

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

Order Instituting Rulemaking to Develop an Electricity Integrated Resource Planning Framework and to Coordinate and Refine Long-Term Procurement Planning Requirements.

Rulemaking 16-02-007
(Filed February 11, 2016)

**REPLY COMMENTS OF THE INDEPENDENT ENERGY
PRODUCERS ASSOCIATION ON THE PROPOSED
REFERENCE SYSTEM PLAN**

**INDEPENDENT ENERGY PRODUCERS
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In its initial comments and at the all-party meeting on November 2, 2017, the Independent Energy Producers Association (IEP) urged the Commission to authorize an expedited procurement in early 2018 to allow for the possibility that some projects could take advantage of the existing federal tax incentives and lower their bids, to the benefit of ratepayers. In these reply comments, IEP again urges the Commission to authorize procurement in 2018 to lower costs, reduce greenhouse gas (GHG) emissions, and sustain grid reliability. In addition, IEP will respond to comments on the need for additional renewables and the use of a non-bypassable charge mechanism to fairly allocate costs and benefits of early procurement to all beneficiaries.

The Commission has not authorized a utility to conduct an all-source competitive solicitation since the 2012 Long-Term Procurement Plan (LTPP) proceeding. Rulemaking 12-03-014. In that proceeding, Decision (D.) 14-03-004 authorized procurement to meet local capacity requirements in Southern California in response to the permanent retirement of the San Onofre Nuclear Generating Station. Since D.14-03-004, the Commission's LTPP proceeding has

incorporated an integrated resource planning (IRP) process. Other than various renewable procurements and focused storage procurements, since 2014 the Commission has not authorized long-term procurement of resources needed to replace retiring resources and to maintain the reliability of an ever-changing electric grid.

In the current LTPP/IRP proceeding, Pacific Gas and Electric Company (PG&E) has argued that any procurement in 2018 will violate the Commission's "proof-of-concept" approach to the current IRP; that the Commission's IRP framework and underlying modeling work (using the RESOLVE model) requires more vetting by parties through evidentiary hearings; that calls for early procurement are driven by "price speculation rather than established need"; and that early procurement will result in no actual cost savings for load-serving entities (LSEs) with no near-term renewables need.¹ On the other hand, a number of parties believe that early 2018 procurement is justified by the unique conditions in the market today.² Overall, the Commission is faced with a wide range of suggestions about what to do next.

Fortunately, the Commission is well-positioned in 2018 to test parties' assertions regarding resource viability and cost-effectiveness. The Commission should simply direct the utilities to conduct *competitive, all-source solicitations* to identify those resources that are technically able to meet the needs of the utilities and the grid in the most cost-effective manner. Projects will be evaluated based on Least-Cost and Best-Fit (LCBF) principles endorsed by the Commission.

¹ Opening Comments of Pacific Gas and Electric Company, p. 2.

² Comments of The Utility Reform Network (TURN), p. 1; Comments of the Large-scale Solar Association, p. 3; Opening Comments of the Union of Concerned Scientists, p. 17; Comments of the California Energy Storage Alliance, p. 13; Comments of American Wind Energy Association California Caucus, p. 11.

Some parties, including the Office of Ratepayer Advocates (ORA), have raised concerns that if the Commission orders early procurement of renewables to capture the benefits of the investment tax credit (ITC) and production tax credit (PTC), the Commission could create a “sellers’ market” in which contract prices are driven up due to high demand.³ ORA offers no evidence that market power was exercised in any of the utility competitive solicitations conducted over the past 15 years. In fact, competition in competitive solicitations has typically been more robust than expected. However, if the competitive solicitation fails to elicit sufficient interest to the point where market power becomes a concern, or if the competitive solicitation fails to bring forth needed resources at a competitive price, then the Commission should exercise its discretion to not approve any contracts that emerge from the 2018 competitive solicitation. Ratepayers will be no worse off. On the other hand, if the competitive solicitation delivers cost-effective resources (including renewable resources that can qualify for the ITC and PTC), then the Commission will be positioned to act quickly to take advantage of unique market opportunities that are not likely to be replicated in the near future. The Commission has little to lose and much to gain by requiring an “early” all-source solicitation in 2018.

I. THE COMMISSION SHOULD AUTHORIZE PROCUREMENT IN 2018

The Commission should take account of the unique conditions that merit a 2018 procurement to test the market for the entire array of resources preferred by the Commission and needed to maintain grid reliability. Every year of delay lowers the value of the PTC and ITC significantly.⁴ Moreover, the cost of procuring additional resources ahead of “need” is offset by the reduction in pricing due to the federal tax incentives.⁵ TURN estimates the cost savings to be

³ The Office of Ratepayer Advocates’ Comments, p. 5.

⁴ Comments of TURN, p. 5; Comments of the American Wind Energy Association California Caucus, p. 10; Comments of Large-scale Solar Association, p. 2.

⁵ Comments of TURN, p. 4.

\$143 million per year (levelized) assuming the 42 million metric ton (MMT) emission-reduction scenario, increasing to \$253 million per year (levelized) in the more aggressive 30 MMT emission-reduction scenario.⁶

These potential savings could be lost if the Commission fails to act promptly. Although the details of a proposed tax reform bill are still being negotiated, it is at best uncertain whether Congress will extend the PTC or ITC. Moreover, reports in the trade press continue to suggest that President Trump will raise tariffs on imported solar panels.

Some parties counsel against a procurement in 2018. Even while recognizing the potential benefits of early procurement, ORA suggests that 2018 procurement should be explored with caution and flexibility due to uncertainties and time constraints.⁷ These uncertainties concern the level of real cost-savings associated with tax credits, the price of renewables, future system needs, the cost of over-procurement, and other issues. ORA raises the concern that actual savings will not align with the projected savings in the RESOLVE model.

IEP notes that uncertainties are always present. Market outcomes seldom align with planning models. The best way for the Commission to account for uncertainties such as those raised by ORA is not through more modeling, but through the conduct of a real, competitive solicitation to clarify under exactly what terms, conditions, and prices sellers are willing to sell power to buyers on a long-term basis. Only by reviewing final, bilaterally negotiated contracts between buyers and sellers will the Commission get an accurate picture of what is real and cost-effective from a technical and market perspective.

⁶ Comments of TURN, p. 5.

⁷ The Office of Ratepayer Advocates' Comments, p. 4.

II. DETERMINATION OF NEED

As some parties observe, the IRP process is an important vehicle for facilitating California's de-carbonized future.⁸ In addition to maintaining grid reliability through the procurement of needed new capacity, the primary goal of the IRP is to reduce cumulative GHG emissions. The IRP supplements the Renewables Portfolio Standard (RPS) program and vice versa. Neither the IRP nor the RPS is a replacement for the other. However, certainly from the perspective of reducing cumulative GHG emissions by 2030, early action in the procurement of renewables has significant benefits when compared to taking action in 2024 or later.

Southern California Edison Company (SCE) raised concerns that an early 2018 procurement might lead to a "boom and bust" cycle. SCE notes that steady procurement that establishes a more sustainable market for load-serving entities (LSEs), customers, and renewable energy developers is a better way to achieve California's climate change goals.⁹ IEP concurs with SCE on the value of and need for steady procurement to provide stability to the market, particularly during a period when additional resources will be needed to de-carbonize the electric grid and electrify the transportation sector. However, delaying procurement past 2018 could actually feed the boom-and-bust cycle that concerns SCE. In a paper released this month, SCE reports that large-scale renewable energy is likely to be the most significant and affordable means of de-carbonizing the electric supply. SCE recognizes that de-carbonizing the electric supply to meet statewide electric sector and transportation goals by 2030 will require the development of 30 gigawatts (GW) of *additional* renewable capacity.¹⁰ Simple math suggests that to achieve steady-state procurement and avoid a boom/bust cycle, California will need to

⁸ Comments of Southern California Edison Company, p. 3.

⁹ Comments of Southern California Edison Company, p. 22.

¹⁰ "The Clean Power and Electrification Pathway: Realizing California's Environmental Goals," Southern California Edison, November 2017, pp. 5-6. The paper presents SCE's integrated blueprint for California to reduce greenhouse gas emissions and air pollutants.

procure about 2,500 MW of large-scale renewables *every year* from 2018 through 2030. Delaying the steady-state procurement by one year (*i.e.*, to 2019) increases the need for additional large-scale renewables under this scenario by at least 250 MW every year between 2019-2030, *i.e.*, to 2,750 MW or more annually. If the Commission continues to engage in biennial procurement assessments, then meeting SCE's target of 30,000 additional GW by 2030 requires authorizing procurement of 5,000 MW of additional renewables every IRP proceeding. Delaying procurement past 2018 will simply exacerbate the boom/bust cycle rather than ameliorate it.

The SCE blueprint reinforces the need to procure at least 3,000 MW of renewables as part of an all-source 2018 solicitation, as suggested by IEP in its Opening Comments. However, SCE's conclusions also point out the practical necessity of not deferring procurement beyond 2018. Beginning a steady procurement cycle now will avoid the boom/bust cycle of concern to SCE and the concern about a "gold rush" expressed by others,¹¹ while serving the interests of LSEs, ratepayers, and project developers.

III. APPLICATION OF A NON-BYPASSABLE CHARGE

SCE argues that its opposition to accelerated renewable procurement mandates is based in part on the concern that without a replacement for the current Power Charge Indifference Adjustment (PCIA), additional renewable procurement mandates will further burden remaining bundled service customers with unfair and unlawful cost shifts, as load continues to depart to community choice aggregation (CCA).¹² IEP agrees that bundled customers should not be disproportionately burdened by the costs of 2018 procurement. All beneficiaries, including departing load, should share in the cost responsibility and benefits of procurement conducted by

¹¹ Comments of San Diego Gas & Electric Company, pp. 13-14.

¹² Comments of Southern California Edison Company, p. 22.

the utilities. On the other hand, waiting for finalization of a replacement PCIA will unnecessarily put any procurement on hold for at least one year.¹³ In any event, the PCIA replacement will likely be in effect before any contracts resulting from the 2018 procurement come before the Commission for approval. Thus, the 2018 procurement and the PCIA replacement proceeding should proceed in parallel. Conducting both activities in parallel, rather than sequentially as suggested by SCE, will enable the Commission to consider and take advantage of the unique market conditions in 2018 and to ensure that the costs and benefits of all 2018 procurement will be shared fairly among all beneficiaries, including departing load.

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¹³ On November 6, 2017, the Administrative Law Judge in R.17-06-026 noticed his intent to adjust the current PCIA schedule that has the effect of deferring the PCIA Workshop #2 to mid-January, 2018.