impacting grid reliability, quantifying the impact and benefits of various resources to integrate intermittent generation, and what new policies should be adopted to manage the changing electric grid are being addressed in several Commission proceedings, including, for example, R.11-10-023 and R.12-03-014.”¹⁷

The issue of an integration cost adder is therefore still pending over two years after the first RPS Scoping Ruling recognized the issue as within the scope of that proceeding. An

¹³ R.11-05-005, the July 8, 2011 Scoping Memo and Ruling of Assigned Commissioner stated at page 2 the CPUC’s intention to “consider topics such as integration cost adders.”

¹⁴ Assigned Commissioner’s Ruling Identifying Issues and Schedule of Review for 2012 Renewables Portfolio Standard Procurement Plans Pursuant to Public Utilities Code Sections 399.11 Et Seq. and Requesting Comments on New Proposals, issued May 23, 2012 in R.11-05-005, p. 2.

¹⁵ “Amended Scoping Memo and Ruling of Assigned Commissioner, issued September 12, 2012 in R.11-05-005, p. 5.

¹⁶ D.13-11-024, pp. 26-27.

¹⁷ D.13-11-024, p. 27. D.13-11-024 recognized the possibility that an integration cost adder might be developed in the LTPP proceeding. (“If an integration cost adder is developed through one of the above mentioned public processes [including R.12-03-014], then each utility may seek authority, consistent with any Commission directives, to amend its 2013 RPS Procurement Plan for the purpose of using that integration cost adder in its Net Market Value (NMV) calculations and LCBF evaluations.”) D.13-11-024, p. 28.

Amended Scoping Memo and Ruling issued January 13, 2014 in in the RPS proceeding lays out an ambitious schedule for 2014 that proposes seven different issues via seven different rulings and decisions for the first quarter of 2014 alone.¹⁸ One of those issues is "reform of least cost best fit methodology." It is unclear whether that will include consideration of an integration cost adder.

Second, adoption of a renewable integration adder "materially impacts procurement policies, practices and procedures"¹⁹ because the current absence of an integration cost adder essentially ascribes a cost of zero to a resource for integration costs,²⁰ regardless of its intermittency, variability and the potential need for ancillary services to support the resource. ORA supports California's RPS goals and believes the most cost-effective way to achieve those goals is consideration of the cost of integrating intermittent resources to the grid:

"the operational reliability challenges created by adding a large amount of new intermittent resources to the California electric grid must be addressed. The anticipated costs of integrating the various RPS resource types need to be explicitly captured in the evaluation and selection process."²¹

Third, adoption of an integration cost adder, while a complex issue that will require careful consideration of the costs and benefits of integration, is a narrowly defined issue.²² Finally, consideration of an integration cost adder is consistent with "one or more of the LTPP goals."²³ The LTPP proceeding strives to ensure "safe, reliable and cost effective electricity supply in California through integration of a comprehensive set of procurement policies, practices and procedures underlying long-term procurement plans."²⁴ Adoption of an integration

¹⁸ Third Amended Scoping Memo and Ruling of Assigned Commissioner, R.11-05-005, January 13, 2014, pp. 6-7.

¹⁹ OIR, p. 14.

²⁰ In fact, the Commission has prohibited the use of a non-zero integration cost adder. D.13-11-024, p. 28 ("The result proposed by PG&E is inconsistent with today's decision to continue the policy of a zero integration cost adder.")

²¹ Pacific Gas and Electric Company Renewables Portfolio Standard 2012 Renewable Energy Procurement Plan (Draft Version) May 23, 2012, pp. 2-3.

²² OIR, p. 14.

²³ OIR, p. 14.

²⁴ OIR, p. 1.

cost adder will promote the cost effective use of resources by allowing consideration of system wide grid impacts and costs to customers, including ways to minimize costs.²⁵

Given the importance of an integration cost adder as part of addressing the potential need for system flexibility, the Commission should undertake consideration of that issue in this proceeding, since it is not clear when it will be considered in the RPS OIR or any other proceeding.

B. GHG Procurement Policy

The OIR lists GHG procurement policy as within the scope of the rulemaking,²⁶ and ORA agrees that this issue merits consideration within this proceeding. When GHG compliance instrument procurement rules were first considered in the 2010 LTPP (R.10-05-006) and authorized by the Commission in D.12-04-046, the California Air Resources Board's (CARB's) cap-and-trade program was in its earliest stages and was "an area in which both the utilities and the Commission [were] on the steep part of the learning curve."²⁷ The GHG compliance market has developed since then and the utilities have gained experience with the parameters of the program and its impact on procurement. ORA therefore recommends that the Commission consider updates to GHG compliance instrument procurement rules that could facilitate the least-cost procurement of GHG compliance instruments while ensuring that important ratepayer safeguards remain in place.

C. CHP Targets

The OIR observes that:

"The CHP Settlement, as set forth in D.10-12-035, directed the CPUC to review IOU progress toward the settlement's dual CHP targets of 3,000 MW CHP capacity by 2015 and 4.8 million metric tons of Greenhouse Gas (GHG) emissions reductions by 2020. In this proceeding, we may choose to consider, based on the IOUs' progress toward their respective goals, an additional CHP MW target, CHP RFOs, and/or revised GHG targets for 2015-2020, per D.10-12-035."

²⁵ The Commission observed in D.13-11-024 at page 27 that there may be ways "that renewable procurement can be used to enhance grid reliability."

²⁶ OIR, p. 12.

²⁷ D.12-04-046, p. 59.

ORA supports including CHP targets within the scope of issues addressed in this rulemaking. Parties to the CHP Settlement concluded their negotiations in October 2010,²⁸ and since that time the forecasted market potential for new CHP has declined.²⁹ The IOUs have held RFOs for new CHP projects in order to meet their individual targets for both CHP and GHG reductions. The Commission now has information on which to consider new CHP targets, CHP RFOs, and revised GHG targets for CHP.

Procedurally, ORA recommends that the Commission provide parties the opportunity to propose revised CHP targets and revised GHG targets for CHP so that IOUs can make any changes to their procurement plans. Since ORA recommends that the Commission consider the Bundled Procurement Plans prior to consideration of new rules, the Commission should direct the IOUs to update their Bundled Procurement Plans via Tier 1 advice letter filings.

IV. CONCLUSION

ORA respectfully requests that the Commission consider these recommendations in establishing the scope and schedule of this rulemaking.

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²⁸ D.10-12-035, p. 9.

²⁹ ICF International, February 2012, Combined Heat and Power: Policy Analysis and 2011-2030 Market Assessment Consultant Report Prepared for California Energy Commission, p. 6.

APPENDIX A

Proposed Schedule for R.13-12-010: 2014 LTPP

ORA proposes the following schedule for the 2014 LTPP. This schedule reflects the inclusion of the stochastic modeling as part of the operating flexibility modeling needs determination assessment (Phase1), dates for review of the IOUs' Bundled Procurement Plans, and the Procurement Rules sections.

Proceeding Milestone	Date
Proposed Decision on Track 4 (2012 LTPP)	February 2014
Prehearing Conference	February 25, 2014
Final Decision on Track 4 (2012 LTPP)	March 2014
Final Decision on Track 3 (2012 LTPP)	March 2014
Proposed Decision on Standard Planning Assumptions	March 2014
Scoping Memo Issued	Early Q2 2014
Final Decision on Standard Planning Assumptions	April 2014
Phase 1 System Plan Ruling	Spring 2014
Phase 1 Operating Flexibility Modeling Ruling	Late Spring 2014
Phase 1 Local and System Needs determination	Summer 2014
Phase 1 Deterministic Modeling	Summer 2014
Phase 1 Stochastic Modeling	Summer 2014
IOUs file Bundled Procurement Plans	Mid-Summer 2014
Intervener Testimony on Bundled Procurement Plans	Q3/Q4 2014
Phase 1 Testimony – System and Local Needs	Early Fall 2014
Phase 1 Testimony – Operating Flexibility Modeling	Early Fall 2014
Phase 1 Hearings and Briefs – System and Local Needs	Q4 2014
Phase 1 Hearings and Briefs – Operating Flexibility Modeling	Q4 2014
Ruling on Procurement Rules (except for renewable integration cost adder issue)	Late Q4 2014
Phase 1 System and Local Proposed Decision	Q1 2015
Phase 1 Operating Flexibility Modeling Proposed Decision	Q1 2015
Hearings and Briefs on Bundled Procurement Plans (if necessary)	Early Q1 2015
Final Decision on IOUs Bundled Procurement Plans	Late Q2 2015