

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Promote Policy)
and Program Coordination and Integration in)
Electric Utility Resource Planning)

R.04-04-003

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E)
POST-WORKSHOP COMMENTS**

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I.

INTRODUCTION

Pursuant to the direction provided in the Assigned Commissioner's Ruling Regarding Next Steps in Procurement Proceeding (ACR), issued December 2, 2005, and the requests of the California Public Utilities Commission (Commission) Energy Division staff at the 2006 Long Term Procurement Plan (LTPP) proceeding workshop conducted on December 14, 2005, Southern California Edison Company (SCE) respectfully submits these post-workshop comments on issues raised at the 2006 LTPP workshop (December 14 Workshop).

Consistent with the Energy Division staff's requests, SCE will not repeat the points made in its pre-workshop comments on the ACR, filed on December 12, 2005. SCE intends the following comments to serve as a supplement to its pre-workshop comments. SCE therefore incorporates by reference each of the points made in its pre-workshop comments and urges the Commission to adopt the modifications to the Staff Proposal as described therein.

SCE's post-workshop comments address the following matters, in light of the discussions at the December 14 Workshop:

(1) The Commission can appropriately resolve the issues associated with the first phase of the 2006 LTPP proceeding (examining the need for new generation

resources) through briefing and workshops. A sufficient record can be developed to determine the quantity, timing, and location of needed new generation resources, and to set an appropriate framework for allocating the benefits and costs of new generation, without conducting hearings. An essential first step in developing a proper record is determining the need for new generation. The Commission should only schedule hearings on new generation issues if, after completion of the workshops, there are critical factual issues that cannot be resolved.

(2) The integrated resource planning phase of this proceeding should be designated as the lowest priority phase. More critical issues related to the need for new generation, updated procurement plans, and defining the retail market exist, all of which are far more important to meeting the state's infrastructure needs. SCE also does not understand at this point what an integrated resource planning phase is intended to accomplish.

In addition, SCE opposes Commission development of policies for the replacement of aging power plants in this phase of the proceeding (as recommended by some parties at the December 14 Workshop). The Commission's jurisdiction with respect to most aging power plants is extremely limited, and in any event, replacement decisions are best left to individual generators to make in accordance with their respective business plans.

(3) The 10-year procurement plan/procurement policies phase of this proceeding should include Commission examination of portfolio risk policies. Minimizing portfolio risk is a competing requirement (and is often in direct conflict) with separately established resource adequacy and local area reliability requirements. Thus, portfolio risk policies should be revisited in this proceeding to properly align the Commission's risk policies with the competing procurement obligations for IOUs. Additionally, the timeline proposed by the Energy Division staff for this phase of the

proceeding is appropriate and should not be extended by two or more months as recommended by certain parties.

(4) SCE sees little value in reexamining the “hybrid market” for generation in this proceeding. Of far greater importance is defining the retail market, including the roles and responsibilities of LSEs. The current “hybrid market” has led to thousands of megawatts of newly contracted generation resources, especially third party-owned renewable resources.

II.

DISCUSSION

A. Appropriate Activities for Examining the Need for New Generation Resources

At the December 14 Workshop, the parties discussed whether briefing, workshops, and/or hearings were needed to resolve the resource need and benefit/cost allocation issues identified in the ACR’s Appendix A (Staff Proposal) for the new generation phase of the 2006 LTPP proceeding. However, no clear consensus was reached on the scope of activities needed to resolve these issues. For the reasons discussed below, SCE believes briefing and workshops alone are likely sufficient to address these issues. Hearings should only be scheduled if briefing and workshops give rise to factual issues that cannot otherwise be resolved.

1. The Commission Should Encourage The CEC To Develop A Needs Assessment For Presentation At A Workshop

A factual hearing on the issue of the need for new generation resources is not the best forum for a new generation needs assessment. These assessments are highly technical and do not lend themselves well to the adversarial setting of hearings.

A more productive way of developing an appropriate needs assessment is for the California Energy Commission (CEC) to update its assessments of aggregate supply and

demand in transmission constrained areas.¹ This update is not a relitigation of what occurred in the CEC's Integrated Energy Policy Report (IEPR) process, as the CEC has changed load forecasts since it last performed its assessment in July 2005. The CEC has the ability to develop a needs assessment far more easily than any other entity involved in this proceeding.²

The Commission should establish a workshop process to vet the results of the updated needs assessment, rather than immediately scheduling hearings. The assessment could be presented to the parties to this proceeding for analysis at a workshop to be held in early 2006. At that workshop, parties would have the opportunity to examine and better understand the needs assessment and determine if there is a factual dispute over the identified need for new generation resources. If such a factual dispute arises and cannot be resolved through the workshop, the Commission could then schedule and conduct hearings to determine the appropriate level of new generation needed in transmission constrained areas. It would be highly inefficient to hold any hearings on the magnitude of need without first updating the CEC's new generation needs assessment.

2. The Commission Should Conduct A Workshop On Benefit/Cost Allocation Mechanisms

The ACR indicates that the Commission is interested in exploring ways of addressing temporary and/or permanent mechanisms which can ensure construction of, and investment in, new generation in a timely manner.³ SCE agrees that the topic of

¹ As discussed in SCE's Comments on Assigned Commissioner's Ruling Regarding Next Steps in Procurement Proceeding, filed December 12, 2005 (SCE's Pre-Workshop Comments), an appropriate needs assessment should examine aggregate loads and resources during the peak period over the next seven to eight years. SCE's Pre-Workshop Comments, at 4.

² SCE believes the CEC should take the lead in developing this updated needs assessment, however, the California Independent System Operator (CAISO) also has access to market information from which it has published needs analyses. Thus, SCE urges the Commission to encourage the CEC and CAISO to work collaboratively to develop an updated needs assessment for this proceeding that both agencies agree upon.

³ ACR, Appendix A, at 2.

allocating benefits and costs of new generation must be considered when addressing how such resources will be built in California. Specifically, the Commission must address how to implement Assembly Bill (AB) 380's mandate to "equitably allocate the cost of generating capacity."⁴ This subject can best be addressed in workshops where parties can present and discuss proposals regarding how this can be accomplished. These workshops, however, should be structured to require concrete straw proposals from parties wishing to advocate a certain structure. Only by so doing, will the workshops be efficient and effective in helping the Commission to develop a benefit/cost allocation framework. Ultimately, if the workshops do not result in concrete proposals, the Commission may then be better served by conducting hearings in which the parties are required to put forth concrete allocation proposals in their testimony and defend their recommendations. At the very least, the workshops will help focus any subsequent hearings by refining the potential allocation mechanisms to be presented and debated at the hearings.

B. Integrated Resource Planning Process and Replacement of Aging Power Plants

At the December 14 Workshop, Energy Division staff invited the parties to submit written comments on whether the Commission should develop policies in this proceeding (and specifically, in the integrated resource planning phase of the proceeding) for the replacement of all aging power plants in California, as recommended in the CEC's IEPR Transmittal Report.⁵ SCE does not believe much value can be derived from the Commission attempting to address policy issues related to aging power plants in any phase of this proceeding. However, SCE first wishes to reemphasize its recommendation

⁴ Cal. Pub. Util. Code § 380(b)(2).

⁵ Transcript of CPUC Workshop, December 14, 2005, (Transcript) at 74-75.

that integrated resource planning be designated as the lowest priority phase of this proceeding.

1. The Integrated Resource Planning Phase Is A Low Priority And Should Occur Last

Integrated resource planning is a process, and thus, a means to an end. However, that end has not yet been clearly defined for this proceeding. Historically, integrated resource plans (IRPs) were developed solely by vertically-integrated monopoly utilities that can make all necessary tradeoffs between resources (transmission, generation, and customer programs) that are required to fully optimize the resource plan. The utilities' ability to make such tradeoffs has been inherent to this process because the utilities had first-hand knowledge of the costs and benefits of each resource. Moreover, as vertically-integrated monopolies, these utilities could serve their respective customers with any of these resources (transmission, generation, and/or customer programs), because the costs and benefits would accrue in each instance to the same constituency. Unfortunately, these traits underlying integrated resource planning do not exist in California.

In California, transmission is planned at the CAISO level for the benefit of all CAISO customers. The generation market, on the other hand, is not owned or controlled by any single entity, but instead consists of numerous parties each making their own independent decisions. Participants in the California generation market naturally protect as confidential their information regarding resource costs, characteristics, and availability (i.e., open positions). Thus, generation costs are not at all transparent in this market, which makes the benefit/cost comparison between transmission and generation impossible. For example, if the costs of transmission upgrades were publicly known, but the generators' own costs continue to be held as confidential, generators could then price their power just below the cost of the new transmission. Generators would thereby obtain significant local market power. Instead of minimizing costs (which typically is the goal

of integrated resource planning), the process could be exploited by generators to maximize their profits.

The inability to make a useful benefit/cost comparison between transmission and generation projects in California can also be demonstrated by considering the nature of a major transmission project. The transmission project would provide reliability benefits to all customers on the CAISO grid. Thus, the costs of the project would be spread among all CAISO customers via FERC TAC charges. However, if it were determined that new generation would be a better resource to serve a statewide need for all CAISO customers, no single entity other than the CAISO would be a natural counterparty to contract with the generation owner. SCE does not believe this outcome is the intent of the CPUC's process.

Given the status of California regulation, the purpose of integrated resource planning is unclear. Generation costs, availability, and characteristics are not known to all market participants. At the same time, the costs and benefits of transmission and generation projects are not directly comparable because they ordinarily accrue to different sets of customers. Without a clear understanding of what the IRP process is meant to accomplish, SCE believes an integrated resource planning effort must be the lowest priority phase of the four identified in the ACR.

2. The Commission Should Not Develop Policies Regarding Replacement Of Aging Power Plants

California's generation fleet is owned by many independent entities. Investor owned utilities (IOUs) in California procure between 65-70 percent of all energy through power contracts. Among the IOU-owned power plants, very few fall into the "aging" category.⁶ Therefore, the Commission has little jurisdictional authority over the vast

⁶ The primary type of aging IOU-owned plants is hydroelectric plants, many of which are approximately 100 years old.

majority of aging plants to which any replacement policies it adopts would apply. Moreover, the Commission certainly does not have jurisdiction to order independent generators to retire, or to continue to run, their facilities. The Commission should not divert time and resources in this proceeding to developing and establishing policies regarding aging power plants.

Independent generators are best suited to determine whether and when they should replace their own aging plants. Replacement decisions should be made by individual generators, based on their expectations of what actions will benefit their shareholders over the long and short run. It is not necessary for the Commission to intervene in independent generators' decision-making in this regard.

SCE further opposes development of policies by the Commission for replacement of aging plants in this proceeding because of the practical problems associated with setting such policies. To properly develop policies on aging power plant replacement, the Commission would need to know the costs, availability (i.e., open position), and characteristics of the aging plants. This information would be needed for the Commission to perform a benefit/cost analysis of whether it is more beneficial to customers to maintain an aging plant "as is," or to replace the plant. This information is, and SCE believes it will likely continue to be, held as confidential. As a result, any Commission exploration of aging plant replacement policies will be limited and impractical.

3. Existing/Aging Power Plant Participation in IOUs' Requests for Offers

SCE believes that a statement regarding IOU Requests for Offers (RFOs), made at the December 14 Workshop by a representative of the Western Power Trading Forum (WPTF), warrants clarification here. Specifically, the WPTF representative contended

that existing power plants are being denied the opportunity to bid in certain RFOs.⁷ This assertion, to the extent it refers to a new generation RFO issued (and subsequently withdrawn) by SCE in 2005, is opportunistic and misleading.

SCE did issue an RFO seeking bids for contracts solely for new generation resources in 2005. However, SCE also issued an RFO that was an *all-source* solicitation (allowing for bidding of existing, new, conventional, and/or Qualifying Facility resources) during the same time period. The new generation RFO was launched in April 2005 with a close date of September 2005, while the all-source RFO was launched in July 2005 with a September 2005 close date. Accordingly, these RFOs provided generators with parallel contracting opportunities for both new and existing generation. Moreover, it would not have been appropriate to include existing resources in SCE's new generation RFO. As SCE made clear in its Application to the Commission related to the new generation RFO (A.05-06-003), the RFO was issued to address a need in the SP-15 area as a whole. That need, as identified by the CEC and CAISO, existed above and beyond the capacity available through existing resources. It would not have made any sense to permit existing resources to bid on such an RFO, as they could not have provided any *new generation* needed for the SP-15 area.

C. Scope and Timeline for 10-Year Procurement Plan/ Procurement Policies
Phase of the Proceeding

The Staff Proposal in the ACR indicates that the Commission may examine the portfolio risk policies used by IOUs in procurement as part of the 10-year procurement plan/procurement policies phase of the 2006 LTPP proceeding.⁸ SCE strongly urges the Commission to revisit portfolio risk policies in the context of the IOUs' procurement plans and new requirements the Commission has placed on the IOUs since the risk

⁷ Transcript, at 77.

⁸ ACR, Appendix A, at 11.

policies were adopted. Specifically, the Commission should reexamine the requirements upon IOUs for minimizing portfolio risk (i.e. Consumer Risk Tolerance (CRT) and risk screening criteria in general), in light of subsequently enacted Commission mandates such as resource adequacy (RA) and local area reliability (LAR) requirements.⁹ Portfolio risk policies often directly conflict with RA and LAR requirements, which set specific procurement targets without consideration of risk exposure. Thus, it is appropriate and necessary in this proceeding to realign and prioritize portfolio risk policies with respect to RA and LAR requirements.

With respect to the timeline for this phase of the 2006 LTPP proceeding, TURN suggested in its pre-workshop comments, and at the December 14 Workshop, that the phase should be extended by two months. Specifically, TURN recommended that the Commission provide a four-month period between filing of procurement plans and the beginning of hearings, rather than the two months specified in the Staff Proposal.¹⁰ TURN claimed this longer period was needed in order to allow intervenors enough time to review plans, conduct discovery, and prepare responsive testimony.¹¹ SCE does not believe an extension to the Staff Proposal's timeline for this phase of the proceeding is necessary. As stated in its Pre-Workshop Comments, SCE supports the schedule provided in the Staff Proposal for the procurement plan phase of this proceeding.¹² Two months is a sufficient period of time for parties to review procurement plans and prepare for hearings, including by conducting properly focused discovery (if necessary) and preparing testimony. Indeed, a similar schedule was used in the 2004 LTPP proceeding.

⁹ The Commission adopted the CRT requirement for IOUs in D.02-12-074 and also established workshops that eventually led to a Time to Expiration Value at Risk (TEVaR) monthly reporting requirement. RA requirements were first adopted in D.04-10-035, while LAR requirements were implemented in D.04-07-028.

¹⁰ Pre-Workshop Comments of TURN in Response to the December 2, 2005 Assigned Commissioner's Ruling, dated December 12, 2005, at 3-4; Transcript at 99-102.

¹¹ *Id.*

¹² SCE's Pre-Workshop Comments, at 11.

There is no need to deviate from the Staff Proposal and delay the procurement planning process in this proceeding.

D. The Commission Should Not Revisit the Use of a “Hybrid Market” for Generation Procurement in this Proceeding

At the December 14 Workshop, Energy Division staff invited written comments on whether reevaluating the use of the “hybrid market” for generation (described in D.04-12-048) was an appropriate topic for this proceeding.¹³ SCE questions the relative value of reexamining a wholesale market that has produced thousands of megawatts of newly contracted generation, when the state is faced with the looming uncertainty of the retail market. Indeed, key aspects of the “hybrid market,” such as the use of Procurement Review Groups and independent evaluators in IOU procurement were only recently established, and should not be disrupted now as they appear to be working properly.¹⁴ If any issue deserves careful attention now, it is defining the retail market rather than the wholesale market.¹⁵

The silence of the Legislature and the Commission on critical matters regarding the retail market – such as who has the responsibility of assuring new generation is built and whether and when Direct Access will be reopened to all customers – has substantially inhibited investment in generation and the viability of many retail service providers.¹⁶ A clear understanding of the retail market is essential to all LSEs’ development of appropriate resource plans. Thus, the relative value of focusing on the retail market issue dwarfs any purported need to reevaluate a wholesale “hybrid market” that, at this stage, appears to be working.

¹³ Transcript at 105, 107.

¹⁴ SCE does have concerns with certain elements of the “hybrid market,” such as the uneven playing field for new IOU-owned generation, as set forth in SCE’s Application for Rehearing of D.04-12-048. However, there is no need to address the “hybrid market” issue in the 2006 LTPP proceeding.

¹⁵ SCE’s Pre-Workshop Comments, at 2-3, 12.

¹⁶ *Id.*

III.

CONCLUSION

For the reasons discussed above, SCE urges the Commission to: (1) seek a comprehensive generation needs assessment from the CEC and conduct the new generation phase of this proceeding through workshops and briefing; (2) make the integrated resource planning phase the lowest priority in this proceeding and exclude development of policies on the replacement of aging power plants from this proceeding; (3) as part of the 10-year procurement plan/procurement policies phase of this proceeding, reconsider the portfolio risk policies required of IOUs, and maintain the schedule for this phase as stated in the Staff Proposal; and (4) exclude any reexamination of the wholesale generation “hybrid market” from this proceeding and focus on defining the retail market and requisite LSE obligations.

In addition, SCE renews its request that the Commission modify the proposed scope and timeline of the 2006 LTTP proceeding as described in SCE’s Pre-Workshop Comments, for the reasons discussed therein.

Respectfully submitted,

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January 5, 2006

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) POST-WORKSHOP COMMENTS on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

- Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.
- Placing the copies in sealed envelopes and causing such envelopes to be delivered by hand or by overnight courier to the offices of the Commission or other addressee(s).
- Placing copies in properly addressed sealed envelopes and depositing such copies in the United States mail with first-class postage prepaid to all parties.
- Directing Prographics to place the copies in properly addressed sealed envelopes and to deposit such envelopes in the United States mail with first-class postage prepaid to all parties.

Executed this **5th day of January, 2006**, at Rosemead, California.

Samantha Bertolone
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January 5, 2006

Docket Clerk
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

RE: **R.04-04-003**

Dear Docket Clerk:

Enclosed for filing with the Commission are the original and five copies of **SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) POST-WORKSHOP COMMENTS** in the above-referenced proceeding.

We request that a copy of this document be file-stamped and returned for our records. A self-addressed, stamped envelope is enclosed for your convenience.

Your courtesy in this matter is appreciated.

Very truly yours,

Michael A. Backstrom

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Enclosures

cc: All Parties of Record
(U 338-E)