

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



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Order Instituting Rulemaking to Establish Policies,
Processes, and Rules to Ensure Reliable Electric Service in
California in the Event of an Extreme Weather Event in
2021.

Rulemaking 20-11-003
(Filed November 19, 2020)

**RESPONSE OF THE INDEPENDENT ENERGY PRODUCERS ASSOCIATION TO
DECEMBER 11 RULING**

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In his email ruling of December 11, 2020, Administrative Law Judge Brian Stevens presented proposals and asked questions regarding the authorization of expedited procurement for Summer 2021, and asked parties to respond to those proposals and questions. The Independent Energy Producers Association (IEP) respectfully offers its responses.

I. Response to Proposal and Questions Regarding the Authorization of Expedited Procurement for Summer 2021

A. Procurement Type Initial Proposal

Unfortunately, it is likely already too late to procure significant quantities of new supply capacity by the June 1, 2021 commercial operation date targeted in the ruling, or by the August 1, 2021 online date prescribed for the first tranche of resources authorized in Decision (D.) 19-11-016. The time required for permitting, environmental review, and interconnection essentially eliminates any possibility of coming online this summer for any additional resources that are not already well along in the development process or are currently available to operate.

That pessimistic outlook does not mean that the Commission and the investor-owned utilities should not make every effort to find and procure any capacity that might be

available for this summer. IEP offers the following observations on the resource types the ruling asked parties to consider:

Incremental efficiency upgrades to existing power plants: The California Energy Commission recently held a workshop to explore possible incremental capacity additions to existing gas-fired power plants. The workshop appeared to demonstrate that in the short term, few options are available for added capacity. Software upgrades or operational changes might be result in some additional MW. However, major physical modifications take time to procure, engineer, install, and test, and will not likely be available for Summer 2021.

Re-contracting for generation that is at risk of retirement: This action could be accomplished by this summer and should be explored further. However, most plants that were at risk of retirement have either already been retired or have secured contracts that allow for their continued operation. In other words, it's unclear how many MW, if any, could be added through re-contracting. For example, the four once-through cooling plants that were scheduled for retirement at the end of this year have already been made available for 2021.

Incremental energy storage capacity: Incremental storage capacity at existing power plants, whether behind-the-meter or in-front-of-the-meter, would have to fit within existing interconnection capacity limits to be available for this summer. Some storage capacity might possible at sites that have available excess interconnection capacity.

Firm forward imported energy contracts: These contracts could be negotiated before June 1 or August 1 provided that there is a seller willing to enter into such

contracts. Import capacity is limited at times, which might make firm import capacity expensive or unavailable.

IEP notes that the ruling did not mention one option that might yield additional MW for this summer. Some existing plants have the ability to provide additional MW if their power purchase agreements are amended or expanded to cover additional capacity. Similarly, some existing plants that are uncontracted or only partially contracted could provide additional capacity if offered adequate contract incentives.

The ruling proposes that potential resources might include utility-owned resources. IEP cautions against reliance on utility-owned resources, because of the potential for distortions when the utility is both the primary purchaser of capacity and a potential supplier of capacity.

B. Response to Questions Regarding Procurement Type

The ruling poses several questions about procurement type:

1. In considering incremental authorization for procurement, what parameters should the Commission place on contracts regarding pricing, contract term, and operational characteristics?

IEP's response: If resources are procured by means of a vigorous competitive solicitation, no restrictions on pricing should be necessary. Because any resources that are available at this point are likely to have higher deployment costs, the prices for these resources are also likely to be higher.

If contract terms are limited to just the summer months of 2021, as some parties have recommended, the supply of potential resources might be even more constrained than it already is. Longer contract terms are needed to justify investment in the equipment needed to produce additional capacity in existing power plants.

Some parties have suggested that no incremental capacity from gas-fired units

should be procured to meet a potential weather emergency, but incremental gas capacity is one of the few supply technologies that has the flexibility to meet the peak net demand levels experienced in August. On August 15, 2020, at the time of peak net demand, 26,000 MW of natural gas generation resources were operating, meeting 60% of the load requirements in the CAISO. Even those who argue that reliance on gas-fired units is inconsistent with California's greenhouse gas (GHG) emission-reduction goals should recognize that it is far preferable in the short term to rely on efficient gas-fired units with advanced emission reduction technology than to have no option but to rely on diesel backup generation with little, if any, emissions controls. Moreover, it is unlikely that incremental generation running for a limited time will have any significant effect on California meeting its long-term GHG goals. The electric sector is already 40% below its 1990 GHG emissions level. The major risk to meeting GHG goals in the electric sector is the further erosion of reliability.

2. Should the Commission limit the total volume of incremental procurement authorized?

IEP's response: IEP suspects that limits on the volume of incremental capacity will not be necessary; the problem will be procuring sufficient amounts of capacity. If upper limits on the volume of capacity are considered necessary, the limit should be high enough to cover the peak and peak net demand levels experienced last August, plus enough of a reserve margin to ensure that cutting power to customers will not be necessary.

3. Should procurement that cannot achieve a commercial operation date by June 1, 2021 also be considered in this procurement authorization?

IEP's response: Yes. The risk of extreme weather will continue and possibly increase after June 1, and any incremental capacity that can be added to the system throughout the summer and beyond will help reduce the risk of customer outages.

4. **Are there any additional considerations regarding the procurement type that the Commission should consider in issuing a procurement authorization?**

IEP's response: Since the Stage 3 emergency in August seemed to be correlated to the peak net demand, the procurement should focus on resources that are capable of helping meet the peak net demand .

5. **Are there additional specific issues the Commission should consider in authorizing procurement to ensure that the procurement is cost-effective under the existing circumstances, would addresses system needs, and be in the public interest?**

IEP's response: A competitive solicitation of resources with the desired attributes would be the best way to ensure cost-effectiveness.

C. Procurement Process Initial Proposal

6. **Are there other expedited processes besides bilateral negotiations or revisiting offers from recent IRP RFO bid stacks that could be used to ensure cost-competitive resources are procured to be online for Summer 2021?**

IEP's response: An expedited competitive solicitation would be the best way to ensure that cost-competitive resources are procured for Summer 2021.

7. **Can or should actions be taken to expedite the permitting and interconnection processes associated with this procurement?**

IEP's response: Permitting is usually performed by agencies outside of the jurisdiction of the Commission, and wholesale interconnection processes are governed by federal tariffs that must be followed. To the extent that interconnections are governed by Rule 21, the Commission could take steps to expedite the interconnection process.

8. **What existing investor-owned electric utility procurement processes (for example, Procurement Review Group consultation independent evaluator oversight, etc.) should be utilized for this procurement?**

IEP's response: Because any procurement for this summer will necessarily be rushed, it would be helpful to have an independent evaluator oversee the procurement process. Review by the Procurement Review Group should occur only if the review does not delay the processing of the power purchase agreements for the procurement.

IEP has no response to Questions 9 and 10.

D. Procurement Cost Recovery and Ratemaking Treatment

IEP has no response to this section.

E. Process for Commission Review

The ruling proposes a Tier 1 advice letter process for approval of procurement results and contracts, but a Tier 2 process for approval of utility-owned resources.

11. Are there any additional considerations regarding cost recovery and ratemaking treatment the Commission should consider in issuing a procurement authorization?

A Tier 1 advice letter process would be expeditious, but approval of procurement or a power purchase agreement does not appear to fall within the matters appropriate for a Tier 1 advice letter, as set forth in General Order 96-B, Energy Industry Rule 5.1. A possible exception is made for “[a] Contract that conforms to a Commission order authorizing the Contract, and that requests no deviation from the authorizing order,” but that would require the Commission to develop and adopt a standard contract that allowed for no deviation. Developing a standard contract of this sort might take longer than pursuing a more conventional approach.

Despite these concerns, IEP encourages the Commission to adopt an expeditious process for review and approval of the contracts resulting from an emergency reliability procurement authorization. IEP notes that the Commission has authorized Tier 2 advice letter

review of certain contracts for resources meeting Renewables Portfolio Standard requirements.¹

A similar expedited review and approval process should be developed for contracts resulting from an emergency reliability procurement.

II. CONCLUSION

IEP respectfully requests the Commission to consider these comments as it decides how to procure additional supply resources for Summer 2021.

Respectfully submitted this 18th day of December, 2020, at San Francisco, California.

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¹ D.09-06-050.