

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

Order Instituting Rulemaking to Promote Policy )  
and Program Coordination and Integration in ) Rulemaking 04-04-003  
Electric Utility Resource Planning )  
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**PRE-WORKSHOP COMMENTS OF TURN IN RESPONSE TO THE  
DECEMBER 2, 2005 ASSIGNED COMMISSIONER'S RULING**

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## **PRE-WORKSHOP COMMENTS OF TURN IN RESPONSE TO THE ACR**

On December 2, 2005, Assigned Commissioner Michael R. Peevey issued a ruling (“the ACR”) setting forth proposed goals and procedural steps for the 2006 Long-Term Procurement proceeding, and seeking parties’ comments on the proposal and the attached staff-prepared initial workplan for the proceeding. TURN applauds President Peevey for taking the initiative to provide early scoping for the 2006 proceeding, and generally supports the suggested procedures in the attached appendices. Indeed, the ACR performs a valuable service by outlining a realistic and generally workable plan for conducting what will likely be a difficult and complex proceeding. TURN offers a few suggestions for clarification in these comments.

### **I. TURN SUPPORTS THE PROPOSED GOALS AND ORDER FOR CONSIDERATION OF ISSUES IN THE 2006 LONG-TERM PROCUREMENT PROCEEDING**

TURN fully endorses the identification of the issues that need to be addressed in the proceeding, as set forth on page 6 of the ACR. Moreover, TURN strongly supports the ACR’s determination that the proceeding should begin with an assessment of the near-term need for new generating plant construction in California, and the issues of cost and benefit allocation that have thus far prevented much progress in securing such new generation. While TURN agrees that it may be less than ideal to take up these issues ahead of the main phase of the proceeding, the potential for energy shortages in the near- to mid-term, which we define as the period through 2010, is simply too significant to ignore. Absent an immediate focus on identifying such needs and developing a realistic plan for satisfying them, it could take a full year to reach determinations on these time-critical issues. California may not have the luxury of that much time. The goal of addressing these issues and getting Request for Offers (RFOs) out on the street by this summer is achievable and sufficiently important that we believe the Commission should move ahead as suggested. The balance of the proceeding can then consider needs beyond 2010

in a less rushed and more orderly fashion. But given lead times for major new plant siting and construction that can consume as much as four to five years, there is simply no time to waste in addressing near-term needs through the year 2010.

## **II. COMMENTS ON THE APPENDIX A WORK PLAN**

TURN support the proposed goals set forth in Section II of Appendix A and particularly the identification of Goal #1 as the first priority for the 2006 proceeding. TURN would only suggest adding as an additional goal that this Commission strive to achieve long-term rate relief for consumers as one its primary guideposts in this endeavor. Electric rates in California remain remarkably high, and any long-term plan must consider reducing these costs to be one of its highest priorities.

Turning to Section III.1.a of Appendix A, TURN believes that it is proper to focus first on an assessment of overall need for new generation capacity through 2010. Facts currently in the public record are probably sufficient to make a decision on this question, but it is critical that any decision be based on this Commission's established criterion for resource adequacy, that is, sufficient capacity to provide a 15 – 17% reserve margin under average year conditions. Many past analyses have used different criteria, resulting in widely varying answers to the question of just how much "need" there really is. Locational needs should also be considered in this process.

It probably also makes sense to attempt to distinguish between the absolute physical need for new generation for reliability purposes and any additional need for new construction to replace aging plants. TURN does not necessarily believe that this distinction will be relevant for purposes of cost and benefit allocation (since new generation is likely to be more expensive in the near term than relying on existing infrastructure in either case). But it does seem appropriate to consider the nature of the "need" in assessing how much might be a reasonable price to pay

for new construction. In other words, sufficient generation to meet reliability standards is a virtual necessity, while new generation to replace aging plants that are capable of remaining in service is more discretionary. Replacing aging plants is likely to reduce energy costs over time due to lower heat rates, but the higher capital costs of new plants present a tradeoff issue. There is certainly a limit to what would be a reasonable premium to pay for new capacity in the near term in order to achieve lower energy costs over the long term, especially given the very high level of current electric rates.

TURN agrees that workshops and related comments should provide sufficient information for the Commission to make findings regarding the amount and location of capacity needs in the State.

With respect to Section III.1.b of Appendix A, TURN agrees that staff has identified the critical questions that will have to be answered in a realistic way in order to ensure the actual construction of the new capacity that is found to be needed. It is precisely these types of issues that have stood in the way of progress for too long. However, TURN is skeptical that briefs alone will be sufficient to address these issues. We recommend that workshops separate from the “need determination” workshops be devoted to this subject *prior to any briefing*. Such workshops will allow for the presentation and evaluation of various proposals in advance of the arguments to be presented in briefs. Since this proceeding is a rulemaking that will only set general policy and not establish specific rates, TURN does not believe that formal evidentiary hearings are necessarily legally required.

Section III.2 of Appendix A discusses the main phase of the 2006 long-term procurement proceeding. Again, TURN believes that staff has done an excellent job of setting forth the questions that will need to be considered in this process. However, TURN is concerned about

the staff's suggestion that plans submitted in May of 2006 would be ready for hearings in July, only two months later. Intervenors will require more time to review the plans, conduct discovery and prepare responsive testimony. Accordingly, TURN suggests a period of four months between the filing of the plans and the start of evidentiary hearings. This is particularly important given that multiple entities will be submitting plans at the same time. TURN observes that the time between the filing of plans and start of hearings was similarly truncated in 2004, and we believe that the Commission received a lesser work product from the parties as a result.

TURN also believes that further clarification is in order as to the role that the CAISO Transmission Plan will play in the context of the IOUs' resource plans. At this point it is not at all clear what the CAISO plan will consist of, and whether the standard of analysis used to recommend major new transmission projects will be consistent with this Commission's established policies. Generally speaking, TURN submits that the CAISO should identify the reliability needs and economic opportunities to reduce costs that could be met with transmission investments. This Commission should then assess the tradeoffs among different types of resources (transmission, generation, demand-side) that could be employed to meet those needs and opportunities. We believe that such a division of labor would best leverage the particular expertise of each entity.

Appendix A talks about both Integrated Resource Planning and Long-Term Procurement Plans, without clearly defining either concept or explaining the differences between them. Further clarification would be most helpful in this regard. Also, Appendix A uses the term "IOU Planning Areas" in the context of the long-term resource plans. While TURN supports the comprehensive review implied by the use of this language, the term itself requires further clarification. Presumably an "IOU Planning Area" includes loads served by ESPs and

Community Choice Aggregators within the distribution service area of the IOU. Does it also include some or all of the municipal loads in the same geographic region? Further, there is a need to address how the implementation of an “IOU Planning Area” plan will be achieved across all LSEs that serve load within that area, and a resolution of which entities are to be responsible for which activities to fulfill the adopted plan.

Finally, while the ACR indicates that issues regarding local area and multi-year resource adequacy requirements will be considered in a separate rulemaking, there is a strong need for integration of procurement plans and policies with the issues considered in that proceeding. Coordination and feedback loops will be especially important if both dockets are moving forward in the same general time frame.

Section III.3 of Appendix A discusses IOU procurement policies and practices, and some of the issues that will be addressed on these topics. While TURN generally agrees with the list of issues, we must emphasize once again that a single proceeding that encompasses not only these issues – some of which may prove quite controversial – but also the actual long-term plans of multiple entities cannot reasonably be conducted under a schedule that contemplates utility filings in May and hearings in July. As the scope of the issues increases, the time required for parties to address them in a meaningful way necessarily increases as well.

### **III. COMMENTS ON APPENDIX B “DIVISION OF LABOR”**

The CPUC/CEC/CAISO Transmission Planning Collaboration document attached as Appendix B is a major improvement over past such documents, and generally represents a reasonable framework for moving forward on these issues. TURN offers a few comments for clarification and consistency purposes.

Slide 2 illustrates a fairly detailed “division of labor” among the three entities with respect to infrastructure development in California. As indicated above, TURN believes that the CAISO should identify the reliability needs and economic opportunities to reduce costs that could be met with transmission investments, and that this Commission should then assess the tradeoffs among different types of resources (transmission, generation, demand-side) that could be employed to meet those needs and opportunities. The proposed framework appears to be generally consistent with such an approach. However, the phrase “CPUC evaluates *additional* alternatives” (emphasis added) in the fourth bullet under “CPUC – Procurement” could imply that such consideration may also take place in other forums. Given that the CPUC’s responsibilities under CEQA already include evaluation of alternatives, it would appear to make the most sense to conduct all of the assessment of alternatives within a CPUC forum (except perhaps consideration of various different transmission alternatives, which would more logically fall within the province of the CAISO, as indicated in the fourth bullet under “CAISO”).

It is unclear exactly what is meant by the final bullet in the lower right hand corner of the table: “If the PTO fails to meet the adopted permitting schedule to build approved CAISO project, the CPUC/CAISO will facilitate a competitive process for award to a ‘Third Party.’” Since the CPUC has general authority under Public Utilities Code Section 761 *et seq.* to order utilities to undertake needed facility construction, it is not clear how or why such circumstances would ever arise. If an IOU simply refused to build such a project, perhaps the threat of assigning the task to a third party could serve as leverage to assure timely action. But mere delays in the permitting process should not lead to starting a project all over again with a different sponsor. Such an approach is more likely to delay than expedite the completion of the project in question.

With respect to Slide 4, the final bullet reads: “All TOs either adopt CAISO projects or propose alternatives that provide comparable solutions for problems.” TURN would recommend adding a provision that would allow the TO to question whether such “problems” really exist. Further, the FERC standards of conduct that require strict separation of the utilities’ transmission function may make it difficult for the TO portion of the utility to propose generation or demand-side alternatives that are “on the other side” of the functional divide.

Regarding Slide 5, TURN strongly agrees with the second major bullet, particularly that the CPUC should ultimately make the final planning decision among generation, transmission and demand-side alternatives.

The second bullet of Slide 6 states that “CPUC CPCN analysis would rely on non-transmission alternatives analysis conducted in CAISO Transmission Plan and supplemented in CPUC procurement proceeding.” Again, TURN questions whether the consideration of non-transmission alternatives is really within the CAISO’s core competency. We believe that primary consideration of non-transmission options should occur at the CPUC, as indicated in the third bullet of Slide 8. The presentation seems somewhat inconsistent on this question. Also, TURN raises, but does not purport to be able to answer, the question of whether CEQA would allow the exclusion from consideration in the CPCN process of alternatives that were rejected earlier in the planning process.

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**IV. CONCLUSION**

Subject to the clarifying comments and questions set forth above, TURN supports the framework for 2006 procurement proceeding set forth in the ACR and the Appendices thereto.

Respectfully submitted,

**THE UTILITY REFORM NETWORK**

December 12, 2005

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