



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE **FILED**

STATE OF CALIFORNIA

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Refine Procurement Policies and Consider Long- )  
Term Procurement Plans. )

R.12-03-014

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) COMMENTS ON**  
**PRELIMINARY SCOPING MEMO AND SCHEDULE**

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Dated: **April 6, 2012**

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**I.**

**INTRODUCTION AND EXECUTIVE SUMMARY**

Pursuant to Rule 6.2 of the California Public Utilities Commission's (Commission or CPUC) Rules of Practice and Procedure and Ordering Paragraph No. 6 of Order Instituting Rulemaking (R.) 12-03-014 (the "Order"), issued March 27, 2012, Southern California Edison Company (SCE) hereby submits its comments on the Preliminary Scoping Memo and Schedule provided in the Order.

As the Order states, the rulemaking was opened to continue the Commission's efforts to integrate and refine a comprehensive set of procurement policies, practices and procedures, including consideration of the unresolved issues in Track I of the 2010 Long-Term Procurement Plan (LTPP) proceeding, R.10-05-006, related to overall long-term need for new system and

local reliability resources.<sup>1</sup> Consistent with the Order's objectives, SCE urges the Commission to focus its efforts in 2012 on:

- Completion of the pending analytical work with the California Independent System Operator (CAISO), commenced in the 2010 LTPP, to determine the operating flexibility the system requires to integrate the increasing amounts of intermittent generation being delivered to the grid, using the Standardized Planning Assumptions adopted in the 2010 LTPP, and
- Long-term local capacity requirements (LCR), working closely in conjunction with the CAISO.

This work should be completed as soon as practicable, as its results are required to determine the need for, and type of, new generation required and to inform how the Commission's long-term procurement and Resource Adequacy (RA) framework need to evolve. SCE agrees with the Preliminary Scoping Memo that the Commission should consider revisions to the Assembly Bill (AB) 57 Bundled Procurement Plans (Bundled PPs) in 2013. The Preliminary Scoping Memo mentions several other emerging procurement topics. The Commission should assign a lower priority to review these other topics in this docket in 2012, and urges the Commission to address them as necessary, as discussed below.

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<sup>1</sup> Order, p.1.

## II.

### **SCE SUPPORTS A FOCUSED WORK EFFORT IN 2012**

#### **A. The Commission Should Complete Work On Renewable Integration Begun In The 2010 LTPP**

The CAISO has been working diligently with stakeholders on completion of analytical work that started in the 2010 LTPP. This analytical work focused on the operating flexibility the system requires to integrate the increasing amounts of intermittent generation being delivered to the grid. The Settlement Agreement, dated August 2, 2011, in the 2010 LTPP docket, contemplated continuation of this work in 2012 and a year-end decision on this analysis. The Investor-Owned Utilities (IOUs) and many other stakeholders have invested significant effort in this modeling work. These efforts are getting close to a point where reasonable conclusions can be drawn. The Commission should focus on developing those conclusions this year. SCE supports the Settlement Agreement and supports finishing the renewable integration analysis started in the 2010 LTPP docket in this proceeding.

#### **B. SCE Supports Incorporating The Results of CAISO LCR Analysis In The 2012 Work Effort**

The Order, at p.7, suggests including LCR analysis as part of the scope of this LTPP cycle, in addition to the renewable integration studies that continue from the 2010 LTPP proceeding. In the 2010 LTPP, the CAISO-led modeling efforts focused solely on integration of the increasing amounts of intermittent generation being delivered to the grid. The studies did not consider LCR, except that a modeling assumption was developed as an input to the analyses. Separately, CAISO has conducted multi-year forward studies of needs for generation that is generally closer to load which is necessary to meet the physical operating needs of the system. SCE supports incorporating the results of CAISO LCR analysis in this LTPP, so long as SCE and other stakeholders have a meaningful opportunity to participate in the CAISO's analyses and

comment on supporting assumptions. In addition, SCE believes that the CAISO should identify if specific locations studied in its LCR analysis are critical to maintaining local reliability. Without such identification, it is possible that any Commission-adopted LCR need will be subsequently found to be inadequate because a critical location was not specifically identified and adequately addressed in the LCR need determination. SCE must have a full opportunity to offer its own judgments of LCR needs to the Commission for consideration. SCE supports prioritizing completion of this review of the LCR analyses in this docket in 2012.

**C. SCE Strongly Supports Use Of Market Mechanisms To Secure Capacity Whenever Feasible**

SCE advocated in the 2010 LTPP that the Commission open a new proceeding to consider development of a new generation auction mechanism.<sup>2</sup> The Commission has not yet issued a final decision on this issue, but the Proposed Decision on Tracks I and III, dated February 21, 2012, rejects SCE's proposal.<sup>3</sup> SCE made this proposal because of its strong preference that the California energy markets have a market mechanism that properly allocates the costs of new generation capacity.

In the absence of such a market mechanism, if there is a need for immediate procurement of resources, any required procurement should ensure that costs are recovered fairly and equitably using cost causation principles such that the IOUs' bundled customers are not exposed to an unfair share of the costs. Such procurement would likely be for: (1) LCR resources required in the IOUs' service areas; and/or (2) new flexible generation to support integration of increasing amounts of intermittent renewable generation into the grid. It is not SCE's preference to procure this required generation.

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<sup>2</sup> R.10-05-006. Exhibit 211, pp.4-9.

<sup>3</sup> R.10-05-006, Proposed Decision, dated February 21, 2012, pp.26-27.

In particular, with regard to new resources to support integration of intermittent generation into the grid, all contributors to the need for such resources should be responsible for the costs, including the generators whose operating actions and characteristics create the need for the resources. Without a CAISO-based procurement mechanism, it may not be possible for all such contributors to the need for new resources to pay for them. SCE is concerned with imposing the costs of renewable integration directly on load, since the lack of a price signal to renewable energy resources may discourage the development of the most cost-effective solutions for mitigating renewable integration impacts. This is due to the fact that the resource itself does not recognize the costs it causes, and, therefore, the resource does not bid those costs in to a Request For Offers (RFO). The lack of the costs integrated into an RFO bid means that the purchaser cannot differentiate between a facility employing technology to provide some amount of output control and one that has not.

If procurement of new LCR generation resources in the IOUs' service areas defaults to the IOU, costs should at a minimum be allocated through the Cost Allocation Mechanism (CAM) so that the IOUs' bundled customers are not solely responsible for them. To the extent that the new generation procurement captures flexible operating attributes for renewable integration, the Commission should allocate the incremental procurement costs associated with flexible attributes across all CPUC-jurisdictional loads, if a CAISO-based allocation is not feasible.

**D. Broadening the Scope To 20 Years Will Not Yield Effective Results**

The Order, at p.8, suggests that the Commission “may consider expanding our planning horizon from current 10-year outlook to a 20-year outlook.” A 20-year outlook would be heavily dependent upon transmission plans, and it is very difficult to predict transmission plans 20 years

out. As a result, broadening the scope of the LTPP analytical work related to system resource plans to 20 years is not practical. In the 2010 LTPP, the Commission considered 10-year and 20-year planning horizons, before settling on an intermediate approach suggested by SCE to perform system modeling of the three IOU-combined service area for 10 years and then projecting results out for another 10 years.<sup>4</sup> Having considered the results of this analysis, SCE has concluded that extending results for 20 years was not a particularly useful exercise, and that the Commission should not attempt to extend modeling efforts to 20 years. SCE would not oppose a modest extension of the planning horizon to reach beyond the final compliance dates in owner plans for generation affected by once-through cooling regulations and the existing SONGS license period, but any such analyses should be given lower priority than completion of the needs assessment begun in the 2010 LTPP, as noted above.

**E. The CPUC Needs To Clarify The Role Of The New Standardized Planning Assumptions**

The Order, at p.8, indicates that “[t]he assigned Commissioner or Administrative Law Judge (ALJ) will issue a ruling shortly after the issuance of this Order presenting staff’s proposed standardized planning assumptions.” The purpose of these new standardized planning assumptions is unclear. As discussed above, the CAISO and the IOUs have been working diligently to complete studies based on the 2010 LTPP standardized planning assumptions to determine the need for flexible resources to integrate the increasing amounts of intermittent generation being delivered to the grid. This work is ongoing and can be completed this year, but not if analytical work must be re-run with new standardized planning assumptions. The Commission should not discard the analytical work completed so far and begin a wholly new modeling effort on integration of the increasing amounts of intermittent generation being delivered to the grid.

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<sup>4</sup> R.10-05-006, Exhibit 106, pp.A-4-5, table 2.

SCE does not believe that analytical work on integration of the increasing amounts of intermittent generation being delivered to the grid can be completed by year end 2012, if new standardized planning assumptions must be considered. SCE urges the Commission to clarify that the purpose of the new standardized planning assumptions is not for analytical work on integration of the increasing amounts of intermittent generation being delivered to the grid to be completed in 2012.

SCE is willing to prepare its new Bundled PP with the new standardized planning assumptions in 2013, provided SCE is also permitted to present its own planning assumptions. SCE is also willing to use new standardized planning assumptions for other modeling work done in 2013 and beyond. That being said, in SCE's view, the four scenarios used in the 2010 LTPP did not offer significantly different results in the modeling work performed. SCE questions the value of continuing to use four scenarios for future work with different Renewable Portfolio Standard resource mixes. The "Commercial Interest Scenario" recently offered by the Commission and the California Energy Commission to the CAISO for use in its 2012-13 Transmission Planning Process appears to be a reasonable "base case." SCE recommends that the Commission use this as the "base case" for its future analyses in 2013 and beyond and consider developing scenario analyses around it. If the Commission elects to utilize any other scenarios for analysis, these scenarios should each be developed based on a specific set of regulatory actions, so that they are meaningful tests of policy choices, and the scenarios should be sufficiently unique to justify the effort to model them.

**F. It Is Prudent For The CPUC To Investigate How Shutdown Of The Nuclear Plants At The Expiration Of The Current License Periods Would Compromise Important Policy Goals**

The Order states, at p. 8, "[o]ur long-term resource planning efforts will take into consideration...an assessment of the state's reliance on nuclear power in light of the expected expiration of nuclear licenses near the end of this planning horizon." SCE welcomes the

Commission's interest in addressing nuclear "in and out" issues related to long-term resource planning in this LTPP cycle. As the Commission is well aware, the nuclear facilities generate power at a low marginal cost without creating Greenhouse Gas (GHG) emissions. Their shutdown may increase customers' energy costs and compromise the State's ability to meet GHG policy goals. However, it is important for the Commission to understand the impact of the loss of these low cost and non-GHG emitting resources on the State's ability to meet its AB 32 GHG reduction goals.

As SCE's testimony in the 2010 LTPP showed, the shutdown of SONGS also has significant local reliability impacts associated with transmission system constraints.<sup>5</sup> Because the LTPP primarily focuses on the need for generation resources, as opposed to the need for new transmission, it is particularly challenging to fully analyze long-term SONGS shutdown issues in the LTPP. Transmission planning studies are typically not a part of the LTPP, and take a good deal of time to complete.

SCE is willing to support a reasonable inquiry into SONGS "in and out" scenarios at license expiration. That being said, SCE will not be able to provide timely information on near-term permanent SONGS shutdown scenarios in the timeframe of this proceeding. As discussed above, any permanent SONGS shutdown analysis will require detailed transmission planning analyses which take significant time to complete.

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<sup>5</sup> 2010 LTPP, Exhibit 209, p.38.

### III.

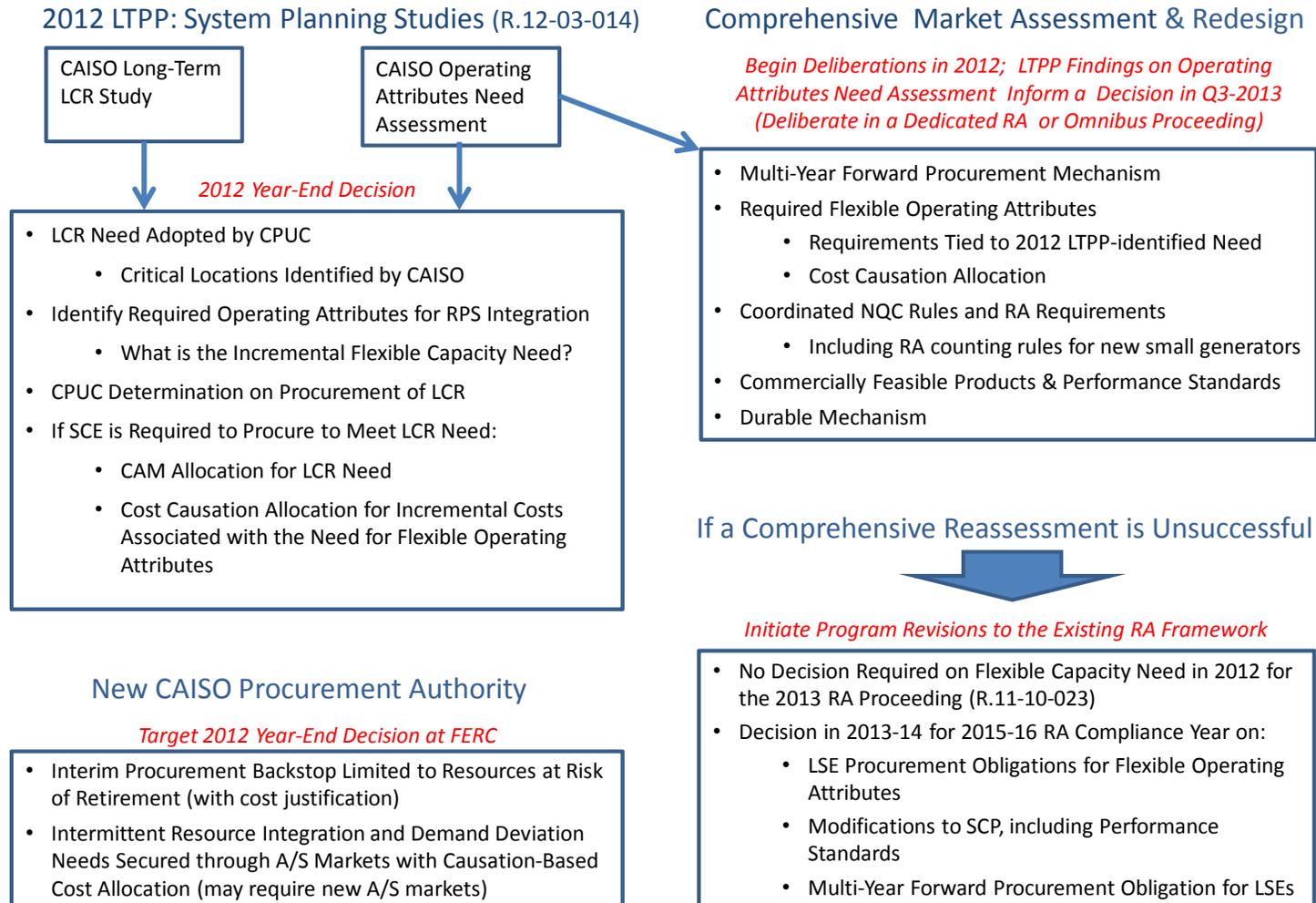
#### **THE COMMISSION SHOULD DEVELOP A MULTI-YEAR FORWARD CAPACITY PROCUREMENT MECHANISM**

##### **A. The First Phase Of The 2012 LTPP Proceeding Should Identify The Need For, And The Type Of Flexible Capacity Required To Maintain Grid Reliability**

As discussed above, the first phase of the 2012 LTPP should be a continuation of work started in Track I of the 2010 LTPP to determine the operating flexibility the system requires to integrate the increasing amounts of intermittent generation being delivered to the grid. This work should be completed in 2012. As Table III-1 shows, this work should complement work on RA by focusing not only on the need for a particular amount of flexible capacity, but also the necessary attributes of that flexible capacity to bolster grid reliability. For example, one attribute of flexible capacity that might bolster grid reliability is “fast-ramping” capacity to assure that when intermittent generation becomes unavailable, there is replacement power available immediately. However, until the analytical work to determine the operating flexibility that the system requires is complete, it is not possible to know the appropriate attributes of necessary flexible capacity. If the State misidentifies the attributes of the needed flexible capacity, the wrong products may be developed and sold while the need for flexible generation with the appropriate attributes would remain. This could be a costly mistake for customers that the Commission should work to avoid. Because the LTPP considers the underlying analytical work on the need for flexible capacity, it is the appropriate proceeding to identify the attributes of the flexible capacity needed by the electric system.

**Table III-1**

## Consideration of Local Capacity Requirements and Resource Adequacy



**B. The Commission Should Open A Dedicated Proceeding To Consider How Necessary Capacity Requirements And Multi-Year Forward Procurement Needs Are Met**

The Order, at p. 9, indicates that the Commission may want to consider “multi-year flexible capacity procurement rules” in this docket. SCE urges the Commission to work to develop a multi-year flexible capacity market, but not in this docket. The LTPP proceeding is an omnibus proceeding to consider resource planning issues related to the IOUs. This multi-year flexible capacity market should either harmonize with or replace the current RA framework which affects more entities than just the IOUs. For this reason, SCE recommends that the Commission either create a new proceeding to work in conjunction with the RA proceeding or a separate phase of the RA proceeding that is solely focused on the creation of a multi-year capacity procurement mechanism. In SCE’s view, the current RA proceeding must focus on RA for the following year and simply does not have an appropriate amount of time to consider the important issue of development of a multi-year capacity procurement mechanism and the impact of flexible capacity requirements being imposed on the Standard Capacity Product (SCP) that underpins the existing RA framework (e.g., the commercial viability of SCP if specific operating attributes are required).

The work on the multi-year capacity procurement mechanism should occur in a forum involving all of the parties affected by RA requirements. CAISO is also looking at a broader mechanism than the present RA mechanism through its Phase 2 initiative. This is another more appropriate proceeding for review of a flexible capacity procurement requirements and a multi-year forward procurement mechanism.

SB 695, at Public Utilities Code Section 365.1, states that the Commission must:

“Ensure that other providers are subject to the same requirements that are applicable to the state’s three largest electrical corporations under any programs or rules adopted by the commission to implement the resource adequacy provisions of Section 380...”

SB 695 requires that the Commission ensure that other providers are subject to the same RA requirements as the three IOUs. The RA framework and the CAISO initiative look more

broadly, than the LTPP, at capacity procurement requirements for the electric system as a whole. The LTPP focuses on system planning analysis the bundled procurement requirements of the IOUs. Therefore, it is not an appropriate forum for the development of a multi-year flexible capacity market affecting all market participants.

Nonetheless, the outcome of the analytical work done by the IOUs and the CAISO in the LTPP can and should inform development of a comprehensive RA framework that addresses flexible capacity needs and multi-year forward procurement when it is completed. When this analytical work is completed, the Commission should work with the CAISO to identify a commercially feasible, durable multi-year capacity procurement mechanism consistent with SB 695.

#### IV.

#### **THE SCOPE OF WORK FOR 2013 SHOULD INCLUDE UPDATING THE BUNDLED PROCUREMENT PLAN**

Given the high priority, time-intensive analyses that need to be completed to assess LCR and renewable integration needs by year-end 2012, the Order appropriately reserves consideration of updates to the IOUs' AB 57 Bundled PPs for 2013.<sup>6</sup> The IOUs are currently in the process of submitting their conformed Bundled PPs via Tier 3 advice letter based on updated assumptions from the 2010 LTPP.<sup>7</sup> Therefore, since the IOUs will complete the last cycle of updates to upfront and achievable standards for bundled procurement, at the earliest, by the second quarter of 2012, it would be imprudent for the Commission to consider another cycle of changes any earlier than 2013. In Section VIII below, SCE provides a proposed schedule for consideration of updates to the Bundled PPs in 2013.

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<sup>6</sup> Preliminary Scoping Memo, p.10.

<sup>7</sup> For PG&E and SCE, the advice letter is due April 11, 2012, but conformed changes to their respective greenhouse gas (GHG) procurement plans as part of their BPPs will not be submitted until a final decision is issued on Tracks I and III in the 2010 proceeding. SDG&E was granted an extension to file their conformed BPP within 30 days of issuance of the final decision on Tracks I and III.

V.

**THE COMMISSION SHOULD BETTER DEFINE THE MEANING OF  
PROCUREMENT RULES TO COMPLY WITH SB 695 ON THE COST ALLOCATION  
METHODOLOGY**

The Order states, at p.9, that issues may include “Procurement Rules to Comply with SB 695 on the Cost Allocation Methodology.” The Order goes on to state that: “This proceeding will consider any necessary modifications to fully implement the RA provision of SB 695.” As SCE identified above, SCE believes a dedicated RA proceeding is the most appropriate forum for addressing RA procurement rules. However, to the extent that SCE is required to procure new generation resources for system or LCR need, appropriate cost allocation consistent with SB 695 must be addressed.

VI.

**SCE SUPPORTS DEVELOPMENT OF A COMPREHENSIVE PROCUREMENT  
RULEBOOK WHICH SUPERSEDES COMMISSION PRECEDENT**

The Order also proposes to consider the adoption of a Procurement Rulebook.<sup>8</sup> As stated in SCE’s previous testimony on this subject in Track III of the 2010 LTPP,<sup>9</sup> SCE supports the concept of developing a comprehensive source of procurement rules and requirements, but the rulebook should be a fully-enforceable set of *all* rules that would supersede existing Commission decisions. Providing all procurement rules in one place would facilitate compliance so that an IOU would not inadvertently violate a rule of which it was unaware since these rules are currently scattered throughout various decisions. A comprehensive, fully-enforceable rulebook would also reduce the risk of inconsistencies among procurement-related decisions. SCE supports the Commission initiating a process for development of a comprehensive rulebook, but

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<sup>8</sup> Preliminary Scoping Memo, p.9.

<sup>9</sup> R.10-05-006, Track III, SCE Exhibit 211, pp. 21-22.

this should commence in 2013 to give priority to completion of time critical analytical work on renewable integration and LCR started in the 2010 LTPP.

## VII.

### **SCE SUPPORTS RECONSIDERATION OF GHG PROCUREMENT POLICY IF THE TRACKS I AND III PROPOSED DECISION IN THE 2010 LTPP IS NOT REVISED TO ESTABLISH LONG-TERM GHG PROCUREMENT PLANS**

Additionally, the Order contemplates consideration of GHG product procurement policies to facilitate the implementation of the California Air Resources Board's cap-and-trade program.<sup>10</sup> Since the 2010 LTPP is addressing GHG position limits policies, the Commission must prioritize renewable integration and LCR analyses for 2012. SCE recommends that the Commission not explore further GHG product procurement policies in the 2012 cycle. However, if the Tracks I and III Proposed Decision (PD) in the 2010 LTPP is not revised to provide for spot market transaction authority and long-term GHG position limits that account for GHG exposure related to the IOUs' open positions, SCE strongly supports reconsideration of such GHG procurement policies in 2012.<sup>11</sup>

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<sup>10</sup> Preliminary Scoping Memo, p.10.

<sup>11</sup> As explained in detail in SCE's comments on the PD, the PD limits the IOUs' ability to manage customer GHG cost exposure, which is inconsistent with current Commission rules for other energy-related procurement. Accordingly, the Commission should modify the PD to provide for (1) year-end positions limits for GHG compliance instruments based on the IOUs' compliance obligation, contractual obligation, and electricity market exposure; (2) either no minimum procurement limit or a minimum limit that applies only to the IOU's compliance obligation (as opposed to the IOU's total GHG exposure); (3) bilateral transactions for GHG allowances directly and through approved exchanges and brokers; (4) GHG compliance instrument purchases without a seller guarantee against invalidation; (5) GHG compliance instrument sales without Tier 2 Advice Letter approval; (6) no requirement that sellers assume the risk of GHG offset invalidation; (7) limitation of purchases of GHG offsets to 8% in each compliance period rather than annually; and (8) a requirement that the IOUs' GHG offset contracts provide for certification of the GHG offsets before the IOUs accept delivery and make payment. If these revisions are not made to the PD, SCE supports consideration of these issues in this 2012 LTPP cycle.

## VIII.

### **SCE RECOMMENDS CHANGES TO THE PROPOSED SCHEDULE**

SCE recommends certain changes to the proposed schedule in the table below.

<b>Proceeding Milestone</b>	<b>Date</b>
Ruling on Proposed Additional Scenarios to 2010 LTPP System Studies	(shortly after OIR)
Comments Due on Preliminary Scoping Memo	April 6, 2012
PHC	April 18, 2012
<b>Phase 1</b>	<b>2012</b>
Comments and Party Alternative Proposals on Scenarios	April 23, 2012
Replies to Party Alternative Proposals	April 30, 2012
Scoping Memo	May 2012
Renewable Integration Model (RIM) and LCR Results Workshop	Mid-May 2012
IOU Testimony on RIM, LCR, and Flexible Capacity Requirements (FCR)	June 2012
Intervenor Testimony on RIM, LCR, and FCR	July 2012
IOU Replies to Intervenor Testimony	July 2012
Hearings (If Necessary)	August 2012
Briefs	September 2012
Reply Briefs	October 2012
Proposed Decision	November 2012
Decision	December 2012
<b>Phase 2</b>	<b>2013</b>
Ruling on Updated Standardized Planning Assumptions (SPAs) for Bundled Procurement Plans (BPPs) Based on Phase 1 Decision, Proposed Procurement Rulebook	January 2013
IOUs Submit BPPs and Testimony	March 2013(8 weeks after Ruling)
Intervenor Testimony on BPPs	April 2013
Hearings and Briefs (If Necessary)	Summer 2013
Proposed Decision	November 2013
Decision	December 2013

## IX.

### **CONCLUSION**

For the reasons discussed above, SCE respectfully requests that the Commission clarify the work scope in the Order to focus in 2012 on:

- Completion of the pending analytical work with the CAISO, commenced in the 2010 LTPP, to determine the operating flexibility the system requires to integrate the increasing amounts of intermittent generation being delivered to the grid, using the Standardized Planning Assumptions adopted in the 2010 LTPP, and
- Long-term LCR requirements, working closely in conjunction with the CAISO.

SCE further requests that the Commission focus in 2013 on development of revised Bundled PPs.

Respectfully submitted,

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