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)

THE OFFICE OF RATEPAYER ADVOCATES' COMMENTS ON PROPOSED DECISION AUTHORIZING LONG-TERM PROCUREMENT FOR LOCAL CAPACITY REQUIREMENTS DUE TO PERMANENT RETIREMENT OF THE SAN ONOFRE NUCLEAR GENERATING STATIONS

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March 3, 2014

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I. INTRODUCTION

Pursuant to Rule 14.3 of the Rules of Practices and Procedure of the California Public Utilities Commission (CPUC or Commission), the Office of Ratepayer Advocates (ORA) submits these comments on Administrative Law Judge (ALJ) David M. Gamson's February 11, 2014 Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements Due to the Permanent Retirement of the San Onofre Nuclear Generating Stations (Proposed Decision or PD).

ORA generally supports the PD, which authorizes Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) to each procure 500-700 megawatts (MW) to meet local capacity requirements (LCR) needs stemming from the retirement of San Onofre Nuclear Generating Stations (SONGS), with an emphasis on preferred resources (SCE at least 400 MW of preferred resources,[1] SDG&E at least 200 MW of preferred resources).[2] As explained in Section II A, the PD bases the procurement authorization on very conservative assumptions. Assigning equally reasonable but more granular probability to the likelihood of various solutions to LCR need yields a range of need that is lower than the PD's. This illustrates that the PD's cautious approach will allow the development of preferred resources and transmission solutions without risking reliability.

ORA recommends the following additions and clarifications to the PD: [3]

- The Commission should require additional information regarding ratepayer cost impacts to justify any proposed contingent contracts;
- The Commission should require SCE to submit an addendum to its procurement plan explaining how it will ensure that energy efficiency and demand response resources procured to meet its LCR needs are incremental to resources that would otherwise develop or be procured in other programs; and
- The Commission should require the Investor-Owned Utilities (IOUs) to submit their procurement plans (including any update or addendum) to the service list at the same time they submits the plans to the Energy Division.

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[1] Preferred resources are defined in California's Energy Action Plan II as including first energy efficiency and demand response, followed by renewable sources of power and clean distributed generation, and last, clean and efficient fossil fuel generation. The PD explains that energy storage is not a preferred resource because it stores power regardless of how the power is produced. Nevertheless, the PD includes energy storage in the category of preferred resources unless otherwise noted. PD, fn. 3, pp. 6-7.

[2] PD, p. 1.

[3] The PD incorrectly states at page 11 that ORA served testimony including modeling studies on August 26, 2013. In fact, ORA served opening testimony on September 30, 2013.

II. DISCUSSION

A. The Proposed Decision's cautious approach will allow the development of preferred resources and transmission solutions without risking reliability.

The PD authorizes a total of 1,000 – 1,400 MW of new resources to meet the LCR need resulting from the early retirement of SONGS. The PD explains that this range of authorized procurement is reasonable because it provides "ratepayer protections against over procurement and simultaneously provides reasonable protection from reliability impacts from under procurement."[4] This needs authorization is consistent with ORA's recommendation to allow SCE and SDG&E to procure a combined total amount of 1,315 – 1,450 MW of new, predominantly preferred, resources in their LCR areas.[5] The PD suggests a maximum procurement range of 1,400 MW based on the presumption that no more than one of the resources available to reduce LCR need comes to fruition; and the PD proposes a minimum procurement range of 1,000 MW on the basis of no more than two of the identified resources becomes available:

> "in determining an alternative maximum prudent procurement amount, determinations should not incorporate more than one potential source to meet or reduce LCR needs into the analysis. In other words, we should consider, for example, whether either not to procure capacity to fully avoid the N-1-1 contingency or whether to assume another resource (or combination of partial achievements of resources) should be counted – but not both."[6]

ORA agrees that establishing a methodology to estimate a maximum and minimum procurement range is reasonable. However, there are other ways of quantifying the likelihood of whether or not a group of resources may be available to meet LCR needs. Selecting just one resource (to define the maximum procurement limit) or not more than two resources (to define the minimum procurement limit) of the six identified LCR-quality resources is somewhat arbitrary.

It is important for the Commission to balance concerns of over procurement with those of under procurement. This is an ongoing challenge in the biennial LTPP proceeding. A more accurate assessment of resource availability can be achieved by looking at the probability of each *individual* resource's availability instead of the resource set as a whole, since future resource

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[4] PD, Conclusion of Law, 35, p.134.

[5] See The Office of Ratepayer Advocates' Opening Brief on Local Reliability Procurement to Account For the Closure of the San Onofre Nuclear Generating, November 25, 2013, pp. 13 - 14. ORA recommended authorizing SCE and SDG&E to procure 1,100 MW of preferred resources; 700 MW for SCE and 400 MW for SDG&E. In addition, SDG&E would be authorized to procure 215 – 350 MW through an all-source request for offers (RFO).

[6] PD, p. 71.

availability, in most circumstances, is not a zero-sum game. An alternative to the PD's methodology would be to assign a weighted probability – based on qualitative judgment – to each *individual* resource as a way to define a maximum and minimum procurement range and to determine each individual resource's likely availability to meet LCR need. The table below demonstrates this alternative approach to the PD's calculation by assigning probabilities – i.e., weights - to each resource. It then uses these weights to determine the resulting "derived upper bound" for resource need.[7]

Net Need - Stating Point			2390		2390
LCR Reducing resources	MW Effect	Max Procure Probable	Max Procure Amount, MW	Min Procure Probable	Min Procure Amount, MW
Temp Load Shedding	588	100%	588.0	100%	588
Mesa Loop-in	734	50%	367.0	75%	550.5
Uncommited EE	733	25%	183.3	50%	366.5
Energy Storage	745	10%	74.5	25%	186.25
2nd Cont PV[8]	800	25%	200.0	50%	400
2nd Cont DR[9]	997	25%	249.3	50%	498.5
			1662.0		2589.8
Weighted Ave Based Bounds (starting point minus LCR reducing resources)			728.0		-199.8

In arriving at the procurement authorization of 1,000 – 1,400 MW, the PD assigns a minimum 10 – 20% probability range to the group of identified resources that have the potential to be available to meet LCR need in 2022. Given that the weighted probability of each LCR resource identified in the PD is not necessarily the same (as illustrated in ORA's table above), it would also be prudent to increase the minimum range of future resource availability upward from 10 – 20% to 15 – 30%.

[7] ORA is not suggesting any particular weights; this table is illustrative only. As shown, it would define a range from no need (-199.8 MW, minimum procurement) to 728 MW (maximum procurement).

[8] "The revised Scoping Memo designates incremental customer-side solar photo voltaic (PV) as a 'second contingency' resource because it is difficult to predict the location where customer-side PV will get built." PD, p. 62. The two major contingencies, or loss of system elements to which the CAISO must respond usually will be a failure of the largest transmission lines and/or generation resources in the local area. PD, p 37. Second contingency PV is available to mitigate the impact of the second contingency.

[9] Second contingency demand response (DR) is demand response available to mitigate the impact of the loss of a second system component. PD, pp. 53-54.

Utilizing the weighted probabilities for each of the six LCR quality resources to adjust the future resource availability range is consistent with the most recent findings from the California Independent System Operator Corporation's (CAISO) 2013 – 2014 Transmission Planning Process (TPP) issued on February 3, 2014.[10] The CAISO's draft 2013 – 2014 TPP includes improved reactive support (as well as flow control devices in the SDG&E area) as part of its "Group I" list of transmission upgrades and projects that optimize the use of existing transmission lines. Other Group I projects that the CAISO recommends proceeding with include the Mesa Loop-In—SCE's transmission upgrade proposal—and installing two synchronous condensers at the San Luis Rey substation (450 MVAR), a project which was not part of the Track IV SONGS assessment.[11] Group I projects are recommended by the CAISO to go forward now as they a) have a minimal footprint, higher regulatory certainty, and lower costs, and b) provide long-term benefits even if other transmission reinforcements are pursued.[12] Notably, these Group I projects include additional LCR-reducing reactive resources[13] that are not among the identified LCR-reducing resources shown in the PD at Table 2.[14]

This alternative approach illustrates that the PD's approach is extremely cautious and should allow the development of preferred resources and transmission solutions such as SCE's proposed Mesa Loop–In project to meet anticipated LCR need in 2022. As more information becomes available through the finalized 2013 – 2014 TPP results and the preferred resource pilot programs of SCE (and possibly SDG&E) as well as request for offer (RFO) procurement results, the Commission can determine whether it is necessary to revisit LCR needs in the 2014 long-term procurement planning rulemaking, Rulemaking(R.)13-12-010. If it is not necessary to revisit LCR need in the 2014 LTPP proceeding, parties could focus on system reliability and the IOUs' bundled procurement plans in Phase 1a and Phase 2 schedule of the 2014 LTPP.

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[10] Available at http://www.caiso.com/planning/Pages/TransmissionPlanning/2013-2014TransmissionPlanningProcess.aspx.

[11] 2013 -2014 ISO Transmission Plan, February 3, 2014, p. 103.

[12] See slides 7 through 19, CAISO Presentation of Southern California Reliability Assessment during 2/14/2014 2013/14 Transmission Planning Process (TPP) meeting, available at: http://www.caiso.com/Documents/Presentation-Draft2013-2014TransmissionPlanStakeholderMeetingFeb12_2014.pdf.

[13] For example, CAISO's Draft 2013/14 Transmission Plan (February 3, 2014) identifies between 800 and 1,680 MW of LCR reduction from the Group I projects listed in Table 2.6-5: Summary of Proposed Transmission Solutions, Cost Estimates and Local Resource Reduction Benefits (p. 104).

[14] PD, p. 72.

B. The Commission should include additional questions related to ratepayer cost impact to justify any proposed contingent contracts.

The PD reviews SCE's proposal to pursue certain contingent gas fired generation (GFG) or "options contracts" as a backstop to its LCR procurement strategy.[15] SCE anticipates utilizing these options contracts to fill in any procurement need that may suddenly arise due to a failure of certain gas-fired and preferred resources to develop.[16] The PD does not approve or reject SCE's options contract proposal, but notes the uncertainties surrounding this proposal and requires SCE (and potentially SDG&E), to submit answers to a list of questions related to the contingent/option contracts if it chooses to pursue that option and "provide clear and full answers to the questions above before we will consider approving such contracts."[17] ORA supports the PD's attempt to mitigate the risk associated with contingent contracts as part of the application for approval of any LCR resources. The Commission should modify the PD to incorporate the following additional questions on the potential financial impacts to ratepayers:

a) What potential costs (stranded, indirect or direct) will ratepayers be exposed to if these contracts are pursued?
b) How will the cost structure of these contracts differ from contracts signed through a competitive RFO?
c) Given that there is a staggered time frame for the development of resources that may be backstopped with the contingent contracts, will the execution of such contingent (options) contracts also be gradual or incremental to any anticipated need that does not materialize?

Additionally, if SCE or SDG&E plans to pursue contingent contracts, they should submit their answers to these questions as part of their 2012 LTPP Track IV procurement plans. SDG&E can include its responses in its upcoming procurement plan to be filed 90 days after a final decision on Track IV and SCE can submit its responses as an addendum to the procurement plan it filed pursuant to Decision (D.)13-02-015. Submission of the answers before the filing of the applications will allow stakeholders the opportunity to review responses in advance, possibly alerting the Commission to potential problems.

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[15] Exhibit SCE 1, pp. 58 – 59.

[16] Exhibit SCE 1, p. 58.

[17] PD, p. 103.

C. The Commission should require SCE to submit an addendum to its procurement plan explaining how it will ensure that authorized resources are incremental.

The PD acknowledges SDG&E's concern regarding the potential for "double-counting and cannibalization of existing programs" that arises when procurement of preferred resources occurs along two parallel paths (e.g., within an existing energy efficiency (EE) program and also within a request for offers to meet LCR need), but concludes that it is nevertheless better to compare resources procured for the same purpose (meeting LCR need) in the same process (an RFO).[18] The PD attempts to address the risk that ratepayers might end up paying twice for the same resource (e.g. once through an EE program and then again in an RFO) by including detailed requirements in SDG&E's procurement plan requirements:

> **"Description of how authorized resources are incremental**: Detail plans to distinguish LCR capacity/ energy from existing IOU-DSM programs including energy efficiency (EE) and demand response (DR). Include a description of the methodology and assumptions that will be used to conduct this assessment. For example explain how the most recent impact evaluation study results will be utilized or why those results cannot be used. If engineering estimates are to be used it is expected that the methods and assumptions employed would be consistent with direction in the appropriate proceedings (EE or DR) and if alternate approaches are to be used provide the details of methods and assumptions and why they are proposed to be used in place of the standard DR or EE procedures. Include all baseline planning assumptions. Demonstrate how procurement is incremental to ISO studies and LTPP assumptions like "uncommitted energy efficiency." For example, the ISO studies are based upon source data that includes "naturally occurring" energy efficiency that results from standard business upgrades, renovations and replacements of equipment and facilities over time. In addition, the CAISO has recently agreed to include "Additional Achievable Energy Efficiency" identified in the CEC IEPR that results from future code and standard and utility EE program impacts. Detail how resources selected in the procurement will be shown to be incremental from those resources accounted for in the ISO studies. (Note that a requirement that a project not make use of a utility EE or DR program incentive is not sufficient to ensure that a project is actually incremental to the efficiency savings that would have otherwise occurred in this local reliability area, rather than simply 'cannibalizing' savings that would otherwise have

[18] PD, p. 109.

been included in the IOU EE portfolio."[19]

These requirements should provide reasonable guidance to SDG&E as it undertakes procurement of energy efficiency and demand response along two parallel tracks. The Commission should direct SCE to file an addendum to its procurement plan that meets these same requirements in order to minimize the risk of double-counting these resources.

D. The Commission should require public versions of procurement plans.

The PD directs SDG&E to submit no later than 90 days after a final decision, a procurement plan to the Commission's Energy Division, similar to the one SCE submitted as a requirement per Decision (D.)13-02-015. SDG&E's procurement plan should include, according to Order Paragraph 7, a proposed RFO and SDG&E shall not "commence any public procurement activities until Energy Division approves its procurement plan…."[20] The Commission should modify the PD to direct SDG&E to file a public version of its procurement plan for Track IV of the 2012 LTPP, within 90 days of a final decision, to parties on the service list of R.12-03-014 and require SDG&E to submit answers to the questions posed on the contingent (options) contracts in its procurement plan if it plans to pursue contingent contracts. The Commission should revise the PD to require SCE to file an addendum to its D.12-02-015 procurement plan with its responses to the contingent (options) contract questions presented in the Track IV PD on pages 102 – 103 if it also plans to pursue option contracts. The Commission should strive to make the utilities' procurement process as transparent as possible without compromising confidential information, especially with regards to new contract structures that could have potential negative impacts on ratepayers.

SCE's initial Track I procurement plan was only distributed to participants to SCE's Procurement Review Group (PRG) and not parties in R.12-03-014. It is unclear why this document was not shared publicly to give stakeholders the opportunity to review even though the document itself was not deemed confidential. To the extent SDG&E's procurement plan and proposal for the Track IV RFO can be shared with other stakeholders to this proceeding (i.e., contain public information) and the sharing of this information would not delay the implementation of their RFO, it should do so to ensure the LTPP and IOUs' process remains transparent and accessible to all stakeholders. In the event that SDG&E's Track IV procurement

[19] PD, Attachment B, paragraph 4 at pp. 1-2.

[20] PD, p. 140, Ordering Paragraph 7.

plan contains confidential information, ORA recommends a redacted version be shared with the R.12-03-014 service list.

III. CONCLUSION

ORA respectfully requests that the Commission revise the PD consistent with ORA's recommendations.

Respectfully submitted,

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March 3, 2014

APPENDIX A

ORA's PROPOSED CHANGES TO PROPOSED DECISION, INCLUDING FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDERING PARAGRAPHS

Page 11. SCE, SDG&E, ~~Office of Ratepayer Advocates (ORA)~~ and the City of Redondo Beach served testimony including modeling studies on August 26, 2013.

Findings of Fact

94. It is reasonable to require that procurement plans be disclosed publicly to the extent that they do not reveal confidential information.

ORDERING PARAGRAPHS

7. No later than 90 days after the effective date of this decision, San Diego Gas & Electric Company (SDG&E) shall submit a procurement plan to ~~be reviewed and approved by~~ to the Energy Division and the R.12-03-014 service list. The procurement plan shall include a proposed Request for Offer as required by Ordering Paragraph 6. SDG&E shall not commence any public procurement activities until Energy Division approves its procurement plan, which shall be reviewed consistent with this decision. The SDG&E procurement plan shall be subject to the same procurement plan requirements of Ordering Paragraphs 6 and 7 in Decision 13-02-015 as were required of Southern California Edison Company. In addition, SDG&E shall provide to Energy Division all of the information listed in Attachment B to this decision.

7a. As part of its procurement plan San Diego Gas & Electric Company (SDG&E) shall submit its response to the questions regarding contingent or options contracts. Southern California Edison Company (SCE) shall submit an addendum to its procurement plan that was ordered per D.13-02-015 that includes its response to the contingent or option contracts questions listed in question 11 of Attachment B to this decision.

ATTACHMENT B

SDG&E Procurement Plan Requirements

In its proposed procurement plan to be reviewed by Energy Division, SDG&E shall include all of the following:

1. Overall description of procurement process: Major procurement steps, such as soliciting bids, bid evaluation, selection of bids/signing contracts, filing application for Commission approval, expected decision, on-line date. Also include details on contingent contract process including triggers that would necessitate the execution of contingent contracts, option cost, contract terms, and a detailed break up of costs. Describe which elements of the solicitation will be made public.

2. Timeline: The procurement plan should contain a detailed timeline that includes an estimate for when resources with specific megawatt quantities are expected to come online up to the year of authorization. The timeline should also include:

a. Major procurement steps, such as soliciting bids, bid evaluation, selection of bids/signing contracts, filing application for Commission approval, expected decision, and on-line date.

b. A sub-timeline for contingent contracts.

c. Major decision points for backup procurement when resources do not materialize.

3. Locational details: Indicate the substations and the effectiveness of the sites where it plans to procure resources.

4. Description of how authorized resources are incremental: Detail plans to distinguish LCR capacity/ energy from existing IOU-DSM programs including energy efficiency (EE) and demand response (DR). Include a description of the methodology and assumptions that will be used to conduct this assessment. For example explain how the most recent impact evaluation study results will be utilized or why those results cannot be used. If engineering estimates are to be used it is expected that the methods and assumptions employed would be consistent with direction in the appropriate proceedings (EE or DR) and if alternate approaches are to be used provide the details of methods and assumptions and why they are proposed to be used in place of the standard DR or EE procedures. Include all baseline planning assumptions. Demonstrate how procurement is incremental to ISO studies and LTPP assumptions like "uncommitted energy efficiency."

For example, the ISO studies are based upon source data that includes "naturally occurring" energy efficiency that results from standard business upgrades, renovations and replacements of equipment and facilities over time. In addition, the CAISO has recently agreed to include "Additional Achievable Energy Efficiency" identified in the CEC IEPR that results from future code and standard and utility EE program impacts. Detail how resources selected in the

procurement will be shown to be incremental from those resources accounted for in the ISO studies. (Note that a requirement that a project not make use of a utility EE or DR program incentive is not sufficient to ensure that a project is actually incremental to the efficiency savings that would have otherwise occurred in this local reliability area, rather than simply 'cannibalizing' savings that would otherwise have been included in the IOU EE portfolio.

5. LCR and flexible attributes: Describe the LCR and flexible attributes of the various technology-specific resources considered for procurement. Rely on RA counting rules and the ISO "Non Transmission Alternatives" study in most cases. In cases where there are no defined attributes for a resource, propose attributes with a detailed rationale.

6. Procurement Process: Include detailed description of the procurement process resources, specifying the structure of any RFO, bilateral contract, existing procurement programs or alternative procurement process and related timelines. Include information on structure of offers, selection, short listing, and cost competitiveness threshold.

7. Include evaluation details. Include a detailed description for evaluating resources which contains the following information:

a. A process to evaluate different resources in a non-discriminatory fashion.

b. A method to quantify costs and benefits related to capacity, energy, flexibility, GHG, ancillary services etc. for all resources. For EE and DR resources provide details of methods and assumptions on how capacity and energy values will be established including the duration (life) of the availability of the resource and all considerations listed under the discussion of the incremental assessment in 4. Above.

c. Standardized assumptions for costs and benefits across resource type. For EE and DR resources provide details on how these assumptions either utilize assumptions adopted or directed in CPUC proceedings related to those resource or provide a detailed justification for alternate assumptions proposed to be used.

d. A method to capture non-energy and other quantitative benefits.

8. Include CAM details: Indicate which resources should be subject to CAM treatment. Indicate which procured resources will count towards IOU program goals.

9. Project details: Include details on how its plans to evaluate the viability of preferred resource projects. Also include the following project details for each technology type:

a. Desired start dates for delivery.

b. Acceptable contract durations.

c. Minimum size in terms of capacity.

d. Interconnection requirements.

10. Other Details: Include information on the following.

a. Intent of SCE to bid DR resources procured as response to this solicitation into the CAISO's wholesale energy market, as either economic or emergency energy, and any associated criteria used in making such a determination.

b. Bidder outreach before and after the solicitation including details like bidder conferences, advertisements, and webinars.

c. Participation of disadvantaged business enterprises.

d. Independent Evaluator (IE) details and IE role.

11. Responses to the following questions on contingent (options) contracts (if applicable: If planning to utilize contingent (options) contracts provide the following information.

a. Would these contingency contracts be in addition to site preparation by SCE in the vicinity of Johanna and Santiago substations, thus potentially leading to costly redundancy?

b. What metrics should be used to evaluate the cost-effectiveness of these contracts?

c. Should separate RFOs be held to procure contingency contracts? If not, how can it be shown that proposed contracts represent the lowest reasonable rate?

d. If SCE waited until the next RFO, might a contingency contract bidder improve its offer?

e. How would SCE measure and enforce performance under contingency contracts?

f. Would contingency contracts unfairly influence the next RFO? For example, if a contract is terminated after site preparation and permitting have already been completed, it may be more likely that this site will be selected in the next RFO.

g. In its testimony, SCE states "Second, the availability of Preferred Resources typically cannot be assured until much closer to the time of resource need. There is no assurance these Preferred Resources will ultimately be available to meet needs related to OTC closures because it is unlikely that customers will commit in 2014 that they will implement EE or DR in 2021." [214] If the preferred resources ultimately come online as expected, how will SCE avoid paying for both preferred resources and the contingency GFG contract, in light of SCE's assumed EE and DR procurement timeline? If SCE does not know if the preferred resources will perform until much closer to the time of delivery, on what grounds would SCE ever terminate a GFG option contract?

h. What potential costs (stranded, indirect or direct) will ratepayers be exposed to if these contracts are pursued?

i. How will the cost structure of these contracts differ from contracts signed through a competitive RFO?

j. Given that there is a staggered time frame for the development of resources that may be backstopped with the contingent contracts, will the execution of such contingent contracts also be gradual or incremental to any anticipated need that does not materialize?

12. **Other statutes affecting procurement:** Cite relevant state laws and Commission decisions influencing this procurement. List potential challenges.

13. Documents: Include non-binding pro formas and draft solicitation documents.

(END OF ATTACHMENT B)