

**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 ASSIGNED  
COMMISSIONER AND ADMINISTRATIVE LAW  
JUDGE'S RULING INITIATING PROCUREMENT TRACK  
AND SEEKING COMMENT ON POTENTIAL  
RELIABILITY ISSUES**

INDEPENDENT ENERGY PRODUCERS  
ASSOCIATION  
Steven Kelly, Policy Director  
PO Box 1287  
Sloughhouse, CA 95683  
Telephone: (916) 448-9499  
Facsimile: (916) 448-0182  
Email: [steven@iepa.com](mailto:steven@iepa.com)

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The Independent Energy Producers Association (IEP) is pleased to provide these reply comments in response to the Assigned Commissioner and Administrative Law Judge’s Ruling Initiating Procurement Track and Seeking Comment on Potential Reliability Issues (Ruling), dated June 20, 2019. By Ruling dated July 25, 2019, the Administrative Law Judge extended the period to provide Reply Comments to August 12, 2019. Accordingly, IEP’s Reply Comments are timely.

As background, the Ruling focused on the practical needs of ensuring grid reliability in the near- and medium-term given the current energy environment in California. Notably, the Department of Market Monitoring (DMM) of the California Independent System Operator (CAISO) reported recently on a number of factors that increase the risks that grid reliability will

be undermined in the near- and medium-term absent prompt and timely action by the Commission.<sup>1</sup>

The Ruling highlighted concerns over a number of factors including those raised by DMM. To address the near-term and medium-term resource adequacy needs in light of changing market dynamics (including pending resource retirements), the Ruling proposes to direct LSEs to procure, on an all-source basis, their proportional shares of a total 2,000 MWs of new, peak capacity statewide to be online by August 1, 2021. In addition, the Ruling proposes to require Southern California Edison Company (SCE) to solicit 500 MWs of capacity from existing resources that are without a contract past 2021 on a medium term, contract basis (i.e., 2-5 years).<sup>2</sup>

Below, IEP responds to various parties' comments on the Ruling.

**1. Calls for Additional Studies, Workshops, and Deferral to the IRP Fail to Appreciate Near-term Reliability Needs and the Necessity of Acting In a Timely Manner**

Several parties urge the Commission to delay procurement pending more complete understanding of the needs. Notably, the Commission has not authorized a Long-Term Procurement Plan (LTPP)/Integrated Resource Plan (IRP) procurement since 2015 and the Commission only recently adopted a multi-year forward RA obligation for local resource adequacy (3 years forward, 50% obligation in the third year), which omitted system and flexible

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<sup>1</sup> The potential for scarcity (and the potential for the exercise of system level market power) is due to several trends: the retirement of gas capacity (e.g., approximately 9,000 MWs of gas capacity retirement by 2021 due to the Once-Through-Cooling (OTC) requirements); an increasing portion of resource adequacy (RA) requirements being met by intermittent resources (e.g., solar/wind); fewer energy tolling contracts between load-serving entities (LSEs) and gas units within the CAISO; increasing RA requirements met through imports not backed by energy contracts or physical resources; and increasing portion of load being served by Community Choice Aggregators (CCAs). See "System market power trends and issues," Presentation of the Department of Market Monitoring, California Independent System Operator, CAISO Stakeholder Working Group, July 15, 2019.

<sup>2</sup> Ruling, pp. 14-16.

obligations.<sup>3</sup> Parties' requests for additional workshops, studies, analyses, etc., are misplaced given the demonstrated near-term reliability needs in 2021 and beyond.

As pointed out by the CAISO, the evidence in the record, based on two different methodological approaches (i.e., a capacity analysis conducted by the Energy Division and an energy-based analysis conducted by the CAISO), demonstrates a near-term need for approximately 2,000 MWs of additional system capacity resources by 2021 increasing to as much as 2,500 MWs by 2022 if all OTC units retire as planned.<sup>4</sup> Using yet another methodological approach, SCE's analysis suggests that the expected system RA shortfall is likely to be 5,500 MWs or more in 2021, and continue over the next several years.<sup>5</sup>

Given demonstrated need to procure resources to meet looming, near-term reliability needs, the Commission cannot afford to delay directing the two proposed procurements contemplated in the Ruling (i.e., 2,000 MWs of peak capacity allocated proportionally to all LSEs; in addition, 500 MWs allocated to SCE). Procurement takes time irrespective of who conducts the procurement. The Commission should anticipate that, assuming a Proposed Decision in late Fall 2019, the construction timeframe is very tight for developing any new resources to help address the looming, near-term deficiency in system resource adequacy in 2021. As noted by IEP in its Opening Comments, the timeframe for decision-making and the actual procurement typically takes over a year as presented in Table 1, below.

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<sup>3</sup> See Comments of the Natural Resources Defense Council (NRDC) p. 4: "NRDC recommends that Staff conduct a workshop on the Procurement Track before making *any* decision on the Procurement Track Ruling..."(emphasis added). See also, Comments of San Diego Gas & Electric Company, pp. 2-4: "... not a demonstrated need for such action [procurement] at this time. . . . Accordingly, rather than directing the near-term procurement of additional system resources, the Commission should conduct further analysis..."

<sup>4</sup> See Comments of the California Independent System Operator, pp. 3-4.

<sup>5</sup> See Southern California Edison Company's Opening Comments, p. 5.

**Table 1:  
Timeline for Proposed Procurement (Estimated)**

<b>Late Fall 2019.<sup>6</sup></b>	Proposed Decision (PD) Issued for Comment
<b>First Quarter 2020 (Jan–March)</b>	Final Decision – “No-Longer Appealable” (generally, a pre-condition for procurement activities to begin under the auspices of the Commission)
<b>2<sup>nd</sup> Quarter 2020 through 3<sup>rd</sup> Quarter 2020 (April-August)</b>	LSE procurements: <ul style="list-style-type: none"> <li>- Conduct of RFO;</li> <li>- Bid evaluation/Resource Selection;</li> <li>- Final contract terms negotiated.</li> </ul>
<b>3<sup>rd</sup>/ Quarter 2020 through 4<sup>th</sup> Quarter 2020 (Sept -December)</b>	Approval of selected projects by the appropriate governing entities (e.g., the Commission, Local Governing Boards, etc.)
<b>1<sup>st</sup> Quarter 2021</b>	Construction of new resources commences; resources to meet online date of August 1, 2021 as established by the Commission.

In Opening Comments, IEP declared that procrastination is not a friend given the practical realities of conducting procurement and bringing new resources online. Many inherent complexities often impede timely development of new resources including permitting and necessary approvals; litigation and/or the threat of litigation; and necessary testing prior to interconnection and energization of resources. As a practical matter, a procurement limited solely to new resources, particularly a procurement with an online date of August 1, 2021, may be infeasible or, alternatively, may limit the potential supply of resources to only those that have few permitting requirements or little litigation risk, i.e., resources that may well be the most expensive in the supply-stack.<sup>7</sup> The Commission should act now to ensure timely procurement to meet the reliability needs looming in 2021 and beyond.

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<sup>6</sup> Ruling, p. 5.

<sup>7</sup> See Comments of the Independent Energy Producers Association, pp. 11-12.

## 2. The Procurement Mechanism Should Be an “All-Source” Competitive Solicitation to Enhance Supply Options and Mitigate the Risk of Market Power

Some parties support procurement focused on a limited sub-set of resources that ultimately simply reduces the potential supply to meet the need and, thereby, unnecessarily increases the risk of the exercise of market power. For example, some parties advocate for excluding conventional thermal resources<sup>8</sup>; similarly, some parties support limiting procurement to “preferred resources.”<sup>9</sup>

As a practical matter, the Commission does not know what resources will be available to meet the 2,000-2,500 MWs of near-term reliability needs identified by the Energy Division and the CAISO. Hence, a timely procurement is needed. Moreover, given the relatively short duration of many of the contracts expected to result from the proposed procurements (i.e., less than 5 years in duration in the context of the proposed SCE 500 MW procurement), the impact on meeting long-term 2030 GHG goals will be negligible. Yet, grid reliability in the near- and medium-term will be preserved.

Some parties suggest that a procurement now risks the exercise of market power within the local area.<sup>10</sup> The *potential* for the exercise of local market power ought not to delay the timely procurement of needed system resources. Indeed, the primary purpose of the timely solicitation is to enlarge the supply stack to mitigate the risk of the *exercise* of market power. Accordingly, contrary to the misplaced suggestions and concerns of some parties, a timely solicitation will help mitigate the risk of the *exercise* of market power by identifying the full range of supply resources capable of meeting the reliability need, and then selecting available

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<sup>8</sup> See Opening Comments of the Union of Concerned Scientists, p. 2.

<sup>9</sup> See Opening Comments of the Center for Energy Efficiency and Renewable Technologies, p. 2.

<sup>10</sup> See Comments of San Diego Gas & Electric Company, p. 4.

resources on a least-cost/best-fit basis. On the other hand, to the extent that market power is identified, the Commission has various means at its disposal to address that phenomenon. Certainly, as noted in IEP's Opening Comments, the Commission has the authority to direct procurement to meet IRP and resource adequacy requirements generally.<sup>11</sup> Moreover, the Commission has adopted a capacity allocation mechanism (CAM) to enable the proper allocation of costs incurred to maintain reliability to all beneficiaries.<sup>12</sup>

Respectfully submitted August 12, 2019 at San Francisco, California.

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive, flowing style.

INDEPENDENT ENERGY PRODUCERS ASSOCIATION  
Steven Kelly, Policy Director  
PO Box 1287  
Sloughhouse, CA 95683  
Telephone: (916) 448-9499  
Facsimile: (916) 448-0182  
Email: steven@iepa.com

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<sup>11</sup> See *Comments of the Independent Energy Producers Association on the Assigned Commissioner and Administrative Law Judge Ruling Seeking Comment on Policy Issues and Options Related to Reliability*, December 20, 2018.

<sup>12</sup> *Cost Allocation Mechanism*, California Public Utilities Commission Policy and Planning Division, September 24, 2014, p. 3.