BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

FILED
01-14-13
04:59 PM

Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans.	Rulemaking 12-03-014 (Filed March 22, 2012)

THE DIVISION OF RATEPAYER ADVOCATES' COMMENTS ON PROPOSED DECISION AUTHORIZING LONG-TERM PROCUREMENT FOR LOCAL CAPACITY REQUIREMENTS

RADU CIUPAGEA
NIKA ROGERS
ALAN WECKER
Analysts for the
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-1529
Email: nika.rogers@cpuc.ca.gov

DIANA L. LEE
IRYNA A. KWASNY
Attorneys for the
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703- 4342
Email: diana.lee@cpuc.ca.gov

January 14, 2013

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY 1

A. CONVENTIONAL GAS-FIRED GENERATION FLOOR IN THE WEST LOS ANGELES SUB-AREA OF THE LOS ANGELES (LA) BASIN LOCAL RELIABILITY AREA 2

B. DISTRIBUTED GENERATION 2

C. TRANSMISSION UPGRADES AND NEW TRANSMISSION CAPACITY 2

D. ENERGY STORAGE 2

E. DEMAND RESPONSE 3

F. SUBMISSION OF SCE'S PROCUREMENT PLAN 3

II. DISCUSSION 3

A. THE COMMISSION SHOULD ELIMINATE THE PD'S 1,000 MW FLOOR ON SCE'S ACQUISITION OF GAS-FIRED CAPACITY IN THE WESTERN LOS ANGELES SUB-AREA. 3

B. THE COMMISSION SHOULD REVISE THE PD TO LIMIT SCE'S AUTHORITY TO 1500 MW FOR THE WEST LOS ANGELES SUB-AREA, RATHER THAN AUTHORIZING ADDITIONAL DISTRIBUTED GENERATION AT THIS TIME. 5

C. THE COMMISSION SHOULD CLARIFY THE PD TO REQUIRE SCE TO INCLUDE TRANSMISSION STUDIES IN ITS PROCUREMENT APPLICATION. 6

D. THE COMMISSION SHOULD CLARIFY THE PD TO STATE THAT THE 50 MW OF ENERGY STORAGE TO MEET LCR NEED IN THE WESTERN LA SUB AREA SHOULD BE DESIGNED AS A PILOT PROJECT TO TEST THE EFFICACY OF ENERGY STORAGE IN MEETING LCR NEED. 8

E. THE COMMISSION SHOULD REVISE THE PD TO DIRECT SCE TO WORK WITH THE CAISO TO DEVELOP, IDENTIFY, AND QUANTIFY DEMAND RESPONSE PROGRAMS THAT ARE LOCALLY DISPATCHABLE AND ARE CAPABLE OF REDUCING LCR NEED. 9

F. THE COMMISSION SHOULD REVISE THE PD TO REQUIRE SCE TO SUBMIT ITS PROCUREMENT REVIEW PLAN VIA TIER 2 ADVICE LETTERS 10

G. THE COMMISSION SHOULD REVISE THE PD TO POSTPONE PROCUREMENT OF RESOURCES FOR THE BIG CREEK/VENTURA LOCAL RELIABILITY AREA UNTIL THE 2014 LTPP PROCEEDING. 11

H. THE PD REASONABLY CONCLUDES THAT THE CURRENT COST ALLOCATION MECHANISM (CAM) SHOULD APPLY TO LOCAL CAPACITY PROCUREMENT AUTHORIZED BY THE COMMISSION, CONSISTENT WITH PAST COMMISSION DECISIONS.....12

I. THE PD REASONABLY DIRECTS SCE TO REQUEST ANY ADJUSTMENTS TO ITS CAPITAL STRUCTURE IN ITS NEXT COST OF CAPITAL APPLICATION. 13

III. CONCLUSION 13

APPENDIX A 15

DRA's PROPOSED CHANGES TO FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDERING PARAGRAPHS.....15

TABLE OF AUTHORITIES

CPUC Decisions

D.12-04-045 9

D.12-01-033 1

California Public Utilities Code

Section 454.5(b)(9)(C) 13

Section 454 13

Section 451 13

I. INTRODUCTION AND SUMMARY

Pursuant to Rule 14.3 of the Rules of Practices and Procedure of the California Public Utilities Commission (the CPUC or Commission), the Division of Ratepayer Advocates (DRA) submits these comments on Administrative Law Judge (ALJ) David M. Gamson's December 21, 2012 Proposed Decision (Proposed Decision or PD) authorizing Southern California Edison (SCE) to procure between:

- 1,050 and 1,500 Megawatts (MW) of electrical capacity in the West Los Angeles sub-area of the Los Angeles basin local reliability area, as well as resources sufficient to achieve a current forecast of 1,519 MW of distributed generation as an "exception to the 1,500 MW cap;"[1] and
- 215 and 290 MW for the Moorpark sub-area of the Big Creek/Ventura local reliability area.

The PD specifies certain characteristics of capacity procured for the West Los Angeles sub-area:

- At least 1,000 MW but not more than 1,200 MW of capacity must be procured from gas-fired resources;
- At least 50 MW must be procured from energy storage resources; and
- As much as 450 MW of capacity may be procured through preferred resources consistent with the Loading Order of the Energy Action Plan[2] and/or energy storage resources.
- SCE must obtain resources for the local reliability area through processes defined in energy efficiency, demand response, renewables portfolio standard and other relevant dockets.

DRA generally supports the PD, but recommends the modifications summarized below.

---

[1] PD, p. 2.

[2] The PD states at page 10:

"The Loading Order, first set forth in the Commission's 2003 Energy Action Plan, was presented in the Energy Action Plan II adopted by this Commission and the California Energy Commission (CEC) in October 2005. The Loading Order, which has been reiterated in multiple forums (including D.12-01-033 in the predecessor to this docket), requires the utilities to procure resources in a specific order:

'The 'Loading Order' established that the state, in meeting its energy needs, would invest first in energy efficiency and demand-side resources, followed by renewable resources, and only then in clean conventional electricity supply.' (Energy Action Plan 2008 Update at 1.)"

A. Conventional Gas-Fired Generation floor in the West Los Angeles sub-area of the Los Angeles (LA) basin local reliability area

The PD requires SCE to procure a minimum of 1,000 MW of conventional generation. Requiring a hard floor for conventional gas-fired generation procurement is inconsistent with the PD's goal of authorizing SCE to procure cost-effective resources in alignment with the Loading Order. DRA recommends eliminating the 1,000 MW floor for conventional gas-fired resource procurement in order to ensure compliance with the Loading Order and provide SCE an important measure of flexibility that it can use during negotiations for power purchases.

B. Distributed Generation

The PD authorizes SCE to procure up to 1,519 MW of distributed generation, to the extent this amount has not already been authorized in other Commission decisions. Although characterized as an "exception" to the 1,500 MW authorized for the LA Basin, in actuality it represents additional procurement authority. The Commission should limit SCE's procurement authority for the LA Basin to 1,500 MW and revisit the issue of SCE's local capacity requirement (LCR) need in the 2014 LTPP.

C. Transmission upgrades and new transmission capacity

The PD discusses the potential to incorporate new information about transmission upgrades and new transmission capacity in future procurement proceedings and in SCE's procurement application. The PD should go a step further and require SCE to include transmission studies in its procurement application.

D. Energy Storage

The PD requires that at least 50 MW of capacity be procured from energy storage resources. DRA supports procurement of energy storage to meet LCR need only if it is viable and provides equal or better value for the ratepayers as compared with other resources. DRA supports limited size experimental/pilot energy storage projects, provided that the associated cost implications are clearly justified and quantified. DRA does not oppose the 50 MW of energy storage adopted in the PD as long as it is designated as an experimental or pilot project with clearly specified deliverables designed to test the longer term ability of storage to compete cost-effectively with other resources. As a pilot project, SCE should attempt to procure a diverse set of technologies to experiment and collect data that can be made public.

E. Demand Response

The PD assumes zero locally dispatchable demand response and does not adjust the authorized LCR need to account for demand response programs capable of reducing LCR need. The PD also clearly acknowledges both the current ability, and the likely future ability, for demand response to contribute towards meeting a portion of local reliability requirements. DRA recommends the Commission direct SCE to work with the California Independent System Operator (CAISO) to develop, identify, and quantify demand response programs that are locally dispatchable and are capable of reducing LCR need.

F. Submission of SCE's Procurement Plan

The PD would require SCE to submit its proposed procurement plan to the Energy Division for approval for consistency with the final Decision before SCE moved forward with a public procurement process. DRA recommends that the Commission require SCE to submit the proposed procurement plan via a Tier 2 Advice Letter to allow for stakeholder input.

II. DISCUSSION

A. The Commission should eliminate the PD's 1,000 MW floor on SCE's acquisition of gas-fired capacity in the Western Los Angeles sub-area.

The PD specifically states that SCE's procurement plan should "actively pursue locally-targeted and cost-effective preferred resources."[3] DRA applauds this key underlying directive which emphasizes the Loading Order. The PD also states that the Commission will "require SCE to show that it has done everything it could to obtain cost-effective demand-side resources which can reduce LCR need, and cost-effective preferred resources and energy storage resources to meet LCR needs."[4] Lastly, the PD affirms that SCE is required, "in its application to approve PPAs [power purchase agreements] arising out of this order, to make the demonstration it proposes to show consistency with the Loading Order; that is, to identify each preferred resource and then assess the availability, economics, viability and effectiveness of that supply in meeting the LCR need."[5]

---

[3] PD, p. 3.

[4] PD, p. 76.

[5] PD, p. 77.

Yet the PD simultaneously imposes a 1,000 MW floor on the SCE's procurement of conventional gas-fired resources. Requiring procurement of 1,000 MW of conventional gas-fired resources is inconsistent with the PD's goal of ensuring that SCE procure cost-effective resources in alignment with the Loading Order. In fact, if SCE procures at the lower end of the PD's procurement authority of 1,050 MW for the Western Los Angeles sub area, it must procure of 50 MW of Energy Storage and 1,000 MW of conventional gas-fired resources,[6] thereby eliminating the need to procure any preferred resources to reduce the authorized LCR need. Essentially, the PD authorizes procurement of up to 450 MW of preferred resources only in the event SCE determines that more than 1,050 MW of LCR are needed. This is inconsistent with the Loading Order.

While SCE may need to procure 1,000 MW of conventional gas-fired resource output by 2022, until SCE proceeds with its solicitations, it remains unknown if the full 1,000 MW (or more) will truly be required. It is possible that after evaluating the availability of cost-effective demand-side resources procurement options, less than 1,000 MW of conventional resources will be needed.

The Commission should therefore eliminate the 1,000 MW floor for conventional gas-fired resource procurement. This will still allow SCE to procure up to a maximum of 1,200 MW of gas-fired conventional capacity if solicitation results and demand-side resources cost and availability indicate that such a level of gas-fired capacity is needed to ensure local reliability. However, removal of the minimum procurement constraint will provide SCE an important measure of latitude that it can use during negotiations for power purchases. SCE can more easily make the best purchase arrangements for its customers if it is not forced to buy a floor quantity that may be unnecessary. Given the potential for market power abuse associated with the limited number of Western LA Basin sites amenable to large conventional gas-fired generation, SCE will be better positioned to bargain effectively on behalf of ratepayers if it is not overly, or unnecessarily, constrained in its procurement process.

DRA supports authorizing SCE to pursue both Request for Offers (RFOs) and cost-of-service contracts to obtain resources for local reliability needs, provided they are verified to be consistent with the Loading Order and cost minimization. In particular, while RFOs can effectively achieve competitive results for those resources that lend themselves to competitive

[6] PD, p. 80.

solicitation vehicles such as RFOs, it is critical that SCE be able to negotiate from a strong position on behalf of ratepayers to obtain the best deals available for any supply resource procurement at sites where limited ownership could potentially result in the exercise of market power. Eliminating the 1,000 MW conventional gas-fired resource purchase floor will also support SCE's bargaining position to obtain the least-cost best-fit outcome for ratepayers in any bilateral negotiations with the limited number of potential suppliers who own key resource sites in the western LA Basin.

DRA therefore recommends that the Commission remove the 1,000 MW floor and at the same time maintain the 1,200 MW ceiling for conventional gas-fired resources. Simultaneously, the Commission should increase the ceiling for the procurement of preferred resources to from 450 MW to 1,450 MW. These changes would ensure compliance with the Loading Order and allow SCE the flexibility to maximize ratepayers' return on investment.

B. The Commission should revise the PD to limit SCE's authority to 1500 MW for the West Los Angeles sub-area, rather than authorizing additional distributed generation at this time.

The PD finds that there is the potential for 1,519 MW of distributed generation (DG) in the LA Basin in 2021 based on the CAISO's Environmental Constrained scenario.[7] The PD notes that this amount is incremental to the 1,050 – 1,500 MW it authorizes SCE to procure from conventional generation, energy storage, and preferred resources to meet LCR need in the Western Los Angeles sub-area.[8] By authorizing SCE to procure up to 1,519 MW in DG resources—which may be above and beyond what SCE has procured and can currently procure through Commission-authorized DG programs—the PD effectively authorizes 3,019 MW LCR need for the LA Basin of which 1,519 MW must be from DG resources. By granting SCE carte blanche to procure additional DG resources in excess of the amount of DG SCE is currently authorized to procure through Commission established DG programs, the Commission is effectively mandating a 1,519 MW floor of distributed generation resources to be procured in the Western Los Angeles sub-area. The Commission should reject this 1,519 MW as exceeding the PD's implicit determination of 1,500 MW of LCR need in the LA Basin.

---

[7] PD pp. 57-58.

[8] PD, p. 2; Ordering Paragraph 1 (c), p. 123

DRA agrees that SCE should analyze the potential gap between the 1,519 MW assumed DG in the Environmentally Constrained Scenario and SCE's current procurement authority, but opposes authorizing the procurement of additional DG resources, beyond what is already authorized, to meet this 1,519 MW assumption. The Commission should instead limit SCE's procurement authority for the West Los Angeles sub-area to 1,500 MW and revisit the 1,519 MW of DG target in the 2014 LTPP. Given the potential for DR to reduce LCR need (as discussed in Section II E below), and the fact that there would still be time in 2014 to increase DG authorization if necessary; it would be premature to grant additional authority at this time.

C. The Commission should clarify the PD to require SCE to include transmission studies in its procurement application.

The PD finds "the ISO's transmission assumptions to be reasonable for use in this proceeding for determining LCR procurement authorizations."[9] Nevertheless, the PD recognizes that

> "It is possible or even likely that there are certain mitigation options for transmission constraints or certain transmission upgrades which were not fully considered by the ISO and which may become feasible. It is also possible that certain transmission fixes may become feasible and cost-effective, including the use of synchronous condensers, static [VAR] compensators and shunt capacitors, all of which SCE considers annually."[10]

The PD anticipates being able to incorporate new information about transmission upgrades and new transmission capacity in future proceedings and in SCE's procurement application.[11]

DRA looks forward to participating in future proceedings and commenting on SCE's procurement application. However, to ensure meaningful consideration of the effect of transmission upgrades and new transmission capacity on a future determination of need, DRA urges the Commission to require SCE to include transmission studies in its procurement application. CAISO witness Millar testified that "we have identified the . . . low-hanging fruit where transmission reinforcement was a viable way to reduce local capacity requirements" and

---

[9] PD p. 44.

[10] PD p. 44.

[11] PD p. 44.

CAISO included these reinforcements in its forecast.[12] The Commission should request the CAISO to work with SCE to identify new "low-hanging fruit" that may become available upon the retirement of the once-through cooling (OTC) plants in the western LA Basin or other near-term transmission solutions. For example, the PD references synchronous condensers as a potential transmission fix.[13] Retiring OTC plants located in the Western LA Basin could become highly effective transmission system assets if converted into synchronous condensers because synchronous condensers:

> provide dynamic reactive voltage support to the transmission grid;
> can sustain increased imports into a LCR area or sub-area; and
> can lower LCR need without conventional transmission siting uncertainties and associated time delays.

The PD should encourage SCE to evaluate the feasibility of synchronous condensers as a potential form of LCR area reliability support in its procurement application. For example, along the northern Ohio coast of Lake Erie, 2,217 MW of retiring coal units are slated for conversion to synchronous condenser operation to provide voltage support and ensure reliability in the region served by the PJM Interconnection.[14] These plants retired in 2012, and the two stages of synchronous condenser operation are expected to commence in June 2013 and in June 2015. SCE would need to acquire the retiring OTC plant and convert it to a transmission asset. But as the example above shows, this process could obviate conventional transmission siting uncertainties and attendant time delays. Further, the Commission should provide SCE the flexibility to include such procurement options in its LCR procurement plan if feasible, cost-effective and reasonable.

Finally, DRA witness Fagan testified that improved balancing area coordination in the LA Basin could lead to lower LCR need for both the ISO and Los Angeles Department of Water and Power (LADWP) control areas.[15] ISO witness Sparks was skeptical that coordination could

---

[12] PD p. 43.

[13] PD p. 44.

[14] FirstEnergy Generation Corp. and American Transmission System, Incorporated, "Order Authorizing Disposition of Jurisdictional Facilities", FERC Docket EC12-119-000, Order on December 20, 2012, pgs. 2-3, P. 5-6). The units (Eastlake Units 1-5 and Lakeshore unit 18) will provide 1,385 MVAR in two stages. *See* http://www.ferc.gov/whats-new/comm-meet/2012/122012/E-17.pdf.

[15] Ex. DRA 1/Fagan at 5:1-5

reduce need.[16] The Commission should request that in December 2013, SCE report on its efforts to cost effectively reduce LCR need as a result of increased coordination with LADWP.

D. The Commission should clarify the PD to state that the 50 MW of Energy Storage to meet LCR need in the Western LA sub area should be designed as a pilot project to test the efficacy of energy storage in meeting LCR need.

The PD requires SCE to procure 50 MW of storage to meet LCR need in the Western LA subarea. The rationale for procuring that amount is unclear, and DRA does not support setting specific energy storage procurement targets at this time. The 50 MW of energy storage "carve out" in the PD may be a reasonable procurement option, given the increased dependence on renewable resources and the technically sound role that storage can play in contributing to local reliability needs. However, at this time, given the limited commercial viability of storage resources compared to alternatives, it is reasonable that SCE undertake this form of procurement as a pilot project rather than as part of the economic-based procurement that underlies the LTPP. DRA supports limited size experimental/pilot energy storage projects, as long as the associated cost implications and potential benefits are clearly justified and quantified.

DRA does not oppose the 50 MW of energy storage adopted in the PD as long as it is designated as an experimental or pilot project, and not an arbitrary target. As such, the Commission should require SCE to provide cost and benefit analyses of storage resources selected for the pilot project. The Resource Adequacy (RA) proceeding, R.11-10-023, is in the process of defining requirements for flexible capacity needs, among other things. The definitions developed in the RA proceeding should be used for identifying the energy storage resources that can meet the need on the least-cost best-fit basis. SCE should incorporate the best available information from the RA proceeding in its energy storage procurement process. Furthermore, the Commission should direct SCE to provide detailed evaluations and submit reports for public review, at multiple stages during the course of the pilot project, identifying, among other things, the cost of the project and cost effectiveness calculations under the Commission-established methodology, the MWs achieved, ability to impact future flexible capacity needs, any successes or failures, operational data and the potential to move forward with full scale deployment of energy storage. Stakeholders should be allowed to provide comments

[16] RT 170:16-171:24 ISO/Sparks

on this reporting. The energy storage pilot project should be developed in coordination with the Energy Storage proceeding, and the results of the pilot should help inform the current or any subsequent Energy Storage proceeding.

E. The Commission should revise the PD to direct SCE to work with the CAISO to develop, identify, and quantify demand response programs that are locally dispatchable and are capable of reducing LCR need.

The PD states that "at least some future demand response (DR) programs are likely to meet ISO criteria for meeting LCR needs."[17] The PD also clearly acknowledges both the current ability, and the likely future ability, for demand response to contribute towards meeting a portion of local reliability requirements.[18] Given that (1) the PD authorized procurement to meet LCR needs expected for 2021, and (2) the recognition that it is likely that at least some level of demand response resources will meet ISO requirements for local reliability in future years, it is reasonable to allow the "directional [indication]" of the value of DR resources to help inform SCE's purchase requirements for local reliability.

One concrete way to accomplish this would be to allow potential "future DR" that appears likely to be cost-effective to reduce the demand for conventional gas-fired resource procurement beyond the 450 MW of preferred resource capacity authorized in the PD. This could be implemented through the relaxation of the conventional gas-fired resource procurement floor of 1,000 MW, discussed above. For example, if SCE finds that additional cost-effective DR amounts above and beyond what is included in the preferred resource allocation noted in the PD are likely to be available, it could use that knowledge to lower the "demand" for conventional gas-fired resource purchase during its solicitation processes.

SCE's expert witness identified, by substation in the Western LA Basin, a total of 549.43 MW of load reduction from three DR programs.[19] These programs are Agricultural Pumping Interruptible (API), Base Interruptible Program (BIP), and Summer Discount Plan (SDP). It is reasonable to assume that these programs can be locally dispatched and can reduce LCR need in the Western LA Basin.

---

[17] PD, p. 54.

[18] PD, pp. 53-54.

[19] RT 1079:12-18 (Silsbee/SCE); Exhibit CEJA X SCE 3.

In D.12-04-045, the Commission authorized SCE's budget request for a local load impact evaluation on Critical Peak Pricing/Time of Use, Base Interruptible Program, Aggregator Programs (Capacity Bidding Program and DR Contracts), Auto-DR, Agricultural Pumping Interruptible, Save Power Days, Real Time Pricing, and Summer Discount Plan for years 2012-2014.[20] Along the same lines, in D.11-10-003, the Commission directed that beginning in 2013 retail non-dynamic pricing DR resources must be dispatchable locally in order to qualify for local Resource Adequacy credits. These two significant developments highly increase the likelihood that specific demand response programs, which would be able to count for long-term local reliability purposes, possibly including programs targeted to specific local areas, or to shave peak load (which would reduce the load forecast) will be developed by 2021.[21]

DRA recommends the Commission direct SCE to work with the CAISO by using all available information and conducting any additional necessary studies to develop, identify, and quantify demand response programs that are locally dispatchable and capable of reducing LCR need in the Western LA Basin. In order to reduce the LCR need, SCE should incorporate the resulting information in its proposed procurement plan as well as its 2014 procurement application.

F. The Commission should revise the PD to require SCE to submit its procurement review plan via Tier 2 Advice Letters.

The PD determines that SCE should submit its procurement plan process for meeting LCR need to Energy Division before moving forward with a public procurement process.[22] SCE's procurement plan must show "a specific plan to undertake integration of energy efficiency, demand response, energy storage and distributed generation resources in order to meet or reduce local capacity requirement needs through 2021."[23] The PD provides that SCE

[20] D.12-04-045, p. 164.

[21] Furthermore, SCE recently submitted an application (A.12-09-007) requesting approval for five demand response aggregator managed portfolio (AMP) program agreements and budgets. A PD was issued on December 31, 2012, that would approve all five AMP contracts which total 296 MW and are dispatchable by Sub-Load Aggregation Point.[21] If the Commission approves the PD as issued, this will continue to advance the progress of DR in being able to meet LCR need in the future.

[22] PD, pp. 86-88.

[23] PD, Ordering Paragraph 7, p. 126.

shall not begin its public solicitation process until the Energy Division determines in writing that SCE complied with the provisions of the final Decision.[24]

DRA supports the PD's determination to provide guidance to SCE in advance of the procurement process, including the use of preferred resources and energy storage to reduce LCR needs. However, the Commission should replace the PD's informal, off-the-record submission to the Energy Division with a public process that allows stakeholder comment. The PD allows SCE wide latitude in meeting LCR need within the authorized range of 1,500 MW, plus up to 1,519 of additional distributed generation. Approval of the procurement plan as consistent with the final Decision would benefit from stakeholder input. The Commission should therefore require SCE to file its procurement plan via a Tier 2 Advice Letter allowing other parties to respond and comment.

G. The Commission should revise the PD to postpone procurement of resources for the Big Creek/Ventura local reliability area until the 2014 LTPP proceeding.

The PD notes that the Ormond Beach and Mandalay power plants in the Big Creek/Ventura local area are OTC plants expected to shut down to comply with State Water Resources Control Board regulation, with an expected loss of 2,000 MW of capacity.[25] Although CAISO recommends LCR procurement of 430 MW in the Moorpark sub-area of the Big Creek/Ventura local area, the PD authorizes SCE to procure only 215-290 MW to account for CAISO's failure to include reduced demand from uncommitted energy efficiency, combined heat and power (CHP), demand response and energy storage.[26] While DRA agrees with the PD that CAISO's models of 430 MW "likely….overstate the LCR need for the Big Creek/Ventura local area..," the PD fails to account properly for other factors demonstrating that it is premature to authorize <u>any</u> procurement for the Big Creek/Ventura area at this time.

For example, SCE explains that:

> ""Newer technology of various sizes is more likely to be the replacement generation for the existing generation. Additional analysis using this newer technology may change the amount of LCR need in this area. Some cost effective transmission modifications could also lower the LCR need. Potential

[24] PD, p. 88.

[25] PD, pp. 65-66.

[26] PD, pp. 68-69.

> transmission mitigation options need further study in order to minimize cost and possible emissions. Smaller size generation may be able to be built in 5-7 years. Therefore, the LCR solicitation for this area can most likely wait until the next LTPP regulatory cycle."[27]

Calpine Corporation pointed out that there are "several potentially cost-effective alternatives…that may reduce or eliminate the need for OTC replacement generation in the Big Creek/Ventura area."[28] Those options include installation of a new line, installation of capacitors, and construction of a new loop-in. While questions remain about the effectiveness and cost of these options, they deserve further exploration before SCE is required to acquire 215-290 MW of new capacity, especially given SCE's testimony that it is easier to permit and build new generation in Big Creek/Ventura than in the LA basin. The Commission should therefore not authorize or require SCE to acquire new generation in Big Creek/Ventura until the 2014 LTPP cycle.

If the Commission decides to proceed with procurement authorization of 215-290 MW for the Big Creek/Ventura local area, then it should specify a ceiling of 215 MW on the acquisition of gas-fired capacity. SCE should be allowed the flexibility to procure up to 290 MW of preferred resources to meet the LCR need, consistent with the Loading Order.

H. The PD reasonably concludes that the current cost allocation mechanism (CAM) should apply to local capacity procurement authorized by the Commission, consistent with past Commission decisions.

The PD would continue the current Commission policy of allocating the costs and benefits of new generation to meet LCR need in an investor-owned utility's (IOU) service area to all benefiting customers in the IOU's service territory, including Community Choice Aggregation (CCA), and Direct Access (DA) customers, and bundled customers. The PD rejects the contention that IOU bundled service customers are responsible for load growth, and as such, should be saddled with LCR costs that CCA and DA customers could avoid. Instead, the PD correctly concludes that "AReM's driving peak/decreasing load proposal fails to recognize the interrelated nature of the electric system and the reality that some individual customers of ESPs,

---

[27] Exhibit SCE 2, 20:2-8.

[28] Track 1 Opening Brief of Calpine Corporation, September 24, 2012, p. 7.

CCAs and IOUs have static load profiles, while others are driving the need for new resources."[29] Moreover, the PD correctly notes that the retirement of existing resources creates the need for new resources to serve customers that may not be driving increases[30].

The PD also rejects the proposal to allow a mechanism for opting out of the cost allocation mechanism, given that it is unclear how the proposed five-year contract term/project life requirement "would adequately ensure investment in new resources."[31]

The Commission should adopt the PD's reasonable proposal to continue the current CAM as fair and workable resolution to the issue of paying for new resources that benefit all customers within an IOU's service territory.

I. The PD reasonably directs SCE to request any adjustments to its capital structure in its next cost of capital application.

SCE seeks Commission authorization to file a separate application to adjust its capital structure to take into account debt equivalence[32] issues arising from additional purchase power agreements (PPAs) needed to meet LCR need. The PD recognizes that issues related to SCE's capital structure, including debt equivalence, are typically determined in its SCE's cost of capital proceeding, along with other factors that impact SCE's credit risk. The PD appropriately declines to change its policy of considering debt equivalence outside the cost of capital proceeding, and directs SCE "to seek any changes it considers appropriate due to debt equivalence for the contracts" needed to meet LCR need in its next cost of capital proceeding. The Commission should adopt the PD's reasonable conclusion that it is unnecessary to change the Commission's policy of considering issues related to SCE's capital structure in the cost of capital proceeding, rather than in separate application arising from the PPA's authorized by the Commission's LCR decision.

III. CONCLUSION

DRA's recommended revisions would help better align the PD with the Commission duty to safeguard the reasonableness of rates under Sections 451 and 454 of the Public Utilities

---

[29] PD, p.101.

[30] PD, p. 112.

[31] PD, p. 108.

[32] Debt equivalence occurs when rating agencies determine that the capacity costs of PPAs are equivalent to debt for the IOUs because the payments cannot be avoided without defaulting on the PPA. PD, p. 1

Code, and to uphold California's commitment to a clean environment under Public Utilities Code Section 454.5(b)(9(C) (Loading Order). The Commission should revise the PD consistent with DRA's recommendations in order to ensure that ratepayers pay only for resources that can reasonably be predicted to be necessary to meet LCR need in 2021, and to best achieve compliance with the Loading Order.

Respectfully submitted,

/s/ DIANA L. LEE

DIANA L. LEE
Staff Counsel

Attorney for the Division of
Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-4342
Facsimile: (415) 703-2262
Email: Diana.lee@cpuc.ca.gov

January 14, 2013

APPENDIX A

DRA's PROPOSED CHANGES TO FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDERING PARAGRAPHS

Findings of Fact

19. It ~~may be possible to develop~~ is likely that specific demand response programs which would be able to count for long-term local reliability purposes, possibly including programs targeted to specific local areas, or to shave peak load (which would reduce the load forecast), already exist or will be developed by 2021. However, there are no demand response programs at this time which the ISO believes meet reliability criteria.

~~20. The record does not provide a way to quantify any amount of locally-dispatchable demand response for the purposes of determining the LCR need in this proceeding~~

28. It is ~~likely~~ possible that some LCR procurement opportunities would be lost if there is a delay in approving a procurement process for the LA basin local reliability area ~~and the Big Creek/Ventura local reliability area~~, due to a seven to nine year lead time for conventional gas-fired resources.

28a. It is unlikely that LCR procurement opportunities would be lost if there is a delay in approving a procurement process for the Big Creek/Ventura local reliability area, because the LCR need in the Big Creek/Ventura area is less and there are transmission options as well as newer technology expected to be available to meet the LCR need in the Big Creek/Ventura area.

~~36. If SCE procures more than the minimum MW amount for the~~ SCE's procurement for the LA basin local area, ~~it will~~ shall be consistent with the Loading Order.~~to require some additional capacity to come from non-fossil-fueled sources.~~

41. The most likely locations for to meet LCR needs in the Moorpark sub-area are the sites of the current OTC plants. The record shows that it may take five to seven years or more until operations commence in these locations, but also shows that transmission alternatives and newer technology may be available to meet LCR need.

~~42. The most likely size for at least one replacement plant in the Moorpark sub-area of the Big Creek/Ventura local area is 215 MW, as this is the size of two existing OTC units in that area.~~

43. There is ~~an~~ no immediate need to begin a procurement process to meet LCR .~~needs of between 215 and 290 MW in the Moorpark sub-area.~~

Conclusions of Law

8. SCE should be required to procure at least 50 MW of energy storage resources in the LA basin local area to meet LCR need, and should ensure that the procurement of 50 MW of energy storage resources is designed as a pilot project that will allow detailed evaluations, at multiple stages during the course of the pilot project, identifying, among other things, the cost of project, the MWs achieved, any successes or failures, and the potential to go forward with full scale implementation of cost-effective energy storage.

9. To the extent that SCE does not already have sufficient authority to procure 1,519 MW of distributed generation in the LA basin local area, ~~SCE should be authorized to do so in this decision~~ the Commission should consider that issue in the next LTPP proceeding in 2014.

10. SCE should be not authorized to start the process to procure LCR for the Moorpark sub-area of the Big Creek/Ventura local reliability area until the next LTPP proceeding in 2014.

~~12. If there is additional information about the viability of preferred resources and/or transmission alternatives in the Moorpark sub-area of the Big Creek/Ventura local reliability area and West LA sub-area of the LA basin local reliability area when SCE files its Application for approval of contracts, that information should be considered at that time.~~

16. All contracts stemming from the LCR procurement authorization we establish today should be brought to the Commission for approval in a single application for ~~each~~ the West LA sub-area of the LA basin local reliability area, anticipated sometime in 2014.

17a. To ensure that the Commission and parties have access to the most current transmission information available, it is reasonable for SCE to include transmission studies in its procurement application.

ORDERING PARAGRAPHS

1. In this decision, we authorized Southern California Edison Company to procure between 1,050 and 1,500 Megawatts (MW) of electrical capacity in the West Los Angeles sub-area of the Los Angeles basin local reliability area to meet long-term local capacity requirements by 2021. Procurement must abide by the following guidelines:

   a. ~~At least 1,000 MW, but no~~Not more than 1,200 MW, of this capacity must be from conventional gas-fired resources;

   b. At least 50 MW of capacity must be procured from energy storage resources through a pilot project;. SCE should provide detailed evaluations, at multiple stages during the course of the pilot project, identifying, among other things, the cost of project, the MWs achieved, any successes or failures, and the potential to go forward with full scale implementation. Stakeholders should be allowed to provide comments on this evaluation;

Up to 1450 MW of capacity may be procured through preferred resources consistent with the Loading Order of the Energy Action Plan and/or energy storage resources. Distributed generation procured as part of this authorization must be incremental to the 1,519 MW of distributed generation already forecast to be available in the LA Basin in the California Independent System Operator Environmentally Constrained portfolio. ~~To the extent that 1,519 MW of distributed generation has not already been authorized in other Commission decisions, such authorization is granted here.~~

~~2. Southern California Edison Company is authorized to begin a process to procure between 215 and 290 Megawatts of electric capacity to meet local capacity requirements in the Moorpark sub-area of the Big Creek/Ventura local reliability area.~~

4. Southern California Edison Company shall begin the procurement process for the capacity referenced in Ordering Paragraphs 1 ~~and 2~~ immediately.

6. Southern California Edison Company (SCE) shall submit a Tier 2 Advice Letter ~~provide Energy Division~~ with its proposed procurement process showing that the proposal is consistent with Ordering Paragraph 5, and shall not go forward with any public procurement process until ~~the~~ it receives approval of the Advice letter. SCE also shall follow previous Commission direction regarding this proposed procurement process.

7. In its proposed procurement plan to be submitted via a Tier 2 Advice Letter ~~reviewed by Energy Division,~~ Southern California Edison Company shall show that it has a specific plan to undertake integration of energy efficiency, demand response, energy storage and

distributed generation resources in order to meet or reduce local capacity requirement needs through 2021.

10. Southern California Edison Company (SCE) shall file one Application for approval of any and all contracts entered into as a result of the procurement process authorized by this decision for the Los Angeles basin local reliability area~~, and one Application for these purposes for the Big Creek/Ventura local reliability area.~~ To ensure that the Commission and parties have access to the most current transmission information available, SCE is directed to include transmission studies in its procurement application. SCE shall not receive recovery in rates for the costs related to any such contract before Commission review and approval of these Applications. In addition to currently applicable rules, the Applications shall specify how the totality of the contracts meet the following criteria:

a. Cost-effectiveness;
b. Consistency with the Loading Order;
c. Compliance with Ordering Paragraphs 1 and 2; and
d. For bilateral contracts, compliance with Public Utilities Code Section 454.6.