

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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Order Instituting Rulemaking to
Integrate and Refine Procurement
Policies and Consider Long-Term
Procurement Plans.

Rulemaking 10-05-006
(Filed May 6, 2010)

**COMMENTS
OF THE DIVISION OF RATEPAYER ADVOCATES
ON PREHEARING CONFERENCE,
ALTERNATIVE PROPOSALS
AND SCOPING ISSUES**

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Pursuant to the Administrative Law Judge's (ALJ's) Ruling Revising the Schedule for the Proceeding (dated June 22, 2010) and direction given at the June 14, 2010 Prehearing Conference, the Division of Ratepayer Advocates (DRA) submits the following comments on the alternative resource planning assumption proposals submitted on June 11, 2010 by San Diego Gas and Electric Company (SDG&E), Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E) and the Cogeneration Association of California (CAC).

I. PARTIES ALTERNATIVE PLANNING PROPOSALS

A. Preparation of System Resource Plans

In their comments, both SCE and PG&E suggest that Energy Division should retain a consultant to prepare the Track I system resource plans for the State.¹ The same argument was made by the (Investor Owned Utilities) IOUs in the August 2009 Workshops in the last Long Term Procurement Plan (LTPP) cycle. While this suggestion has merit and is authorized by Public Utilities Code section 454.5, it is not the only way

¹ See PG&E Comments pp.2-3; SCE Alternate Proposal pp. 2-4.

of achieving an integrated resource plan for the state.² As the Assigned ALJ suggested at the workshops, the IOUs could consider funding a consultant themselves to assist in preparing the System Plans.³

Thus, at this point, it seems sufficiently clear that the utilities are expected to prepare the Track I system resource plans for their perspective service areas either through internal staff or by contracting with external consultants. DRA supports this concept. As DRA stated in its June 21, 2010 comments, the IOUs are in the best position in terms of resources and expertise to provide the initial plans, which should be subject to review and comment by other Load Serving Entities (LSEs) and parties. The IOUs already have complex modeling systems implemented which they use for testing utility portfolios against differing scenarios. If the utilities do consider the approach of utilizing a single external consultant between themselves, DRA recommends that issues concerning confidentiality and issues surrounding utilities sharing of information would need to be addressed prior to any group IOU activity.

B. SDG&E's Alternate Proposal Raises Questions About the Use of Different Criteria for System and Local Planning

In its alternate proposal, SDG&E states that the Load and Resources (L&R) tables proposed in the ALJ Ruling are not adequate for SDG&E's service territory, and has proposed its own L&R tables be used.⁴ Specifically, SDG&E proposes to use a 1-in-10 year load forecast for its service area, rather than the 1-in-2 year base case load forecast for determining System need proposed in this proceeding and used in the California Energy Commission's Integrated Energy Resource Plan (IEPR). The impact of making

² Public Utilities Code 454.5 (f), the LTPP statute (aka AB 57), provides: The commission may engage an independent consultant or advisory service to evaluate risk management and strategy. The reasonable costs of any consultant or advisory service is a reimbursable expense and eligible for funding pursuant to section 631. Section 631 allows commission to hire consultant if needed to process applications for gas or electric plant costing more than \$100M, and the costs of the consultant are reimbursable.

³ PHC Transcript, p. 71.

⁴ DRA notes that both the L&R table attached to the ALJ ruling and SDG&E's alternate proposed table (SDG&E Alternative Proposal, p. 5) indicate that no additional system resources are needed for SDG&E's service territory. Under the table prepared by staff SDG&E would be between 703-793 MW in excess of meeting the PRM. Under SDG&E's proposed Need Table, SDG&E would be 56 MW in excess of meeting the PRM.

such a change is dramatic, as is evident from SDG&E's estimates, which show that SDG&E would have to procure an additional 500 MW (approximately) of resources under the 1-in-10 criteria. However, DRA's understanding is that SDG&E is in a unique situation in that its entire service territory is a single Local Area. Therefore, in order to meet its Local RA Requirements which are based on the 1-in-10 planning criterion used by the California Independent System Operator (CAISO) in its Local Capacity Requirements (LCR) Study and adopted by the Commission each year in its Local Resource Adequacy Proceeding,⁵ SDG&E must meet the 1-in-10 Local RA criteria for its service territory.

SDG&E's situation highlights the problems associated with having different planning criteria for System and Local requirements. Research shows that the 1-in-10 criterion has always been highly conservative and possibly more stringent than the marginal benefits of incremental capacity can justify.⁶ The state grid is already planned using a 15-17% Planning Reserve Margin (PRM) to account for uncertainty (which itself is based on conservative assumptions). At the time the 1-in-10 criteria was initially adopted by the CAISO for the first LCR Study, these, and other concerns were raised by many parties that questioned the 1-in-10 standard, which requires that significantly more additional capacity be purchased, at ratepayer expense. The 1-in-10 standard was nevertheless adopted over parties' objections. Another concern is that the Local RA requirements are only approved on a one-year ahead basis; but this 1-in-10 criteria is now feeding into the ten-year ahead forward looking LTPP process. Based on these concerns, DRA believes it may be time to reconsider (in the appropriate proceeding) the use of the 1-in-10 criteria for Local RA planning purposes.

⁵ D.09-06-028 established the Local RA Capacity Requirements for 2010; a PD in R.09-10-032 establishing the Local Requirements for 2011, is pending.

⁶ One Day in Ten Years? Resource Adequacy for the Smart Grid, (November 2009) Wilson, James F. http://wilsonenec.com/One_In_Ten.php

C. Cogeneration Association of California’s Combined Heat and Power Proposal is Misplaced and Should Not Be Adopted

Cogeneration Association of California’s (CAC) request to incorporate Commission policies and decisions regarding Combined Heat and Power (CHP) in the LTPP is not a proposal but misplaced comments that would have been more appropriate in the June 21st comments. CAC recommends that the assumptions that will be driving the system resource plans include a base case of 4,323 MW of existing CHP capacity and 2,240 MW – 4,000 MW of incremental CHP capacity to be procured by the IOUs. This recommendation should be rejected.

In comments filed May 6, 2010, the CAC and California Cogeneration Council (CCC) requests two things. First, CAC/CCC asks the Commission to adopt a “required base case assumption” of retaining 4,596 MW of existing Combined Heat and Power (CHP) capacity by the IOUs. Second, it requests a “Need Level” sensitivity analysis to reflect incremental new CHP between 2,240 and 4,000 MWs.⁷ DRA disagrees with both suggestions.

CAC/CCC cites D.07-09-040 and D.07-12-052 to establish its recommended base case assumption of 4,596 MW of existing CHP. While D.07-12-052 does require the IOUs to at least maintain their *current QF capacity* over the next decade pursuant to the IOUs’ PURPA obligations, the decision did not attribute this capacity amount specifically to CHP facilities. Thus, CAC/CCC’s proposed “base case assumption” may be overstated. Further, D.07-12-052 was based on the IOU’s LTPP filings in 2006, and the information provided in that docket is now outdated. As the Commissions stated, “We anticipate that any changes in QF development and/or re-contracting policy the IOUs experience and anticipate will be addressed in their subsequent LTPP filings.”⁸ Since

⁷ Comments of the Cogeneration Association of California and the California Cogeneration Council On Preliminary Scoping Matters, filed May 6, 2010, p. 2.

⁸ D.07-12-052, p. 85.

CAC/CCC's alleged "known quantity of existing capacity" of 4,596 MW is questionable, the Commission should reject CAC/CCC's assertion that the amount cannot be disputed.⁹

DRA also disagrees with the CAC/CCC's proposal for a "Need Level" for incremental CHP with a planned range of 4,000 to 2240 MWs as a reasonable placeholder, pending final implementation of the Commission's CHP policy. No "placeholder" should be established. The Commission should not make a determination on need for incremental CHP in this proceeding, as this is an issue in the QF global settlement negotiation, which is ongoing.

D. PG&E's Ratepayer Greenhouse Gas Cost Exposure Concerns Require Clarification

PG&E's alternate proposal on the greenhouse gas (GHG) evaluation criteria for the system resource plans "suggests reporting of the marginal, per-ton GHG abatement cost of each year's increment of new resources" versus the average, per-ton cost of GHG emission abatement when reviewing the cost-effectiveness of portfolio elements such as Renewable Energy Standards (RES) or CHP.¹⁰ They argue that the average metric would mask the marginal abatement cost, because it would combine the abatement costs of the less-expensive increments with the more expensive increments, and hence would miss the impact in the expensive incremental years. The expensive increments could be significant if, for example, new transmission is needed to obtain the new resources in those years. DRA believes this proposal merits consideration, and would like clarification from PG&E as to where the marginal, per-ton GHG abatement costs for each year will come from. If PG&E currently has these numbers or if PG&E is in the process of analyzing the marginal GHG abatement costs relative to each year's expected increment of new resources it would be helpful to share this information with parties. If PG&E does not have this information, PG&E should develop this information and share it with parties.

⁹ CAC/CCC Comments, p. 2.

¹⁰ PG&E's Comments on ALJ Initial Ruling on Procurement Planning Standards (June 11, 2010) p.5

PG&E further suggests that “in addition to reporting emissions, it might make sense to report ratepayers’ exposure (in millions of tons) to GHG allowance prices.”¹¹ PG&E reasons that wholesale electricity prices will likely increase under a cap-and-trade program because fossil-fuel generators will include the GHG allowance costs in their prices and that this should be taken into account so that ratepayers’ exposure to GHG allowance prices are not underestimated. DRA is interested in these numbers, and requests the Commission seek clarification from PG&E as to its methodology for calculating ratepayer exposure. If PG&E has done an analysis, it should share it with parties. If PG&E has not, prepared this GHG cost analysis of ratepayer exposure under a cap-and-trade program, then it should prepare this analysis and share it with parties. Furthermore, DRA would like to know what impact the reporting of ratepayer exposure may have on an IOU’s LTPP (e.g., will a high level of ratepayer exposure lead to faster development of renewable energy).

II. COMMENTS ON PHC AND SCHEDULE

A. The Rapid Fire Pace of This Proceeding Compromises Quality

As predicted by some parties, the schedule of this proceeding has already proven difficult to keep up with. It allows insufficient time for review of materials distributed just before workshops, and for preparation of thoughtful comments and reply comments after workshops. It does not take into account the fact that most participants are involved in other proceedings besides LTPP, many have scheduled summer vacations, and time must be allowed for management review of comments and proposals. The quality of comments inevitably suffers when such an unrealistic schedule is imposed. The Commission would be better served by establishing a more realistic schedule. More thought also needs to be given to prioritizing tasks in this proceeding, as discussed in the following section.

¹¹ Ibid. at p.5

B. The Proceeding Needs Prioritization

Given the ambitious scope of this proceeding, the Commission should focus on the tasks essential to developing the system and bundled plans, which is the primary goal of this proceeding. While the Commission should consider many issues identified in the scoping memo that will feed into the system and bundled plans, thereby improving the end product (including renewable integration, once-through cooling retirements, MRTU and virtual bidding impacts, effectiveness of GHG hedging products, and SB 695 cost allocation issues), other issues, such as the Procurement Rulebook, do not impact the plans themselves. In fact, this proceeding will change rules included in the current draft of the Rulebook, so it makes sense for this reason alone to defer this discussion to a later phase, or to a separate proceeding. In addition, it is clear that significant time and effort will be required to correct and complete the draft and provide the necessary opportunity for parties to review and comment.

As DRA (and many other parties) have stated in earlier comments, the rulebook could be useful as a compendium or guide to the procurement case law, but should not be viewed as authority that supersedes all previous procurement-related decisions. This is consistent with what the ALJ envisioned:

ALJ KOLAKOWSKI: “Well, my understanding of this document that we call rulebook -- with air quotes -- the rulebook is that it is a compilation of prior Commission decisions and that it would serve as a compendium that would allow parties to be able to quickly and easily identify prior decisions that were made by the Commission to ease and facilitate consideration of reviewing these plans.

One of the things that many people say about this particular subject matter is that it's very difficult to get up to speed on, to understand what the current thinking is. And when you start off, you get handed a stack of 300-page decisions and told the answer's in here somewhere. And so the goal I think was to be able to come up with something that would allow the utilities to have some sense of what we had said in the past to allow the parties to be able to look and identify what was hopefully the most current thinking on these areas.

And so, what I meant is that in and of itself I don't think -- it's not my understanding that it has independent authority so much as that it is a reference tool that it is like a master index.”

(Prehearing Conference Transcript at pp. 44-45.)

III. CONCLUSION

For the foregoing reasons, DRA respectfully requests that the Commission consider the questions and recommendations outlined above.

Respectfully submitted,

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June 25, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON PREHEARING CONFERENCE, ALTERNATIVE PROPOSALS AND SCOPING ISSUES**” to the official service list in **R.10-05-006** by using the following service:

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Executed on **June 25, 2010**, at San Francisco, California.

/s/ ALBERT HILL

Albert Hill

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