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THE DIVISION OF RATEPAYER ADVOCATES' REPLY BRIEF ON TRACK I AND TRACK III ISSUES

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The Division of Ratepayer Advocates (DRA) submits this Reply Brief on Track I and III issues.

I. TRACK I ISSUES

A. Reply to the CAISO's Opening Brief

1. The memo attached to the CAISO's opening brief is not part of the evidentiary record

Attached to the CAISO's Opening Brief as "Exhibit 1" is a memo from the California Independent System Operator (CAISO) management to the CAISO Board of Governors dated August 18, 2011 discussing potential need for new capacity to meet local reliability need by 2020 under a "high load" scenario and certain other assumptions. The memo summarizes the results of need analyses done by the CAISO that have been admitted into evidence in the LTPP proceeding (which show no need for new resources for renewable integration purposes under 4 of the 5 scenarios). CAISO management presents, in addition, its opinion that under a "high load" scenario, up to 2000 MW of new capacity may be needed to meet local reliability needs by 2020. CAISO goes on to suggest that assuming 50% of these needs are met combined cycle resources and 50% are met by combustion turbine resources, then there would be a residual need of 2700 MW for system operational requirements.[1]

These opinions are based on analyses that were not offered into evidence in the LTPP proceeding.[2] The August 18 memo was never offered into evidence in the LTPP proceeding either, even though prepared testimony and other exhibits were offered and admitted into evidence during the evidentiary hearings through August 30, 2011, the last day of hearings. Accordingly, "Exhibit 1" to the CAISO's Opening Brief is not part of the evidentiary record, nor are the "results of preliminary analyses" discussed in that memo. Because "Exhibit 1" is not part of the evidentiary record in this proceeding, the

[1] Opening Brief of the California Independent System Operator Corporation on Track I Issues ("CAISO Opening Brief"), Exhibit 1, p. 2.

[2] *Id*. at p. 8.

Commission should disregard the memo and the arguments based upon it for purposes of decision making in this proceeding.[3]

2. To consider the memo attached to the CAISO's brief would be fundamentally unfair to the other parties to the Settlement Agreement and would violate due process

The CAISO is a party to the Settlement Agreement submitted to the Commission on August 3, 2011 in this proceeding. As set forth in the Motion for Approval of the Settlement Agreement and in the Settlement Agreement (SA), the Settling Parties agreed that:

- "There is general agreement that further analysis is needed before any renewable integration resource need determination is made."[4]
- "The Commission does not need to authorize procurement authority relating to LCR for SCE's and PG&E's service areas at this time."

The "further analyses" recommended by the Settling Parties includes:

- "the continued review and adjustment of the methodology and assumptions used in the renewable integration analysis;" and
- "the analysis of the potential of integrating renewables with a variety of resources as intended in CAISO's proposed Phase 2 analysis." [5]

As explained in the SA, the purpose of the Phase 2 analysis is:

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[3] Rule 13.10 of the Commission Rules of Practice and Procedure provides a procedure for admission of additional evidence within a specified time after a hearing is adjourned, if required by the presiding officer or if agreed to by the parties and authorized by the presiding officer, and an exhibit number is reserved in advance. No such request was made at the hearings in this case. Commission Rule 13.14 provides that a proceeding is submitted for decision once the taking of evidence, filing of briefs, and oral argument is complete. Although the record is thus open until briefing has been completed, submission of controversial additional unsworn testimony in a post-hearing brief does not comply with the Commission's rules.

[4] Motion for Approval of Settlement Agreement, p.4; Settlement Agreement (SA), p. 5.

[5] SA, p. 6.

> " to determine the amount and operational characteristics of resources, whether supply or demand side resources, that could address the operational needs of renewable integration, including not only conventional generation but also resources such as demand response, renewable resources dispatchability, energy storage, electric vehicle charging, smart grid, and greater reliance on renewable resources that require fewer integration services, either individually or combined with a suite of other renewable resources."[6]

Although it is unclear exactly how much time the CAISO will need to complete the Phase 2 analysis, the CAISO intends to complete its analysis of local area needs driven by the schedule for Once Through Cooling (OTC) retirements or repowerings by the end of 2011, and to integrate those results into the renewable integration analysis by the end of the first quarter of 2012.[7] The Settling Parties recommended that the Commission, the CAISO, and the active parties endeavor to complete all of this necessary work expeditiously so that the Commission can reliably make an assessment of need by the end of 2012.[8]

The SA is fundamentally based upon "general agreement that further analysis is needed before any renewable integration resource need determination is made." The Settling Parties asked for a suspension of the briefing schedule for the issues that were resolved in the SA, which included issues related to the determination of resources needed for local reliability and renewable integration support (with the exception of San Diego Gas & Electric Company's (SDG&E's) request for procurement authority). That request was granted on August 4, 2011. Accordingly, DRA and other parties did not serve the portions of their prepared testimony on issues related to need determination (with the exception of SDG&E's need request). It would be fundamentally unfair to allow the CAISO to introduce now, in its brief, new, untested evidence on these same issues.

As the Commission has explained, "the time to offer evidence is during evidentiary hearings. The sworn testimony of witnesses, stipulated facts, and

[6] SA, pp. 4-5 (emphasis added).
[7] SA, p.5.
[8] SA, p. 6.

documentary evidence received as exhibits during hearings or as late exhibits ([pursuant to former] Rule 74) are the foundations upon which we base our findings of fact."[9] The Commission has rejected attempts to introduce new information into the record in reply briefs, because it deprives parties of "an opportunity to either respond or test the reliability" of the new evidence" and thus it would be "inherently unfair to accept this additional evidence without reopening the record."[10]

If the SA is not approved by the Commission, fundamental fairness requires that all parties then be given an opportunity to submit testimony on the Track I issues related to need assessment and to cross examine witnesses. These established processes serve to develop an adequate and reliable record and to provide due process. The Commission should not permit parties to circumvent them by submitting untested evidence in post-hearing briefs.

3. The testimony of AES does not support the timeframe proposed in the Settlement Agreement

CAISO asserts in its Opening Brief that the testimony presented by AES "supports the proposed timeframe set forth in the Settlement Agreement."[11] That is not the case, however.

The Settling Parties agreed that further analysis is required to make a need determination that is both reliable and consistent with state policies (on preferred resources, GHG emission reductions, and phasing out of OTC plants). They recognize that it will be challenging to complete the additional analysis required quickly enough to permit a need assessment by the end of 2012.

As noted by the CAISO, AES is not a party to the SA, and thus is free to argue positions contrary to the SA. AES has not agreed that the further analysis outlined in the SA is needed. AES has argued, instead, that it is urgent to make a need determination

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[9] *Petition of the City of Vallejo,* D.89-06-056(1988), 32 CPUC 2d 207, 223.

[10] *Investigation into the Natural Gas Procurement Practices of the Southwest Gas Company ("Southwest Gas Company"*), D.02-08-064, pp. 37-38, 2002 Cal. PUC LEXIS 534 at *56-57.

[11] *Id*. at p. 2.

because in the opinion of its witness, new conventional generation may be needed as early as 2018, and it generally takes several years to permit and build new generation.

The CAISO states in its Opening Brief that it "shares the concerns identified by AES" and agrees that "long-term procurement decisions must be made quickly, preferably well before year end 2012."[12] Most parties, including the CAISO, recognize that that if a procurement authorization decision is made "well before year end 2012" it would have to be made without the results of the CAISO's Phase 2 analysis, which is called for in the SA. AES's position on timing is therefore at odds with the SA.

4. Conclusion

For the reasons stated above, the Commission should state in its decision that Exhibit 1 to CAISO's Opening Brief is not part of the evidentiary record in this case and therefore can not provide a basis for a Commission decision.

The Commission should also disregard Exhibit 1 and the portions of CAISO's brief that rely on Exhibit 1. Those portions are:

- Page 4, first full paragraph, second sentence beginning with the words "In that regard …" through page 5, through the end of the quoted section ending in "in the 2011-2012 cycle."
- Page 7, first full paragraph, second sentence beginning "The preliminary analysis ... during the planning horizon."

B. SDG&E's Request for Procurement Authority

SDG&E states that its showing of need for new capacity for Local Reliability (LCR) purposes is based on "updates/corrections to the mandated assumptions related to the need analysis" that the Commission directed the IOUs to use in the Scoping Memo issued on December 3, 2010.[13] Those assumptions were selected after substantial study and input from parties, and are designed to align with the state's energy policy goals and with programs to implement those goals, as explained in the Scoping Memo. SDG&E's

[12] CAISO Opening Brief, p. 5.

[13] Opening Brief of San Diego Gas & Electric Company Regarding Track I and Track III Issues ("SDG&E Opening Brief"), p. 5.

"updates and corrections" are in fact different assumption that are inadequately justified and very flawed, as many parties argued in their Opening Briefs. Parties have taken issue with SDG&E's greatly reduced assumptions for Energy Efficiency (EE) and Demand Response (DR) programs and its failure to consider many new supply-side resources expected to come on line during the LTPP planning period, such as energy storage, distributed generation (including solar PV), and planned renewable resources.

1. SDG&E has not met its burden of justifying greatly reduced EE and DR assumptions

SDG&E's greatly reduced EE assumptions are challenged by Pacific Environment, NRDC, and the Sierra Club, in addition to DRA. These parties have introduced testimony that supports their arguments that SDG&E's EE assumptions are flawed for the following reasons:

- SDG&E excludes all savings from the Big Bold Energy Efficiency Strategy (BBEES);[14]
- Also excluded are savings from state building code improvements, improved Federal appliance standards, California TV standards that went into effect this year; and non-utility programs (as a result of relying on the CEC's 2009 demand forecast);[15]
- SDG&E relies on a low realization rate of 70% for all its EE programs;[16]
- SDG&E has failed to meet its burden of justifying its different assumptions.[17]

SDG&E's reduced DR assumptions have been challenged on the grounds that:

- SDG&E only considered resources from DR programs through 2014;
- SDG&E relied on the Commission's DR assumptions in its procurement plan for its bundled customers;

[14] Pacific Environment (PE) Opening Brief, pp. 12-13; NRDC Opening Brief, p.8.

[15] PE Opening Brief, p.13; NRDC Opening Brief, p. 3-5.

[16] PE Opening Brief, p.13; NRDC Opening Brief, p.7.

[17] Division of Ratepayer Advocates' Opening Brief on Track I and Track III Issues ("DRA Opening Brief"), pp. 6-7, Opening Brief of Sierra Club California on Track I and III Issues, pp. 5-9.

- SDG&E has failed to meet its burden of justifying its assumptions.[18]

2. SDG&E could meet its asserted need of 180 MW simply by renewing its land lease for the Cabrillo II facility in 2013

As for supply side resources, SDG&E's analysis is based on the assumed retirement of Cabrillo II CTs (188 MW) in 2013 and Encina Power Station (925 MW in 2017, its OTC compliance date).[19] (The retirement of Encina in 2017 is also assumed in the CPUC-required cases.) But the retirement of Cabrillo II can be avoided if SDG&E renews the land lease for that facility, and the retirement of Encina is uncertain. The owner of Cabrillo II, NRG, has informed the Commission that its plan is to bring Encina into compliance rather than retire it, if possible.[20] Thus, even if SDG&E's conclusion that it will have an Local Capacity Requirement (LCR) need of 180 MW in 2020 were justified (which it is not), SDG&E could meet that need simply by renewing the land lease for Cabrillo II in 2013.

C. Calpine's Proposal

Calpine Corporation (Calpine) has garnered little support for its proposal to require the IOUs to hold intermediate-term solicitations for capacity from existing resources.[21] Calpine argues this measure is necessary to ensure that existing resources,

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[18] DRA Opening Brief, p. 7-8.

[19] SDG&E Opening Brief, p, 9; Ex. 310 (SDG&E's Prepared Track I Testimony), p. 7-9.

[20] Prepared Testimony of George Piantka on behalf of Cabrillo Power I LLC, Carlsbad Energy Center LLC, Cabrillo Power II LLC, and NRG Energy, Inc. regarding application by San Diego Gas & Electric Company for authority to enter into Power Purchase Agreements with Escondido Energy Center, Pio Pico Energy Center, and Quail Brush Power (served on September 23, 2011 in A.11-05-023, pp. 5-6.

[21] Opening Brief of The Utility Reform Network on Track 1 and Track 3 Issues ("TURN Opening Brief"), pp. 2-5; Opening Brief of Southern California Edison Company on Track I and III Issues("SCE Opening Brief"), pp. 39-41.

specifically, relatively new power plants, have a sufficient revenue stream and are not retired for economic reasons.[22]

First, Calpine's proposal is based on the unsupported assumption in its sensitivity study that 3,200 MW of CCGT capacity will retire. This figure is based only on the claim that "some of the units do not currently have contracts and none of the units have contracts that extend beyond 2013."[23] Calpine's relies on these assumed retirements to estimate the need for replacement resources for renewable integration under the Trajectory and Trajectory *High Load* scenario to arrive at its' estimated need in the range of 1400 MW to 2,600 MW. However, most parties in this proceeding, including the CAISO, have agreed that the results of the renewable integration study are inconclusive, and, at least under the four CPUC-mandated scenarios, show no need for new capacity to meet renewable integration needs.[24] Thus, Calpine's projections are over-inflated and not supported by the record.

Second, as Pacific Gas and Electric Company (PG&E) point out, there are regulatory mechanisms in place that would help to prevent premature retirements of existing resources for economic reasons. One of these mechanisms is General Order 167, which requires plants to provide 90 days' notice before closures or mothballing. Another is the CAISO's tariff authority to issue payments to resources that are "at risk of retirement" for economic reasons (the Capacity Procurement Mechanism or CPM).[25] Further, the CAISO's Renewable Integration Market Product Review initiative (now underway) is considering new market products to meet operational needs, which could provide additional revenues to existing resources capable of providing regulation and other ancillary services.

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[22] Track I Opening Brief of Calpine Corporation ("Calpine Opening Brief"), pp. 3-6.

[23] Calpine Opening Brief, p. 7, fn. 23.

[24] SA, p. 1.

[25] Opening Brief of Pacific Gas & Electric Company on Tracks I and III ("PG&E Opening Brief"), pp. 13-14. SCE Opening Brief, p. 39.

Third, Calpine has not supported its claim that units will be forced to retire due to inability to meet their going forward costs. The only evidentiary support offered is based on aggregated market data published in the CAISO Department of Market Monitoring (DMM) Report, Table 2.8, which analyzes net revenues of new combined cycle units between 2006 and 2010.[26] Yet the CAISO's DMM report did not foresee a risk of economic retirements of new combined cycle units due to revenue shortfalls. The CAISO prefaces this section of its report on net revenues of new gas-fired generation by stating, "annual fixed costs for existing and new units critical for meeting reliability needs should be recoverable through a combination of long-term bilateral contracts and spot market revenues."[27] Although Table 2.8 shows some decline in revenues during this period, it does not prove that these resources will retire, nor does it demonstrate that generator revenues have been less than their going forward costs.[28] Moreover, the CAISO's DMM Report was issued before CAISO adopted a tariff amendment allowing generators at risk of retirement for economic reasons to receive RA backstop capacity payments for up to a full year if needed for reliability.[29] As TURN's witness Kevin Woodruff testified, CCGT units are the most efficient resources on the market, and thus, they should be able to recover their going forward costs even in the current market.[30]

Finally, as TURN argues forcefully, Calpine would almost certain have market power if the IOUs were required to hold a solicitation exclusively for existing CCGT

[26] Calpine Opening Brief, p. 5; CAISO 2010 Market Issues & Performance Annual Report, Department of Market Monitoring, p. 53.

[27] CAISO 2010 Market Issues & Performance Annual Report, Department of Market Monitoring, p. 52.

[28] Ex. 215, SCE Testimony p. 36:13-16.

[29] CAISO Tariff Amendment § 43.2.6, accepted by FERC, pending final approval by FERC on limited issues.

[30] TURN Opening Brief, pp. 4-5.

resources.[31] At hearings, Calpine could not identify a single other company that would be likely to bid into its targeted solicitation for existing supply.[32]

In sum, Calpine's proposal is based on very speculative claims about retirements of newer existing resources. There is no evidence that Calpine or any other owner of existing resources cannot recover its forward costs; to the contrary, the record shows there are numerous sources of revenue for these resources. Calpine argues that "there is no certainty that a specific resource can obtain adequate compensation" through today's market. Yet, as a merchant generator, Calpine was never promised "certainty," and the type of certainty Calpine requests would very likely result in market power. For these reasons, the Commission should not adopt Calpine's proposal.

II. TRACK III ISSUES

A. GHG Procurement Plans

DRA is responding to the opening briefs of Pacific Environment and SCE regarding the IOUs' GHG procurement plans.

1. DRA agrees with Pacific Environment that the IOUs must consider emissions reductions in addition to procurement of allowances

Pacific Environment finds the utilities' GHG plans deficient because they focus only on obtaining and trading compliance instruments rather than on actually reducing emissions.[33] Pacific Environment recommends that the utilities should consider emission reductions as a compliance option in the GHG compliance plans.[34] The utilities have otherwise indicated that their GHG procurement plans only include the strategies and methodologies for procuring the amount of GHG products they will need for compliance purposes.[35] In its Opening Brief, DRA pointed out that the Commission's review of the

[31] TURN Opening Brief, pp. 3-4.
[32] Tr., vol. 7 (Calpine) pp. 866-67.
[33] PE Opening Brief, p.20 and p.22.
[34] PE Opening Brief, p.20.
[35] Ex. 315 (SDG&E Prepared Track III Rebuttal Testimony), p.5:5-10; Ex. 109 (PG&E Track III Reply

IOUs' proposed GHG procurement plans in Track III of the current LTPP proceeding is correspondingly narrow in scope.[36]

DRA does not completely agree with PE that the GHG procurement plans are deficient because they fail to consider emission reductions as a compliance option. The IOUs must have upfront standards in place to procure GHG compliance instruments on behalf of their customers in time for the implementation of cap-and-trade. However, DRA does fully support the premise of PE's recommendation that the Commission require each utility to assess how it would evaluate plans to reduce actual emissions.[37] This is consistent with DRA's recommendation to develop an analysis that captures the effects of reducing GHG emissions for procurement planning purposes.[38] As the IOUs develop their long-term procurement plans in a GHG-constrained California under the Arby's cap-and-trade program, those plans are deficient if they do not include an analysis on the economic effects of reducing GHG emissions compared to the projected costs of procuring GHG compliance instruments each year (i.e. the avoided costs of procuring GHG compliance instruments). Pacific Environment makes the very good point that reducing emissions (as opposed to buying allowances or offsets) has the advantage of reducing the risks posed by potentially fluctuating prices of allowances.[39]

DRA reiterates its recommendation that the Commission establish a process to ensure that this type of analysis is included in the next LTPP cycle.[40] Perhaps that process is to conduct this analysis in the meantime or to open a proceeding to determine how to conduct this analysis so that the results can be incorporated in the next LTPP.

Testimony), p.16:14-24.

[36] DRA Opening Brief, p.16.

[37] PE Opening Brief, p. 22.

[38] DRA Opening Brief, p.16.

[39] PE Opening Brief, p.21.

[40] DRA Opening Brief, p.16.

2. Southern California Edison has misinterpreted DRA's recommendations

SCE asserts that DRA recommended a significant delay in the date of the final decision authorizing the GHG procurement plans.[41] DRA did not recommend a significant delay; it recommended that authorization to procure GHG allowances be effective once the final cap-and-trade regulations are approved by ARB, which is expected in October 2010.[42] This recommendation is to ensure that the IOUs do not procure any GHG compliance products until a final cap-and-trade regulation has been adopted. DRA agrees with SCE that the Commission should adopt See's GHG procurement plan in advance of Arby's first auction,[43] once the Commission has determined that the IOUs' GHG procurement plans, or the relevant parts of each IOU's Bundled Plan, contain the information originally sought by the Commission regarding the evaluation of GHG risks. Hence a decision in early 2012 would be appropriate.

SCE also states that the Commission should reject DRA's recommendation to increase Commission oversight of GHG procurement activities, because it is based on a misunderstanding of the robust oversight framework proposed by SCE and currently in place for other energy procurement subject to AB 57.[44] DRA's position is not based on a misunderstanding. It is DRA's opinion that the forward transaction rate and total transaction limits that SCE is proposing fall short as standards to protect ratepayers from potentially high and risky forward procurement costs early in a developing market.

B. Once-Through Cooling Facilities

Due to the number of concerns raised by parties regarding Energy Division Staff's proposal to limit contracts with OTC units to one-year, the Commission should reject this proposal. DRA and other parties[45] including all three IOUs have argued that

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[41] SCE Opening Brief, p.7.

[42] DRA Opening Brief, pp.13-14.

[43] SCE's Opening Brief, p.8.

[44] SCE Opening Brief, p.9.

[45] See Opening Brief of NRG Energy, Inc. on Track III Issues, p. 2; Opening Brief of the Independent

this policy provides no discernable benefits, will only serve to restrict the IOUs' procurement practices with units that are vital to system reliability, and could put the IOUs at a disadvantage against other Load Serving Entities (LSEs) in their contracting efforts. The Staff Proposal will also likely result in additional costs, both to ratepayers and the IOUs.

In their testimonies, both PG&E and SDG&E propose modifications to the Staff Proposal. PG&E proposes to consider the environmental attributes of OTC units in the RFO bid/offer evaluation process. DRA supports this proposal in concept.[46] SDG&E proposed to apply the one year contracting limit to the last two years of the OTC unit's compliance period.[47] In its Opening Brief however, SDG&E instead proposed that the Staff Proposal be rejected.[48] With regard to SDG&E's proposal, DRA reiterates its position as stated in its opening brief that instead of SDG&E's alternative proposal, DRA recommends that the Commission direct the IOUs to refrain from entering into contracts with OTC facilities that extend beyond the facility's retirement/repower compliance deadline as identified in the State Water Resource Control Policy Statement.

C. SCE's Request for a New Generation Auction

The Commission should also reject Southern California Edison's (SCE's) proposal to open a new proceeding to consider an auction for new generation. DRA agrees with SCE that the costs of new generation should be allocated fairly between the IOUs and other LSEs. Yet SCE has not made a convincing case to support the need for a new Commission proceeding devoted entirely to considering a CAISO-run auction for new resources. As SCE testified, the Commission's procurement role would be limited to planning for system reliability and meeting the Planning Reserve Margin, while the

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Energy Producers Association, p. 33; and Opening Brief of Genon California North, LLC on Track I and Track III Issues, p. 9.

[46] Ex. 109 (PG&E Track III Reply Testimony), p. 2; Ex. 107 (PG&E Procurement Rules Testimony), p. 1-3, SDG&E Opening Brief, pp. 22-23.

[47] Ex. 313 (Prepared Track III Testimony of San Diego Gas & Electric Company), p. 19.

[48] SDG&E Opening Brief, pp. 21-24.

CAISO and FERC would have oversight over new resources for local and renewable integration needs.[49] Not a single party has come out in favor of SCE's proposal. On the contrary, numerous parties argued strenuously that SCE's proposal is misguided and ill-timed, raising concerns over the Commission's considerable loss of oversight authority to the Federal Energy Regulatory Commission, and pointing to the Commission recent rejection of the centralized capacity market proposal (sponsored by SCE) in D.10-06-018.[50]

At best, SCE's proposal is premature. DRA finds the points made by the Large Scale Solar Association (LSA) particularly informative on this point.[51] As LSA points out, the Commission has not even identified what renewable integration and local resources will need to be procured, much less what would be the best approach to allocate the costs of new integration resources.[52] SCE's proposal prejudges both of these outcomes. As LSA discusses, "the costs of new resources cannot be neatly assigned between static "integration" and "reliability" buckets and allocated permanently to discrete classes of customers and generators."[53] In addition to the results of the CAISO's ongoing renewable integration study which will be considered in the next LTPP cycle, several other initiatives are underway including the CAISO's Renewable Integration and Market Product Review stakeholder process to consider adding operational characteristics to the RA capacity product. The results of these processes could affect the way costs of new generation are or should be allocated. Accordingly, SCE's proposal to open a proceeding to consider its New Generation Auction should be rejected, and any cost allocation issues should be determined comprehensively if and when a need for new resources is found.

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[49] Tr. vol. 4, (Southern California Edison), p. 519.

[50] See TURN Opening Brief, pp. 6-7; Ex. 1900 (Testimony of Dr. Barbara R. Barkovich on Behalf of the California Large Energy Consumers Association on Track III Issues, pp. 5-6.

[51] Opening Brief of the Large-Scale Solar Association on Track I and Track III Issues, pp. 13-16.

[52] *Id*. at p. 13.

[53] *Id.* at p. 15.

III. CONCLUSION

In conclusion, DRA asks the Commission to adopt its recommendations as set forth in its opening brief and this reply brief.

Respectfully submitted,

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