

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

Order Instituting Rulemaking to Integrate and Refine
Procurement Policies and Consider Long-Term
Procurement Plans.

Rulemaking 13-12-010
(Filed December 19, 2013)

**COMMENTS OF THE INDEPENDENT ENERGY
PRODUCERS ASSOCIATION ON THE PROPOSED NINE-
POINT PLAN**

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In response to the *Administrative Law Judge's Ruling Seeking Comment on December 9, 2014 Proposal*, issued on December 16, 2014, the Independent Energy Producers Association (IEP) respectfully submits its comments on the nine-point plan (Plan) outlined in the Ruling. IEP will briefly comment on each element of the Plan.

I. COMMENTS ON THE NINE-POINT PLAN

A. Phase 1A Should Not Be Halted at this Time

The Plan first asks whether the Commission should:

Discontinue the effort in Phase 1A to determine if there is a need for long-term flexible capacity procurement authorization by the Commission in 2015. Do not hold Phase 1A evidentiary hearings. Phase 1A testimony would be entered into the record by party motion.

In its motion for further Track 1A studies, IEP expressed its view that “the record in this proceeding is insufficient to allow the Commission to draw a conclusion about *whether or not* system reliability needs – the subject of Phase 1a – require the procurement of additional

resources.”¹ IEP pointed out that the assumptions used in the modeling for Phase 1A resulted in ambiguous results that do not allow the Commission to conclude with confidence that additional resources were needed or not needed. IEP asked the Administrative Law Judge to revise the schedule to allow for additional Phase 1A studies to clarify the question of whether additional resources are needed – the primary focus of Phase 1A.

Moreover, the results of the stochastic modeling that were submitted after IEP filed its motion continue to show emerging shortfalls during the forecast period. IEP’s witness, William Monsen, concluded that the modeling results of the California Independent System Operator (CAISO) and Southern California Edison Company (SCE), presented in supplemental testimony on November 20, 2014, show that for each reliability standard considered, a potential shortfall of generation to meet demand plus operating reserve requirements exists during a significant number of hours in 2024, even when accounting for capacity authorized in Track I and 4 of the 2012 Long-Term Procurement Plan (LTPP) proceeding.²

Discontinuing Phase 1A could lead to under-procuring the type and amount of capacity needed to reliably meet demand in 2024. Discontinuing Phase 1A is essentially a finding of no need that would likely delay a final determination of need in 2024 until the second year of the 2016 LTPP proceeding, *i.e.*, 2017. After allowing time for a competitive solicitation, Commission approval of the contracts resulting from that solicitation, and possible appeals, construction of the needed resources might not get underway until 2019 or later, which allows little margin for contingencies for projects that are needed in 2024. Moreover, to the extent that resources relying on emerging, untested technologies are assumed in the 2024 supply plans and

¹ *Motion of the Independent Energy Producers Association to Modify the Administrative Law Judge’s Ruling and Require Additional Phase 1A Studies*, Oct. 27, 2014, p. 2 (emphasis added).

² *Testimony of William Monson on Behalf of the Independent Energy Producers Association Regarding Supplemental Testimony in Phase 1A of the 2014 Long-Term Procurement Plan Proceeding*, December 18, 2014, p. 2.

fail to materialize, the typically tight window for developing new projects needed for grid reliability (both conventional and preferred resources) narrows considerably for the Commission, the utilities, and developers.

For the reasons stated in IEP's motion, Phase 1A should not be discontinued. Once the studies IEP recommended are concluded, the Commission will have more complete information and will be in a better position to decide the question of need and to determine whether evidentiary hearings are required.

B. The Focus of Phase 1B

The Plan next asks whether the Commission should:

Devote Phase 1B to refining deterministic and/or stochastic models so that the Commission has an improved tool with which to examine long-term flexible capacity need and make procurement decisions in the next and future Long-Term Procurement Plan (LTPP) proceedings.

The original purposes of Phase 1B, as defined in the Scoping Memo and Ruling, was to “determine what specific resources should be procured to meet any need determined in Phase 1a.” If the Commission proceeds with Phase 1A as IEP recommends and concludes that there is a need for additional resources, then Phase 1B should retain its original purpose of identifying the types of resources that should be procured to meet the identified need.

On the other hand, if in Phase 1A the Commission finds no need for additional resources or if it discontinues Phase 1A, then there is no need to proceed with Phase 1B as originally conceived. In that case, the procedural space to consider other issues would open up. IEP agrees that refining the models used to identify long-term needs should be given a high priority. If Phase 1A is discontinued, the enhancement of the modeling process could be the focus of a reconstituted Phase 1B. As discussed below, in addition to correcting the problems with a complex and time-consuming modeling process, the Commission should also focus on

simplifying and streamlining the modeling to reduce the lag between when assumptions are established and procurement commitments are made.

C. Standardization of Modeling

The third point of the Plan asks whether the Commission should:

In the Phase 1B effort to refine models, focus on the use of stochastic modeling for long-term generation planning. However, consider that deterministic modeling may still provide value, although technical work to refine the deterministic studies in this cycle is necessary. Energy Division staff recommends further standardization of modeling inputs, assumptions, methods, definitions, and output reporting to improve the consistency and comparability of long-term planning studies -- stochastic, deterministic, or hybrid -- which could be conducted by any party.

Assuming that Phase 1B is repurposed to focus on modeling tools and assumptions, rather than the evaluation of ways to meet the needs identified in Phase 1A, IEP has three responses to this point. First, IEP supports improving the stochastic modeling tools for use either to determine shortfalls or to decide the best way to address an identified shortfall, and this effort should continue. However, IEP is concerned with the Plan's suggestion that Phase 1B would focus on refining the stochastic approach and that the deterministic approach would be considered a supplemental tool that may provide some value. In Phase 1A, the results of the stochastic modeling did not appear to inspire greater confidence in many parties (or apparently in the ALJ). Accordingly, based on the experience of Phase 1A, the deterministic approach will continue to play an important role in the modeling until the Commission is confident that the stochastic approach will provide valid and reliable outcomes. In addition, as elaborated more fully below, IEP is concerned that the stochastic approach, which can provide some valuable insights, can be overly complicated and is not easily replicable by parties.

Second, the goal of standardizing modeling inputs, assumptions, methods, definitions, output reporting, and other elements of the modeling is admirable and should be

pursued. However, IEP remains concerned at the length of time it takes to complete the modeling effort and the hearings that are frequently required to test the results of the modeling. By the time the Commission is in position to act on the issue of need and to authorize procurement, the standardized assumptions are often stale. As a result, even though the Commission may adopt standardized planning assumptions and scenarios in a public process, the parties and modelers may feel a need to update or modify the standardized assumptions during the modeling process, thereby undermining the concept and purpose of standardized assumptions and compromising the transparency of the modeling results. Thus, the goal of standardizing assumptions and other elements of the modeling must be teamed with a goal of speeding up the modeling process.

Third, merely standardizing the elements of the modeling will not ensure that modeling “could be conducted by any party.” Recent LTPP proceedings have clearly demonstrated that only a very few parties have the resources to undertake the modeling that forms the basis for the need determination. In its present form, stochastic modeling, even if refined, has a high level of complexity that limits the ability of most parties to participate in this central element of the LTPP proceeding. IEP wonders whether this pursuit of modeling refinement makes sense when the output is an estimate of need ten years in the future. Even the most refined modeling cannot account for the changes that will inevitably occur over a decade.

Although IEP supports refining a stochastic modeling program, that support is tempered by the recognition that the current stochastic modeling is very time-consuming and only a few parties have the time, resources, and skills to employ the models in support of their testimony. Accordingly, the Commission should explore the possibilities for developing a simplified model that would speed up the LTPP proceeding and be accessible to more parties.

D. Development of More Robust Models

The Plan's fourth point asks whether the Commission:

In this modeling effort, consider the modeling requests in the Motions by the combined heat and power (CHP) parties and Independent Energy Producer (IEP) in the efforts to develop more robust models to use for 2016 LTPP and beyond. At this time, neither grant nor deny those Motions, but use the ideas that were proposed there as possibilities in further modeling development.

IEP continues to contend that its motion should be granted. However, IEP's request was not intended as a proposal for further modeling development. IEP merely proposed some changed assumptions that would help the Commission interpret the modeling results and to decide with more confidence whether or not there was a shortfall in resources that would need to be addressed in Phase 1B. Similarly, the CHP parties identified what they thought was an error in the modeling assumptions. Certainly, any modeling effort should strive to use accurate assumptions that are likely to provide useful results, but that principle does not seem to require much in the way of "further modeling development."

E. A Stakeholder Modeling Process

As a fifth point, the Plan proposes:

A stakeholder process for modeling efforts and refinements would be led at the Commission by the Energy Division. Parties may wish to undertake their own efforts. The ideal is that a consensus or something near a consensus could develop over common modeling parameters which can then streamline the modeling process in future LTPP proceedings; to the extent that alternative models and variations are necessary, they should be as few and as limited as possible. Part of this process would be to explore ways to reduce long-term flexibility needs through assessing trade-offs through different resources. An example would be to model what types of solutions would be best to reduce over-generation circumstances.

A stakeholder process led by Energy Division could be useful. As mentioned earlier, however, the topics should include ideas for simplifying the modeling to streamline the

process and to make it more accessible to more parties. Moreover, once the Commission completes a public process for adopting common planning assumptions and scenarios for the then-current LTPP, the Commission should require the parties to conduct their modeling using those same adopted assumptions and scenarios, barring some unexpected, extraordinary circumstances that would justify modifications to the standard assumptions. A streamlined modeling process coupled with a measure of regulatory certainty that the adopted standardized planning assumptions and scenarios will not be altered absent extraordinary circumstances would help ensure that the Commission's decisions are based on a robust record of modeling outcomes based on a common and transparent planning platform and help mitigate the problem of the lag between when assumptions are formulated and when the Commission must decide procurement-related issues.

F. Deferral of Procurement Authorizations

The Plan's sixth point proposes that:

Formally, the ALJ would issue either a Phase 1A Ruling or Proposed Decision to defer flexible procurement authorizations to the 2016 LTPP and provide guidance on further modeling activities. This Ruling or Proposed Decision would not find that there is no procurement need or shortfall for flexible capacity for 2024. Instead, it would find that there is not sufficient evidence at this time to authorize such procurement and that there is both sufficient time and a critical need to further develop modeling efforts.

IEP has two responses to this point. First, IEP continues to believe that the additional modeling proposed in IEP's motion should be undertaken, which would then allow the Commission to make a definitive determination of whether there is or is not a procurement need or shortfall for flexible capacity. As noted above, to date the results of the modeling presented by the CAISO and SCE show a shortfall in 2024 in various products under both the high load and trajectory scenarios.

Second, IEP disagrees that postponing the decision on the need in 2024 to the 2016 LTPP proceeding will allow sufficient time to develop needed resources. The 2016 LTPP proceeding would ordinarily focus on the need in 2026, and it's unclear whether the proposed deferral would mean that the 2016 proceeding will also consider the need in 2024. If not, then the deferral is in effect a determination of no need, even though the evidence is not sufficient to support that determination. Moreover, a decision on need in the 2016 proceeding would likely not be issued until 2017, and the solicitations for the needed resources and the Commission's approval of the selected resources would not likely occur until 2018 or later. That would leave six years or less for development of the needed resources. If the Commission determines that the resources needed to mitigate the shortfall should be storage, preferred resources, clean gas-fired plants, or similar projects sited in sensitive (or controversial) areas, then the time from Commission approval to commercial operation could exceed six years. If the need emerges before the resources are in operation, reliability problems could result.

G. Policy Guidance on Addressing Future Shortfalls

For its seventh point, the Plan proposes:

Alongside the modeling efforts, Phase 1B also would be directed toward developing policy guidance and Commission direction to the utilities as to what they should do in future shortfall situations. As an example, the Commission might give guidance to minimize greenhouse gases to the greatest extent consistent with maintaining reliability. Or the Commission might explore trade-offs among cost, environmental needs, and reliability objectives.

Developing policy guidance about responses to future shortfalls is a worthy goal, but IEP has several concerns about pursuing this goal as part of Phase 1B. First, it is not clear why additional policy guidance is needed at this time. The state has already articulated several policy goals for the electric utility industry, including the preferred loading order, RPS goals, and

GHG reduction requirements. What is it about future shortfalls that requires additional policy guidance?

Second, the specific nature of the future shortfall might affect the policy that should be followed in addressing the shortfall. It may be more efficient and effective to consider appropriate responses to a specific problem, rather than to attempt to define the policies that should guide the response to abstract future shortfalls.

H. Limiting the Scope of Phase 1B

The Plan's eighth point is:

Because the plan outlined herein for Phase 1B is ambitious and not fully defined, it is not clear that it can be accomplished by the end of the proceeding as set in the Scoping Memo (May 6, 2016).

There is currently little or no record for developing policy guidance as to what to order utilities to do or how to work with the California Independent System Operator and the California Energy Commission on these matters. There is a concurrent need to refine the complex models that are already in testimony to date.

However, a focus on improving modeling and developing policy guidance appears to be a better use of resources in this 2014 proceeding than litigating what appears to be a small or zero flexible capacity need; and if any need, only in outlier circumstances. An important question is: should Phase 1B be extended until the culmination of these efforts, or should the efforts in Phase 1B be limited (if so, how?)?

Phase 1B was originally intended to address how the need identified in Phase 1A should be met. If the decision is to cancel Phase 1A, without a determination of whether or not a need exists, then there is no reason to pursue Phase 1B as originally conceived. The Plan in essence is proposing a different proceeding to fill the procedural space created by the cancellation of Phase 1B. The scope of the new Phase 1B can be adjusted as appropriate to fit the available time, but there is no inherent reason to retain the deadline established for the original Phase 1B.

At the December 9 prehearing conference, the ALJ seemed to indicate that there could be an opportunity in Phase 1B to determine whether additional resources are needed. If Phase 1B is refocused on refinement of the modeling, Phase 1B should include a final determination of need based on modeling runs resulting from the refined models. If the Commission were to conclude Phase 1B with a determination of need in 2024, rather than simply deferring the issue of need to the 2016 LTPP, then the Commission could initiate the process for procuring any needed resources promptly, rather than waiting for the 2016 LTPP proceeding and delaying procurement while initiating a new LTPP proceeding, including a new determination of standardized planning assumptions. This approach also would help mitigate the risk of delaying a determination of needed resources to maintain overall grid reliability in 2024-2026.

I. The Need for Evidentiary Hearings in Phase 1A

The Plan's final point is:

Phase 1A reply testimony continues to be due on December 18, 2014, and shall be served so that the record can be used as a basis for the proposed process. In their January 12, 2015 comments on this Ruling, parties shall indicate if they request evidentiary hearings in Phase 1A (to the extent that Phase 1A continues).

The need for evidentiary hearings in Phase 1A will depend on the results of the additional studies IEP recommended in its motion. The additional scenarios that IEP contends should be modeled will allow the Commission to determine with greater confidence whether or not a need for additional resources exists. If no need is shown to exist, then Phase 1A may be canceled. If a need is shown to exist, IEP suspects that some parties will ask for evidentiary hearings to test that conclusion.

II. CONCLUSION

IEP respectfully asks the Administrative Law Judge to consider IEP's comments as he decides the elements of the nine-point plan and maps out the remaining stages of this proceeding.

Respectfully submitted January 12, 2015 at San Francisco, California.

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