

**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)

**AES SOUTHLAND, LLC'S REPLY COMMENTS ON PROPOSED DECISION  
AUTHORIZING LONG-TERM PROCUREMENT DUE TO PERMANENT  
RETIREMENT OF SAN ONOFRE NUCLEAR GENERATION STATIONS**

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Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, AES Southland, LLC ("AES Southland") submits the following reply comments on the Proposed Decision Authorizing Long-Term Procurement Due to Permanent Retirement of San Onofre Nuclear Generation Stations ("PD").

**I. INTRODUCTION**

A significant number of parties commenting on the PD agree with the PD's proposal to authorize Southern California Edison ("SCE") to procure an additional 500 to 700 MWs of local capacity in the LA Basin. Those parties include SCE,<sup>1</sup> the California Cogeneration Council,<sup>2</sup> the California Independent System Operator ("ISO"),<sup>3</sup> The Utility Reform Network ("TURN"),<sup>4</sup> and the Office of Ratepayer Advocates ("ORA").<sup>5</sup> AES Southland agrees with these parties, and with the PD, that 500 to 700 MW of additional procurement constitutes a reasonable next step, though AES Southland is concerned that some additional procurement may be needed in the LA Basin to replace both SONGS and retiring once-through cooling ("OTC") generation.

However, like many parties, AES Southland is concerned that the PD's requirement that SCE procure a minimum of 400 MW of preferred resources is unsupported by any evidence that preferred resources in that amount are readily available

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<sup>1</sup> SCE Opening Comments at 1-2.

<sup>2</sup> California Cogeneration Council Opening Comments at 1.

<sup>3</sup> ISO Opening Comments at 1.

<sup>4</sup> TURN Opening Comments at 2.

<sup>5</sup> ORA Opening Comments at 1.

and cost-effective. AES Southland, SCE,<sup>6</sup> San Diego Gas and Electric Company (“SDG&E”),<sup>7</sup> NRG Energy,<sup>8</sup> and Independent Energy Producers Association (“IEP”)<sup>9</sup> all agree that SCE should be given the flexibility to procure appropriate resources through additional all-source procurement, rather than being required to a specified amount of preferred resources.

AES Southland also generally agrees with the ISO that some mechanism needs to be put in place to track resource development, including preferred resources, to ensure that resources are timely appearing in the amounts and in the locations required.<sup>10</sup> Should the preferred resources the Commission is relying upon to meet local capacity needs not appear when expected, the Commission needs to act immediately to ensure that replacement resources are timely procured so as not to threaten reliability in Southern California.

## **II. DISCUSSION**

### **A. The PD Should Be Revised to Increase All-Source Procurement in SCE’s Service Area**

The PD appropriately notes that the Loading Order requires that, “[i]nstead of procuring a fixed amount of preferred resources and then procuring fossil-fuel resources, the IOUs are required to continue to procure the preferred resources ‘to the extent that they are feasibly available and cost effective.’”<sup>11</sup> Ordering utilities to procure specific amounts of preferred resources runs the risk of either setting the mandate too low, and therefore underprocuring preferred resources, or, alternatively, setting it too high and either requiring the utility to procure preferred resources that are not cost-effective, or directing the utility to meet local capacity requirements with resources that are not readily

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<sup>6</sup> SCE Opening Comments at 3.

<sup>7</sup> SDG&E Opening Comments at 6-9.

<sup>8</sup> NRG Opening Comments at 2-5.

<sup>9</sup> IEP Opening Comments at 9.

<sup>10</sup> See ISO Opening Comments at 4.

<sup>11</sup> PD at 14-15.

available. Despite recognizing these risks, however, the PD would mandate that SCE procure at least 400 MW of preferred resources. This is the wrong approach, as noted both in AES Southland's opening comments and in the opening comments of SCE, SDG&E, NRG Energy, and IEP. The PD should be revised to allow SCE to procure at least 500 MW from an all-source solicitation, consistent with SCE's request in this proceeding.

The Commission has other, and better, mechanisms to ensure that SCE meets its obligation to procure feasibly available and cost-effective preferred resources. SCE expressly states that it will make every effort to meet its obligations under the Loading Order when procuring resources through an all-source solicitation.<sup>12</sup> Furthermore, pursuant to D.13-02-015, SCE will submit an application to the Commission seeking approval of the final LCR procurement contracts. SCE has acknowledged that at that time, parties could object that there were other preferred resources that were available to SCE on a cost-effective basis that SCE failed to incorporate.<sup>13</sup> D. 13-02-015 further specifically requires that SCE show in that application that it complied with the Loading Order in procuring resources.<sup>14</sup>

Western Power Trading Forum ("WPTF") has suggested in its opening comments that the Commission should provide guidance on what it means by "cost effective."<sup>15</sup> AES Southland agrees with this suggestion. By providing utilities with additional guidance on what a "cost effective" preferred resource is, the Commission can assist both the utilities in complying with the Loading Order when evaluating offers, and provide parties and the Commission with an enhanced ability to evaluate Loading Order compliance.

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<sup>12</sup> SCE Opening Comments at 3.

<sup>13</sup> D.13-02-015 at 93.

<sup>14</sup> *Id.* at 94.

<sup>15</sup> WPTF Opening Comments at 4-6.

Vote Solar notes in its opening comments that because larger procurement authorizations will allow gas-fired generation to compete with preferred resources, the Commission should limit SCE's procurement to carbon-free resources.<sup>16</sup> Sierra Club raises a similar concern, and argues that either SCE should be limited to procuring preferred resources or the Track 1 and Track 4 procurement should proceed separately, so as to disadvantage gas-fired resources.<sup>17</sup> Neither of these suggestions, however, complies with the Loading Order. As the PD and other Commission decisions have repeatedly stressed, the Loading Order does not require utilities to solely procure preferred resources. Instead, it simply prioritizes the procurement of feasibly available and cost-effective preferred resources over gas-fired generation. Ultimately, the best way for the Commission to evaluate whether preferred resources are feasible and cost-effective is to allow them to compete in a bidding process with gas-fired resources. Should SCE fail to give proper priority to feasible and cost-effective preferred resources, the Commission can address that failure when addressing SCE's application for approval of its procurement of local capacity resources.

**B. AES Southland Agrees with the ISO That SCE's Procurement Progress Should Be Tracked**

In its opening comments, the ISO notes that "resource development may lag behind the milestone dates needed to ensure that resources are in place to meet the specific target dates driven by the OTC compliance requirements."<sup>18</sup> Given this concern, the ISO recommends that the PD specify that a process will be implemented to track "preferred and conventional resource development, transmission upgrades, and load forecasts with a feedback loop in each LTPP cycle."<sup>19</sup> WPTF offers a related suggestion, proposing that the Commission put in place a mechanism to procure alternate resources

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<sup>16</sup> Vote Solar Opening Comments at 1-2.

<sup>17</sup> Sierra Club Opening Comments at 12.

<sup>18</sup> ISO Opening Comments at 4.

<sup>19</sup> *Id.*

in the event that the high levels of preferred resources mandated by the Track 1 and Track 4 decisions fail to materialize.<sup>20</sup> AES Southland generally agrees with both these suggestions. As AES Southland noted in its opening comments, very little time remains until significant additional resources are needed due to OTC retirements. The Track 1 Decision, coupled with the PD, constitutes a significant “leap of faith” that there are sufficient feasibly available and cost-effective preferred resources to fill the preferred resources buckets. AES Southland believes that the best way to address this risk is to grant SCE the authority to procure through an all-source procurement. However, to the extent the PD requires that a certain amount of the procurement authorization be procured from preferred resource, a mechanism should be put in place to monitor the procurement and development of those resources. Should those resources fail to materialize as required, an expedited process must be put in place to procure replacement resources.

### **III. CONCLUSION**

The PD should be revised to permit SCE to procure at least 500 MW from all sources. SCE has repeatedly stated that it will comply with the requirements of the Loading Order. If sufficient cost-effective preferred resources are available, SCE can and is obligated to procure those resources in an all-source solicitation. However, in the absence of such resources, SCE needs to be authorized to procure other types of resources to ensure that local reliability needs in Southern California are met by 2020.

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<sup>20</sup> WPTF Opening Comments at 3-4.