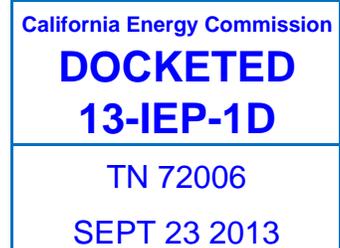


September 23, 2013

California Energy Commission  
Dockets Office, MS-4  
Re: Docket Nos. 13-IEP-1D  
1516 Ninth Street  
Sacramento, CA 95814-5512



**RE: CEC IEPR Workshop on Southern California Electricity Infrastructure and Reliability Issues**

The Independent Energy Producers Association (IEP) appreciates the opportunity to comment on the Joint Workshop on Southern California Electricity Infrastructure and Reliability Issues (September 9, 2013). A Preliminary Plan for Southern California Reliability was circulated on August 30, and at the workshop a slide presentation entitled “Southern California Reliability: Preliminary Plan” was made by the staff of the California Public Utilities Commission (CPUC), the California Energy Commission (CEC), and the California Independent System Operator (CAISO). IEP’s comments below address aspects of the Preliminary Plan.

**1. Critical Priorities:**

The Preliminary Plan identifies **Maintain Reliability** as the number 1 priority for the Southern California. (Slide 3.) IEP concurs with this priority being number 1. Moreover, we recommend that **Resource Viability** be identified as the number 2 priority, i.e., the necessary factor to help achieve and maintain reliability. A stringent viability test ought to be applied to the resources assumed in the resource/supply forecasts by planners. Moreover, a stringent viability test ought to be applied to all resources, including supply-side (both utility-scale and DG, storage, etc.), demand-side (including EE and DR), and transmission/distribution expansions and upgrades. Presently, IEP does not believe that these two critical factors are given adequate weight in the resource selection process.

Today, policymakers seem narrowly focused on the distinction between so-called “Preferred Resources” versus other resources available to help maintain grid reliability. Preferred resources have most recently been defined as including renewables, combined heat and power (CHP), storage, demand response (DR), energy efficiency (EE), and various distributed generation (DG) resources. The concept of Preferred Resources works well for establishing a prioritization for “hoped for” resource development, but this concept may prove fatal in the context of maintaining reliability.

Rather, in the context of maintaining reliability, planners ought to be distinguishing between so-called “committed” and “uncommitted” resources. Planners that rely too heavily on uncommitted resources, even if they happen to be Preferred Resources, do little to help ensure reliability; indeed, too high a reliance on uncommitted resources could actually undermine grid reliability if, for example, the uncommitted resources do not appear in the quantity or location of

greatest need. Accordingly, while a priority to Maintain Reliability is necessary, it is not likely sufficient; rather, it is the combination of Reliability and Resource Viability that achieves the outcomes sought. In this regard, IEP questions the reasonableness of a resource plan to maintain the reliability of Southern California electric service that relies 50% on preferred resources, many of which appear to be uncommitted resources with little track record as to their viability, particularly at the scope and scale contemplated.

## **2. Timing Is Critical.**

IEP supports the Preliminary Plan proposal to make timely decisions to replace once-through-cooling capacity (Slide 18). This will be critical, and we believe that decisions related to OTC replacement (as well as SONGS replacement) need to be made in 2014. Many conventional, committed resources require relatively long lead-times to accomplish the necessary site control, permitting, construction, and testing. These resources include RPS-eligible resources, CHP resources, and conventional gas-fired resources. Typically, 5-8 years may be required to bring these projects online. Thus, if policymakers identify a need for new/repowered resources in the 2018-2022 timeframe, then the decision to procure these resources needs to be made as soon as possible.

Accordingly, IEP recommends that competitive procurement be phased beginning in 2014. Under this approach, utilities should be authorized in 2013 to competitively procure in 2014 so-called “low-risk, long lead-time” resources. Our analysis suggests at least 1,000 MWs of low-risk, long lead-time resources should be procured in this initial phase. Next, building off of updated planning studies expected in the first quarter of 2014 (e.g., CAISO TPP study), utilities should be authorized in mid/late 2014 to competitively procure in 2015 any additional, procurement determined to be needed by 2018-2022. By phasing in this manner, planners and policymakers will be acting prudently and reasonably now in the face of known resource needs, yet establishing a process for additional procurement if the need arises due to the failure of planned resources emerging as hoped.

## **3. “Contingency Permits” Raise Concerns:**

The Preliminary Plan suggests the need for Contingency Permits (Slide 20). While IEP supports expedited permitting at the relevant agencies (e.g., CEC, local governments), the contingent permitting proposal seems to suggest the utilities are uniquely positioned to develop sites in California. IEP has several concerns about this proposal.

First, no evidence exists that contingency permits are needed. Indeed, the most recent resource solicitations conducted by the utilities found an abundance of bids and sites being proposed. This phenomenon is true for the most recent round of RPS resource solicitations, the most recent round of CHP resource solicitations, and the most recent all-source solicitations.

Second, the utilities have little recent relevant experience in securing sites for the development of resources. Thus, there is no evidence of any inherent expertise held by the utilities when it comes to site selection and the securing of the requisite permits needed to enable construction and operations.

Third, the concept of implementing a program of “contingency permits” controlled by the utilities raises a host of concerns regarding the impacts on competitive markets. The very real risk is that this proposal becomes a drain on CEC/CPUC staff resources, effectively diverting

their time and attention to the management of utility development of contingency permits from other activities requiring their attention. In addition, this proposal risks delaying, if not overtly pushing out, other worthy projects vying for the same or similar sites. Few independent developers will pursue the arduous process of site selection, permitting, etc., if the utilities are “in the game” seeking similar outcomes. Equally important, issues of equity and fairness in interconnection, siting, and “queue management” will arise, and these issues will simply delay the progress in actually bringing online truly viable projects in a timely manner. Finally, this proposal places one player in the so-called “hybrid market structure,” the utility with a business interest in development, at the center of development and decision-making.

The better solution is to be more judicious in informing the marketplace in advance about the what, where, when of resource development. Providing this type of information sufficiently far in advance to any utility resource solicitation will help ensure a robust market response. Only after clear evidence emerges that the competitive marketplace is unable and incapable of responding to the identified needs of the state should consideration of contingency permits be entertained.

#### **4. New Multi-year Auction Should Not Discriminate Against Viable Resources**

The Preliminary Plan proposes a multi-year auction to assist in the procurement of DR and EE. (Slide 17.) Specifically, the proposal is to develop a CAISO auction mechanism to help procure authorized quantities [presumably of DR and EE] in the local areas. IEP would be concerned if this auction mechanism discriminated against resources capable of providing the products sought by the CAISO as it endeavors to meet its mandate to ensure overall grid reliability.

CAISO markets have historically been focused on competitively procuring products that are designed to maintain or enhance the reliability of the grid. Grid reliability should continue to be the purpose of CAISO markets. Cost-effective energy efficiency is an integral component of California energy policy through standards and other programs implemented by the state or utilities. Energy efficiency has been very effective in reducing overall demand growth. However, it is not clear that energy efficiency is a dispatchable product capable of serving the needs of the grid.

On the other hand, cost-effective Demand Response (DR) may provide reliability products to the grid. Experience in other markets has demonstrated that some DR products can provide services that meet grid reliability needs by: reducing load, ramping, storage, etc. These products should be encouraged to participate in CAISO reliability markets. However, experience in other markets also demonstrate that some DR products are predicated upon dirty diesel generation or are merely arbitrage opportunities that do not result in actual demand reduction in real time. These types of products should be excluded from the CAISO reliability markets.

#### **5. Contingency Approach to Once-Through Cooling Raises Questions:**

The Preliminary Plan suggests a change to the OTC rules and compliance obligations imposed on OTC generators. (Slide 21) For example, the Preliminary Plan suggests that delays in compliance schedules will be triggered if preferred resource development does not occur as planned or the performance of the resources are not as expected. In addition, the Preliminary Plan suggests implementing a delay (1-3 years) in the compliance obligations/schedules to allow more time for the development of preferred resources.

For purposes of energy planning, the assumption that OTC Schedules may be delayed is imprudent absent actual changes in the regulations of the State Water Resources Control Board (Board). State energy planners must assume the OTC regulations adopted by the Board will govern generators' plans and behavior. Furthermore, unless the owners of the OTC units receive clear market signals (e.g., firm contractual commitments) to replace or repower their facilities well in advance of the scheduled deadlines, planners should assume that affected generators will begin soon to take the necessary steps to meet the compliance schedules prescribed in the regulations.

## **6. Plan of Action:**

IEP recommends that the Preliminary Plan should explicitly reaffirm the "competition first" approach to resource selection. Competition is the primary vehicle for ensuring that resource needs, however defined, are procured in a least-cost manner. To date competition has provided tremendous value to ratepayers and the state as a whole, and this value should be captured going-forward. Furthermore, the IPP industry repeatedly has shown over the years its ability to innovate, invest, and deliver the products sought by policymakers when and where needed.

In addition, the state is transitioning its energy infrastructure from one heavily dependent on fossil resources to one heavily dependent on non-fossil resources. A transition such as this brings with it a great deal of uncertainty: for example, a reliance on often controversial transmission expansions or upgrades and/or a higher reliance on uncommitted resources. This uncertainty necessitates a larger degree of risk management than might historically have been the case. When considering the scope/scale of the transition, planners must procure suitable "insurance" to minimize the risk of undermining the grid and/or failing to serve load.

In this context, new, clean, low-emitting gas-fired resources may represent a prudent risk management, hedging strategy against the possibility that the preferred resources do not show up as planned or needed. The reality is that these generators will not run (nor emit) at any significant level if the uncommitted, preferred resources actually show up as hoped. Furthermore, the desired amount of GHG emissions reduction for California is pre-determined in the Air Resource Board's implementation of the cap and trade program pursuant to AB 32. Moreover, any procurement will be cost-effective from an emission's perspective in light of these emission reduction goals. On the other hand, the costs for this backstop insurance is very low in contrast to the very real and significant costs to the overall economy if reliability is undermined when uncommitted, preferred resources fail to materialize. Accordingly, we recommend adoption of a "no regrets" procurement strategy for 2014 wherein the utilities are authorized to competitively procure long lead-time resources, including natural gas/conventional resources. This procurement can and should be supplemented by additional procurement in 2015 as additional information becomes available about the need to maintain reliability and the viability of chosen resources.

IEP appreciates the opportunity to comment on the staff Preliminary Plan for Southern California Reliability.

Respectfully submitted,

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive style with a large, sweeping flourish at the end.

Steven Kelly  
Policy Director

Cc: CPUC Commissioner Peevey, President  
CPUC Commissioner Mark Ferron  
CPUC Commissioner Michel Florio  
CPUC Commissioner Catherine Sandoval  
CPUC Commissioner Carla Peterman  
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CEC Commissioner Karen Douglas  
CEC Commissioner Andrew McAllister  
CEC Commissioner David Hochschild  
CEC Commissioner Janea Scott  
CAISO Steve Berberich, President and CEO