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BEFORE THE PUBLIC UTILITIES COMMISSION

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Order Instituting Rulemaking to Continue Electric Integrated Resource Planning and Related Procurement Processes.	Rulemaking 20-05-003 (Filed May 7, 2020)

COMMENTS OF THE INDEPENDENT ENERGY PRODUCERS ASSOCIATION ON THE E-MAIL RULING REGARDING NATURAL GAS ISSUES

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I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

The Independent Energy Producers Association (IEP) hereby responds to the *E-Mail Ruling Inviting Comments on* Natural *Gas Issues* ("Ruling"), issued October 13, 2021. IEP appreciates that Energy Division's effort to expeditiously conduct additional analysis to inform the Commission's consideration regarding whether to authorize incremental gas-fired capacity. The analysis shows that approval of some incremental gas-fired capacity would provide high value to load-serving entity (LSE) customers with an immaterial, or even positive, net impact on greenhouse gas emissions (GHGs). IEP encourages the Commission to allow, but not require, LSEs to count procurement of incremental gas capacity toward their Integrated Resource Planning (IRP) capacity obligations so that LSEs may realize these savings for their customers.

II. THE COMMISSION SHOULD AUTHORIZE INCREMENTAL GAS CAPACITY AT EXISTING FACILITIES AS AN ELIGIBLE RESOURCE

A. The Cost Assumptions Are Reasonable and the Modeling Results Show High Value and Minimal GHG Impact of Incremental Gas

IEP member companies affirm that the cost assumptions used for the RESOLVE modeling represent a reasonable range of values for the cost of adding incremental capacity at

existing sites, with some opportunities falling below the "Low Cost" threshold. The RESOLVE modeling results demonstrate the high value that small amounts of incremental gas capacity can bring to the California grid. At both the "low" and "high" cost values for new capacity, RESOLVE selected all of the new incremental capacity up to the predetermined cap, 122 MW for the low cost scenario and 880 MW for the high cost scenario. When the assumed cost of the new capacity was increased to the "very high cost" level ($85/kW-year), the model still selected a sizeable share of the potential (336 MW of the 880 MW cap).[1] Depending on the scenario, every MW of incremental gas capacity installed provides between $700,000 to $1 million dollars of net present value benefits.[2]

Offsetting these benefits are the potential impacts on GHG emissions. The staff's RESOLVE modeling finds that while CAISO emissions may increase slightly in the near term (by up to 0.7% in scenarios in which 880 MW is procured), by 2030 when the IRP 38 million metric ton GHG target becomes binding, there is no change in CAISO emissions. Overall WECC-wide emissions decrease by 2026 in the higher potential scenarios because more efficient gas-fired resources in California displace less efficient capacity elsewhere. To provide some cost-effectiveness perspective, the most unfavorable GHG emissions estimate (2026 High Cost, High Potential) shows that disallowing the 880 MW of incremental capacity reduces GHG emissions in 2026 at a cost of approximately $320/metric ton.[3]

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[1] *Considering Gas Capacity Upgrades to Address Reliability Risk in Integrated Resource Planning: CPUC Staff Paper* ("Staff Paper"), p. 11.
[2] Eyeball estimate of NPV values from Figure 8 (p. 13) of the Staff Paper (informed by the bookend ranges referred to on p. 12) divided by amount of capacity selected for each scenario.
[3] We derive this estimate from eyeballing an annual savings of roughly $80 million/year from Figure 7 and annual increased CAISO emission of roughly 0.25 million metric tons (Staff Paper, p. 13). If the change in WECC-wide emissions is used instead, California saves $80 million/year **and** reduces GHG emissions.

B. The Commission Should Allow Incremental Gas-Fired Capacity to Count Toward IRP Capacity Mandates

The RESOLVE findings provide strong support for the Commission to allow, but not require, procurement of incremental gas capacity in upcoming solicitations. If the cost assumptions used for the modeling runs are accurate, LSEs may choose to procure some gas-fired capacity and reap the associated cost savings for their customers. If the cost assumptions are too optimistic, LSEs will procure little, if any, incremental gas-fired capacity.

No particular changes to the procurement process steps adopted in Decision (D.) 21-06-035 are necessary to authorize the procurement of incremental gas-fired capacity at existing sites other than the Commission stipulating that it may count toward the 7,000 MW of incremental qualifying capacity required by D.21-06-035 that do not fall within one of the three specified categories.[4] The ordering paragraphs in D.21-06-035 do not explicitly prohibit the procurement of fossil-fueled resources. However, exclusion of fossil-fueled resources is discussed in sections 5 and 9 of the decision, and the only findings of fact or conclusions of law that pertain to the eligibility of fossil-fueled resources simply note the need for additional analysis.[5]

If the Commission does authorize procurement of incremental gas-fired capacity, it should not impose a minimum contract duration. When a facility adds incremental capacity to existing units through efficiency or equipment upgrades, the contract term of the additional capacity must not exceed the remaining term of the underlying capacity.[6] If procurement rules obligate the facility to execute a contract for the new capacity with a minimum term that extends beyond the remaining term of the original capacity, the plant owner may be required to keep the

[4] D.21-06-035, Table 5, p. 48.
[5] D.21-06-035, finding 7 (p. 87), finding 18 (p. 88), and conclusion 15 (p. 92).
[6] Calpine Corporation has mentioned this issue in previous comments. See *Comments of the Calpine Corporation on the Proposed and Alternate Proposed Decision Requiring Procurement to Address Mid-Term Reliability (2023-2026)* (filed June 10, 2021), pp. 8-9.

entire unit running while only receiving resource adequacy revenues for a small share of its total capacity, which may not be financially viable.

C. The Commission Should Not Require LSEs to Show that No Other Options Were Available

The Ruling asks whether LSEs should be required to make a showing that they "first attempted to procure non-emitting resources." IEP opposes any such requirement. The staff paper shows that GHG emissions from incremental gas-fired capacity will be trivial and possibly net-negative when WECC-wide emissions impacts are accounted for. GHG emissions from incremental capacity will also be subject to the state's Cap & Trade Program and any LSE-specific GHG compliance regime the Commission may ultimately adopt. There is no need to make LSEs jump through an additional hoop to submit incremental gas-fired capacity for approval as an IRP-eligible resource.

If the Commission does require a showing, it should only require LSEs to show that the alternatives to the incremental gas-fired capacity were not cost-effective. IEP proposes that if the incremental cost of the next cheapest alternative resource results in a marginal abatement cost greater than the shadow GHG price of the 38 MMT goal, the LSE should be allowed to receive IRP credit for procuring the gas capacity because disallowing the gas capacity would result in an excessive GHG abatement costs.

D. The Commission Should Not Prohibit Incremental Gas-Fired Capacity in Disadvantaged Communities

IEP has noted previously the miniscule contribution of the electricity sector to emissions of criteria pollutants in California.[7] Small incremental additions of capacity at existing sites will

[7] *Comments of the Independent Energy Producers Association on the Administrative Law Judge's Ruling Regarding Mid-Term Reliability* (filed March 26, 2021), pp. 7-9. *Reply Comments of the Independent Energy Producers Association on the Administrative Law Judge's*

have no material impact on air quality, either statewide or in particular air basins, and these facilities are held to strict emissions standards by their jurisdictional air quality management districts. Moreover, as we have previously argued, even if gas-fired generation were a significant source of criteria pollutants, prohibiting incremental gas-fired generation in DACs while allowing it in non-DAC census tracts would not necessarily improve air quality in DACs since DACs are located in the same air basins as non-DACs.[8]

III. CONCLUSIONS

IEP appreciates the Commission's willingness to conduct additional analysis related to gas-fired generation and to accept comments from the parties. The results show that allowing incremental gas capacity can provide substantial value to California ratepayers while not compromising California's environmental goals. IEP asks that the Commission simply allow LSEs to count incremental gas-fired capacity toward their IRP obligations.

Ruling Regarding Mid-Term Reliability (filed April 9, 2021), pp. 7-9. *Comments of the Independent Energy Producers Association on the Administrative Law Judge's and Alternate Proposed Decisions Requiring Procurement to Address Mid-Term Reliability* (filed June 10, 2021), pp. 8-9 (noting that gas-fired generation accounted for 0.5 percent of statewide PM 2.5 and 1.3 percent of statewide NOx in 2020). *Reply Comments of the Independent Energy Producers Association on the Preferred System Plan Ruling* (filed October 11, 2021), pp. 6-8.

[8] *Comments of the Independent Energy Producers Association on the Administrative Law Judge's and Alternate Proposed Decisions Requiring Procurement to Address Mid-Term Reliability* (filed June 10, 2021), pp. 8-9.

Respectfully submitted October 21, 2021 at Berkeley, California.

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