

**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)

**COMMENTS OF THE INDEPENDENT ENERGY PRODUCERS  
ASSOCIATION ON THE PROPOSED DECISION ON TRACK 4  
ISSUES**

**INDEPENDENT ENERGY PRODUCERS  
ASSOCIATION**

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**RECOMMENDATIONS OF THE INDEPENDENT ENERGY PRODUCERS  
ASSOCIATION**

IEP respectfully recommends the following modifications to the Proposed Decision:

- The PD should be modified to increase the authorized all-source procurement by an additional 588 MW;
- In addition, in recognition that the CAISO's, SCE's, and SDG&E's "no regrets" recommendations were premised on an interim solicitation followed by a supplemental procurement, the all-source authorizations should be increased by 200 MW for SCE and by at least 50 MW for SDG&E; and
- The PD should be revised to clarify the use of bilateral negotiations by SDG&E and to require SDG&E to conduct a competitive solicitation that would inform the assessment of any bilateral arrangements SDG&E may pursue to meet Track 4 needs.

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ISSUES**

Administrative Law Judge David Gamson's Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements due to Permanent Retirement of the San Onofre Nuclear Generation Stations (PD), issued on February 11, 2014, provides a thoughtful analysis of the reliability needs resulting from the unexpected retirement of San Onofre Nuclear Generation Station (SONGS) Units 2 and 3.

Among other things, the PD:

- Affirms that the assumptions and scenarios set forth in the Revised Scoping Ruling of May 21, 2013 will remain in effect throughout this Long-Term Procurement Plan (LTPP) proceeding. As the PD recognizes, later revisions to selected assumptions disrupts the proceeding and distorts the analyses: "It is not reasonable, at this point in this proceeding, to delay the Track 4 decision until all of the assumptions prescribed in the

revised Scoping Memo can be restudied; nor is it reasonable to selectively update assumptions.”<sup>1</sup>

- Recognizes the importance of maintaining the reliability of the electric grid and the Commission’s role in maintaining that reliability.
- Rejects proposals to delay any procurement authorization until the results of the 2013/2014 Transmission Planning Process conducted by the California Independent System Operator (CAISO) are available.<sup>2</sup>
- Endorses the principle that long-term resource planning should not rely on load shedding to mitigate certain contingency events.<sup>3</sup>

For the most part, the Independent Energy Producers Association (IEP) agrees with the PD’s conclusions. In one key area, however, the PD inconsistently fails to accept the results of the modeling that the PD endorses, and this inconsistency undermines the validity of the PD’s conclusions. IEP’s comments will focus on this critical shortcoming of the PD, followed by additional comments on some other issues.

**I. THE PD ENDORSES THE CAISO’S MODELING BUT REJECTS THE RESULTS OF THAT MODELING**

After considering the considerable evidence related to a hotly contested issue, the PD concludes that the CAISO “correctly modeled the input assumptions described in the revised

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<sup>1</sup> PD, p. 35. See also CAISO’s Opening Brief, p. 35 (“The ISO strongly urges the Commission to reject the notion that the Track 4 input assumptions should be updated now before residual capacity needs are determined . . . . Wholesale changes to the input assumptions will cause delays in resource procurement that could serve to stall preferred resource deployment as well as conventional resource development. At this point the Commission must act on the very substantial and robustly vetted evidence it has before it . . . .”).

<sup>2</sup> PD, pp. 9-11.

<sup>3</sup> PD, pp. 44, 45.

Scoping Ruling.”<sup>4</sup> Accordingly, the PD determines that “we will use the ISO models in this decision as the basis for determining authorized procurement.”<sup>5</sup>

Having endorsed the CAISO’s modeling, however, the PD retreats from the results of that modeling. The CAISO’s study showed a need in the SONGS study area of 2300 MW or 2534 MW by 2022, depending on the allocation of resources between the Los Angeles and San Diego local areas. Because of the time required to site, permit, and construct new generation, the CAISO recognized that a quick, interim procurement authorization was needed. As a result, the CAISO and others recommended that as an interim, “no-regrets” authorization, the Commission should authorize Southern California Edison Company (SCE) to conduct an interim all-source procurement of 500 MW in the Los Angeles Basin and authorize San Diego Gas & Electric Company (SDG&E) to conduct an all-source procurement of 500 to 550 MW in its service territory.<sup>6</sup>

These “no regrets” procurements are not intended to provide all the needed resources identified in the modeling performed by the CAISO, SCE and SDG&E. The modeling considered a range of scenarios and sensitivities that the Commission adopted to survey a range of potential developments and outcomes. As a result, the methodological approach the Commission adopted is designed to identify a minimum procurement level required to maintain grid reliability under all but the most challenging set of circumstances. Procuring less than the minimum amount of additional resources identified in the modeling unnecessarily risks grid reliability.

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<sup>4</sup> PD, p. 25.

<sup>5</sup> PD, p. 27.

<sup>6</sup> CAISO’s Opening Brief, p. 37. SCE’s request was specifically for authority to procure 500 MW through an all-source solicitation. (See SCE’s Opening Brief, pp. 1-2.) SDG&E’s request was for authority to procure 500-550 MW of “long lead-time supply-side resources, including conventional generation and/or renewable resources.” (See SDG&E’s Opening Brief, pp. 4, 5, 8-9.)

The requests for authority to conduct “no regrets” procurements intentionally minimize the quantity of the authorization request in exchange for quick action, so that the reliability of the grid can be maintained while other resources needed to meet the remaining need have time to materialize. SDG&E, for example, recognized that if a major transmission line, the 500 kV Imperial Valley-SONGS Direct Current Regional Transmission project were authorized in the CAISO’s 2013/2014 Transmission Planning Process and constructed, the need that resulted from its modeling studies could be reduced from 1470 MW to 620 MW.<sup>7</sup> Accordingly, SDG&E’s requested interim procurement authorization intentionally focused “on the low end of its preliminary need finding,” and in fact its interim request was 70-120 MW lower than the *minimum* resource need identified in its resource planning studies.<sup>8</sup> SDG&E’s “no regrets” requested procurement authorization is also 62-112 MW or 627-677 MW (depending on the allocation of resources between the Los Angeles Basin and SDG&E’s service area) *less* than the *minimum* need identified in the CAISO’s studies.<sup>9</sup>

The recommendations for an interim “no regrets” procurement were premised on the existence of a later, supplemental procurement that would make up the difference between the interim authorization and the full need for resources as identified in the resource planning studies. However, rather than tracking the logic of an interim procurement, which would be followed as needed by a supplemental procurement to fill the additional resource need supported by the CAISO’s study, the PD instead evaluates a number of factors that could reduce the need for additional supply resources and ultimately authorizes only a single round of procurement. Under the PD’s approach, the supplemental procurement that was assumed to be necessary to

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<sup>7</sup> SDG&E’s Opening Brief, pp. 12-13.

<sup>8</sup> SDG&E’s Opening Brief, p. 7.

<sup>9</sup> See CAISO’s Opening Brief, p. 10.



secure the resources needed to fill the remaining need has been deferred to the 2014 LTTP proceeding (which might not result in a competitive solicitation until 2016) or even later.

Furthermore, instead of basing its authorization on the results of the modeling performed by several parties, the PD bases the authorized procurement amount on its review of supply and demand considerations and concludes that “directional indicators” justify a lower level of procurement than shown by the results of the CAISO’s studies.

For the most part, the PD’s “directional indicators” are judgment calls about the likelihood of uncertain future events. Each of these judgment calls, however, has the effect of undermining the integrity of the modeling performed by the CAISO and others in this proceeding. For example, the PD’s treatment of one of these factors undermines one of the primary purposes of Track 4—maintaining the reliability of the grid in the absence of the SONGS units. The PD discusses at length whether the CAISO’s modeling of the “N-1-1” contingency (loss of the ECO-Miguel section of the Southwest Powerlink transmission line, followed by 30 minutes to readjust the system, followed by the loss of the Ocotillo Express-Suncrest section of the Sunrise Powerlink transmission line) was appropriate. Although the CAISO’s approach was challenged by parties who recommended that the risk of “load shedding”—blackouts—was acceptable, the PD recognizes that the CAISO’s approach was consistent with the guidelines of the Western Electricity Coordinating Council (WECC) and the North American Electric Reliability Corporation (NERC) and concludes that “it is not prudent to take a long-term system planning approach that assumes reliance on load shedding in a densely-populated urban area as mitigation for contingency events.”<sup>10</sup>

Having concluded that long-term system planning should not rely on load shedding, the PD proceeds to do exactly that. The PD in effect second-guesses the results of the

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<sup>10</sup> PD, p. 45.

CAISO’s modeling, which it had previously endorsed, by concluding that the risk of outages resulting from failing to mitigate the N-1-1 contingency is low enough to be tolerable. As a result, the PD’s procurement authorization is 200 MW to 400 MW less than the minimum “no regrets” all-source recommendation of the CAISO and SCE, and 50 MW to 250 MW less than the recommendation of the CAISO and SDG&E. As SDG&E points out, “the Commission’s failure to authorize in a timely manner the new resources necessary to mitigate the N-1-1 [contingency] would result in imposition of a *de facto* requirement that SDG&E rely on load shed as a long-term mitigation of that contingency”<sup>11</sup>—in direct contradiction of the PD’s announced principle that “it is not prudent to take a long-term system planning approach that assumes reliance on load shedding in a densely-populated urban area as mitigation for contingency events.”

In reaching its conclusions, the PD is inconsistent or erroneous in several ways:

- The PD quotes Public Utilities Code section 345, which requires the CAISO to “ensure efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria *no less stringent* than those established by the Western Electricity Coordinating Council and the North American Electric Reliability [Corporation].” (Emphasis added.) The PD then ignores this statutory determination and the results of studies using the WECC and NERC planning criteria. As SDG&E pointed out, NERC has the legal authority “to enforce reliability standards applicable to the owners and operators of the bulk power system in the United States.”<sup>12</sup> NERC’s reliability criteria

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<sup>11</sup> SDG&E’s Opening Brief, p. 26.

<sup>12</sup> SDG&E’s Opening Brief, p. 22.

are mandatory and are legally enforceable. The WECC is the entity responsible for coordinating reliability for the bulk electricity system in the West, and the CAISO is the Transmission Planning Authority responsible for implementing the planning criteria of NERC and the WECC.<sup>13</sup>

- The PD's conception of risk is erroneous. The PD views the risk of outages as "remote" and suggests that load shedding will occur only once every 840 years.<sup>14</sup> In fact, the risk of an outage is present every year at a level that the CAISO has determined is unacceptable for long-term resource planning. Even if the risk of outage is estimated to be once in 21 years, that does not mean that the outage will not happen for 21 years. The risk of outage is present every year. Risks are expressed in terms of the probability of the event occurring in a prescribed period (typically one year). For example, the common planning assumption of one-in-ten translates into a 10 percent probability of the event occurring each year of the 10-year planning horizon. This does not mean that the event will occur only once in a 10-year period; rather, the event could occur every year in the 10-year period, although the probability is low that this will actually occur. Similarly, an estimate that load shedding would happen only once in 21 years does not eliminate the possibility that the conditions that require load shedding will occur during the period when the PD suggests that California can wait to see whether "the procurement of

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<sup>13</sup> SDG&E's Opening Brief, pp. 22-23.

<sup>14</sup> PD, p. 43, n.85.

preferred resources . . . will develop sufficiently over time to mitigate the need for further resources.”<sup>15</sup>

- The PD assumes that the WECC and NERC standards can be satisfied by use of a Special Protection Scheme (SPS), which allows the use of load shedding to address certain contingencies.<sup>16</sup> However, the CAISO’s policy has been to rely on load shedding in urban areas only as a last resort, and only until more permanent infrastructure solutions become available.<sup>17</sup> The CAISO does not use load shedding, whether or not it is part of an SPS, as a transmission planning mechanism.
- The PD seems to assume that an SPS, a temporary measure, can be instituted to address the N-1-1 contingency, but the PD fails to identify the permanent solution that will eventually eliminate the need for the SPS. In the absence of any identified means to address the N-1-1 contingency, it is disingenuous to call an SPS a “temporary” measure. As the CAISO pointed out, “the ISO strongly disagrees . . . that using load shedding as a ‘short-term bridge’ of up to ten years should lead to a finding that there is no need for additional resource procurement. The needs identified by SCE, SDG&E and the ISO must be addressed in this proceeding with resource procurement or infrastructure development, and not through reduced service reliability.”<sup>18</sup>

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<sup>15</sup> PD, p. 45.

<sup>16</sup> PD, pp. 44-45.

<sup>17</sup> Exh. ISO-2, p. 5.

<sup>18</sup> CAISO’s Reply Brief, p. 20.

The PD's disregard of the need for additional resources to mitigate the N-1-1 contingency leads to a reduction of the resource needs identified by the CAISO's modeling by at least 588 MW.<sup>19</sup> To be consistent with the PD's endorsement of the CAISO's modeling and to be consistent with the PD's determination not to rely on load shedding as a component of long-term system planning, the PD should be modified to increase the procurement authority of SCE and SDG&E by at least an additional 588 MW.

## II. ELIMINATING THE POSSIBLE SUPPLEMENTAL PROCUREMENT LEAVES THE SYSTEM WITH AN UNFILLED RELIABILITY NEED

The PD's total procurement authorization appears to be similar in total magnitude to the interim, "no regrets" procurement requested by SCE and SDG&E and endorsed by the CAISO. However, on closer examination the PD's procurement authorization falls short of SCE's and SDG&E's minimum, interim request in at least two ways.

Frist, the PD's authorization includes authorizations that are limited to preferred resources, which may not be able to meet local reliability needs. SCE asked for authority for an interim *all-source* authorization of 500 MW; the PD authorizes procurement of only 100 to 300 MW of additional all-source resources.<sup>20</sup> SCE's all-source authorization should be increased by at least 200 MW, to 500 MW, to further the goal of maintaining grid reliability. Similarly, SDG&E requested authority for an interim procurement of 500-550 MW of "conventional and/or renewable resources" (an amount lower than the low end of SDG&E's analysis, on the assumption that major transmission lines that would reduce the overall need might be authorized in the 2013/2014 Transmission Planning Process); the PD authorizes procurement of only 300-

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<sup>19</sup> PD, p. 46.

<sup>20</sup> PD, p. 3.

500 MW of all-source resources.<sup>21</sup> Thus, the PD should be modified to increase the all-source authorization for SDG&E by at least 50 MW, to 550 MW.

Second, the minimum amounts requested by SCE and SDG&E and endorsed by the CAISO were for an *interim* procurement that would be followed by the procurement of additional resources if certain developments did not reduce the need for added resources. However, the PD closes the 2012-2013 LTPP proceeding without any provision for a supplemental procurement (and the prehearing conference for the 2014-2015 LTPP proceeding included a suggestion not to evaluate long-term local reliability needs in that proceeding). If the procurement authorized by the PD is the only procurement currently planned for local reliability purposes, then the authorized procurement amount must be increased to reduce the risks to the reliability of the electric grid, consistent with the planning studies endorsed by the PD and the NERC and WECC planning standards. The authorized procurement should accordingly be increased at least to the full amounts of SCE's and SDG&E's interim procurement requests.

### **III. CLARIFICATION OF PROCUREMENT PROCESSES**

The PD authorizes SCE to use the procurement process approved in the Track 1 Decision (D.13-02-015) to procure capacity for purposes of both Track I and Track 4. This approach makes sense because of the close proximity of the Track 1 competitive solicitation to the presumed date the Track 4 decision will be approved by the Commission. In addition, in the Track 1 Decision the Commission authorized SCE to conduct bilateral negotiations for procurement agreements in certain circumstances. As the Commission recognized in D.12-11-016, negotiation of bilateral agreements must be informed by the results of contemporaneous

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<sup>21</sup> PD, p. 4.

competitive solicitations.<sup>22</sup> IEP understands any negotiation of bilateral arrangements by SCE will be conducted against the backdrop of the Track 1 competitive procurement solicitation.

For SDG&E, the PD authorizes procurement through competitive solicitations and bilateral negotiations.<sup>23</sup> However, SDG&E has not conducted a competitive all-source solicitation to meet long-term local reliability needs in recent years, and the competitive benchmark against which the value of a bilateral contract may be measured is absent. To ensure consistency in the treatment of bilateral arrangements, the PD should be modified to require SDG&E to conduct a competitive solicitation that would inform the assessment of any bilateral agreements that SDG&E may pursue to meet the Track 4 needs.

#### **IV. CONCLUSION**

For the reasons presented in these comments, IEP respectfully urges the Commission to modify the PD by authorizing an all-source procurement of an additional 588 MW, to reflect the capacity the CAISO has concluded is needed to meet local reliability needs as determined by consistent application of the NERC and WECC planning criteria. In addition, in recognition that the CAISO's, SCE's, and SDG&E's "no regrets" recommendations were premised on an interim solicitation followed by a supplemental procurement (a premise that is not borne out the by PD's closing of this proceeding), the all-source authorizations should be increased by 200 MW for SCE and by at least 50 MW for SDG&E. The PD should also be revised to clarify the use of bilateral negotiations by SDG&E and to require SDG&E to conduct a competitive solicitation that would inform the assessment of any bilateral arrangements SDG&E may pursue to meet Track 4 needs.

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<sup>22</sup> In D.12-11-016, the Commission granted SCE's request not to conduct a competitive solicitation for renewable resources, but also barred SCE from entering into bilateral contracts for renewable resources until it recommenced competitive solicitations.

<sup>23</sup> PD, p. 4.

Respectfully submitted this 3rd day of March, 2014 at San Francisco, California

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