

**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 10-05-006

**COMMENTS OF THE CALIFORNIA INDEPENDENT
SYSTEM OPERATOR CORPORATION ON THE
SYSTEM TRACK I AND RULES TRACK III
PROPOSED DECISION**

On February 21, 2012, ALJ Peter Allen issued a proposed decision (PD) on the system Track I, rules Track III and the settlement agreement submitted in Track I. According to Article 14 of the Commission's rules, parties have an opportunity to file comments on the PD within 20 days of issuance. The California Independent System Operator Corporation (ISO), an active participant in Track 1 and also a signatory party to the settlement agreement, hereby submits comments on the PD.

I. Executive Summary

The ISO submits these comments to urge changes to the PD. The settlement agreement executed by parties to this proceeding recognizes that parties should undertake additional efforts in 2012 to assess system needs for renewable integration resources. That work may identify system capacity needs to help balance supply and demand in the ISO's balancing authority area. The Commission should modify the PD to provide a procedural vehicle for considering this issue in 2012 and 2013 (as part of the successor LTPP docket) with a decision on system needs issued by year end 2013. The Commission should also modify the PD to extend this docket through calendar year 2012 to provide a procedural vehicle for considering long-term procurement for

local capacity needs in Los Angeles Basin, Big Creek/Ventura and San Diego local capacity areas. As part of its 2011/2012 transmission planning process, the ISO identified capacity needs in these transmission constrained areas. While the ISO acknowledges that the record of the Commission's proceedings should be augmented to support local procurement, it is urgent that the Commission examine this procurement in 2012 to avoid significant deficiencies in the years prior to 2020 and should not close this proceeding. Absent a decision addressing local procurement this year, the Commission invites the risk of delaying the compliance schedule under California's once through cooling (OTC) policy.

II. The PD does not Accurately Describe the Parties' Agreement as to System Needs for New Generation.

As a signatory party to the settlement agreement on Track I issues, the ISO supports its approval as proposed in the PD. However, there are several statements in the PD that do not accurately capture the parties' agreement regarding system needs. It cannot be over-emphasized that while the ISO assessment of the four CPUC scenarios indicated no system need in 2020, other scenarios did show a need by that date, specifically additional scenarios studied by the ISO and the IOUs. Furthermore, all parties to this settlement agreed that continuing studies were needed and that a decision on these additional studies should be issued by no later than December, 2012.¹ The parties acknowledged that the planning analyses presented in this proceeding did not conclusively demonstrate "whether or not there is need to add renewable integration capacity for the year 2020" but that the ISO intended to continue its analysis of these needs by incorporating the results of the once through cooling studies being conducted in the transmission planning process into its renewable integration studies and present those study results by March 31, 2012. In light of these representations and agreements, it is inaccurate for

¹ Settlement Agreement, Section III.B.

the PD to conclude that “it is reasonable to find that there is no need for additional generation by 2020 at this time” and that the record “similarly does not support a finding of need for additional generation beyond 2020.” Indeed, there was no mention in the settlement agreement at all about system needs beyond 2020 and no discussion on the record of the case about that time period.

The ISO supports the settlement agreement and agrees that its approval is in the public interest. However, the brief deferral of a decision on system needs for renewable integration resources is in the public interest because the parties agreed that the studies undertaken during the 2010-2011 time period would be extended into 2012, either through an extension of R.10-05-006 or in the succeeding LTPP docket, in order to consider updated information about system and local needs driven by the retirement of OTC generation. This relatively brief deferral, described in the settlement agreement, is different that the open-ended “punting” of the issue of system need into other LTPP dockets not specifically described in the PD. The ISO requests that the PD be amended to reflect the intent of the parties with respect to deferring the issue of system need to an expedited process that would issue a decision by the end of 2012.

III. In Light of the Continued Renewable Integration Studies Being Conducted by the ISO and the Working Group, It is Unreasonable for the PD to Close Docket R.10-05-006.

As noted above, the parties to the settlement agreement agreed that the ISO would present the results of its continued studies by March 31, 2012 and that during the second quarter 2012 the Commission should set a schedule for an evidentiary hearing on those results.² The PD correctly notes that these provisions of the agreement were recommendations only. However, the record does not support a decision that simply ignores these aspects of the settlement agreement, particularly in light of the testimony provided by the signatory parties explaining, in

² *Id.*, p.5.

great detail, the steps they intended to take in conducting the additional studies that would eventually lead to an expedited decision on system need.³

The parties have followed the process described on the record of this proceeding. Specifically, in September, 2011, the ISO convened a working group of experts representing parties to the LTPP proceeding and this group has been working to update the studies by: 1) incorporating the findings of the Local Capacity Requirement studies to determine residual flexibility needs, 2) incorporating probabilistic analysis to determine the risk of shortages ensure objective reliability planning criteria of 1 loss of load event in 10 year is achieved, 3) evaluating other planning reserve margins from prior cases, 4) performing load following requirement sensitivities to forecast error assumptions, 5) evaluating if shortages are observed using 5-minute simulation, and 6) evaluating regional modeling and coordination. It is anticipated that some preliminary results from the working group's efforts will be made available in the March 31, 2012 timeframe set forth in the settlement agreement.

At the same time, the ISO completed the OTC studies and these results were released as part of the 2011-2012 Transmission Plan on January 31, 2012. Preliminary results were made available at a stakeholder meeting on December 8, 2011. The ISO is in the final stages of incorporating these results into its studies and will likely have final results available in the March-April timeframe contemplated in the settlement agreement.

At this point, however, it has become apparent that there are local area capacity needs for new or repowered flexible generation well before 2020 that are driven by the OTC requirements and the likelihood that existing generation may retire by the end of 2017. The ISO's OTC studies show that the Commission must authorize procurement of local resources, either new or existing resources, that will comply with the OTC requirements by 2020, on an expedited basis.

³ See Tr. 359-365

The ISO has served testimony supporting additional information from its OTC studies and its continued renewable integration studies in support of the need for new or repowered resources in the San Diego area in Docket A.11-05-023. In that testimony, the ISO suggests that the local area capacity needs be addressed in the LTPP proceeding in 2012 and a decision by year-end, with a determination on system needs be released at the end of the 2012-2013 LTPP cycle.

The need for an expedited decision on the local area capacity needs, including San Diego, the Los Angeles Basin and Big Creek/Venture, cannot be overemphasized. The results of the ISO's OTC studies will be presented to the State Water Resources Control Board (SWRCB) by the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS), which includes ISO and CPUC representatives. SACCWIS will consider a draft report to the SWRCB at a meeting on March 19, 2012. A copy of this draft report can be found on the SWRCB web site at:

http://www.waterboards.ca.gov/water_issues/programs/ocean/cwa316/saccwis/docs/drpt031912.pdf. The report reflects that local capacity needs will be aggravated by the state's OTC requirements. If local resources, either repowered or new, are not procured in a timely fashion, the OTC compliance schedule will be in jeopardy.

There is no lead time for the local procurement process. Generation resource repowering will take several years, and building new generation may take longer. Recent experience has shown that it is far more likely a repowering or construction of a new generator will take seven or more years to reach commercial operation status than historical planning estimates of three to five years. The procedural vehicle for addressing local area needs must be identified and a schedule adopted immediately as the OTC regulations will affect approximately 8,000MWs by the end of 2017.

Accordingly, for the purposes of the decision in this proceeding, the ISO recommends that the PD be modified to reflect a schedule in 2012 that will consider the ISO's continued renewable integration studies and the need for additional resources – either new or existing resources that will be repowered - in certain local capacity areas. A procurement decision for these local areas should be issued by the end of 2012. The consideration of need for new system resources by 2020, which is the subject of the working group studies, can take place during the two year cycle of the succeeding LTPP proceeding, with a decision on that issue released no later than the end of 2013. This slightly revised timetable will allow the parties the opportunity to focus on critical local capacity needs immediately, under the auspices of either the continuation of this LTPP proceeding or the next one, while resolving the system need issue on a slightly delayed timetable with a decision rendered at the end of the LTPP cycle. The ISO's proposed timeline for calendar year 2012 follows the general schedule proposed in the settlement agreement and described in detail during the evidentiary hearing, except that the focus of the process in 2012 should be on procurement authorization in the local areas, with a decision on system needs to be issued by the end of 2013 at the conclusion of the next LTPP cycle.

IV. Proposed PD Language Modifications

A. Revised Language Regarding System Needs

1) PD page 5, second full paragraph:

The proposed settlement is, in essence, a punt to an evidentiary process to be held in calendar year 2012. The settling parties have agreed to defer determination of the core issue in this proceeding: the utilities' future need for additional generation, to the end of calendar year 2012, either in an extension of the current LTPP cycle, R.10-05-006 or successor proceeding.

2) PD page 7, final paragraph:

There is clear evidence on the record that, based on the four CPUC RPS scenarios evaluated by the ISO and the IOUs, additional generation is not needed by 2020,

so there is record support for deferral of procurement until additional studies are completed.

3) PD page 9, second full paragraph:

In looking at the whole record, it would be reasonable ~~to find that there is no need for additional generation by 2020 at this time, and accordingly it is reasonable to~~ defer authorization to procure additional generation based on system and renewable integration needs until further studies can be completed and presented in an evidentiary process in 2012. [footnote 9 should be deleted in its entirety]

4) PD pages 9-10, final paragraph:

As discussed above, we conclude that it is reasonable to defer authorization of procurement of new generation. Given the record currently before us, deferring procurement of new generation until the conclusion of evidentiary proceedings regarding new or repowered local needs in 2012 and the end of the succeeding LTPP cycle for system needs in 2013 will not cause a problem at this time.

~~The record clearly supports a conclusion that no new generation is needed by 2020, and the record does not clearly support a conclusion that new generation is needed even after 2020.~~

B. Proposed Language for LTPP Schedules

1) PD page 11, final paragraph:

Developing the record for the continuation of this LTPP cycle and future LTPP cycles should utilize processes similar to those used here, including workshops and other public and stakeholder processes that inform and draw input from parties about renewable integration and local area needs. A robust and transparent process is essential to support and develop the complex and sophisticated analyses required, such as the detailed power flow modeling required for determination of local area needs. Given the long-term ramifications that will flow from this or successor proceedings, it is important that the outcome is the result of a solid and credible process. To that end, and in accordance with the comments submitted by the CAISO, the Commission will extend this LTPP proceeding until the end of 2012 so that the additional studies being conducted by the CAISO, in conjunction with the parties, can be addressed in a robust stakeholder process that will be concluded with a determination as to the need for additional generation in local areas. An Assigned Commissioner/Administrative Law Judge ruling establishing a schedule will be issued shortly. At the same time, the Commission will initiate the successor LTPP docket and issue a scoping ruling that establishes a schedule for the consideration of the CAISO's continued renewable integration studies and the need for additional system generation.

2) Ordering paragraph 17, page 73:

~~This proceeding is closed.~~ This proceeding will be extended until the end of 2012 to consider whether there is a need for additional local area capacity based on the results of the continued studies being conducted by the CAISO in conjunction with other parties to the proceeding. Additional needs for new system generation will be considered in the subsequent LTPP docket.

V. Conclusion

The ISO's publicly available OTC studies, developed through a robust stakeholder process and in conjunction with state agencies including the Commission, show a need for thermal capacity in local areas as early as 2018. In light of this timeframe, LSEs must be given procurement authorization as soon as possible, and certainly no later than the end of 2012. A schedule for an evidentiary proceeding was recommended in the settlement agreement, and the ISO has proposed changes to the PD that would accommodate this recommendation, with one modification that the system needs be considered on a two year track in the upcoming LTPP proceeding. The ISO's proposed modifications to the PD are reasonable and should be approved.

Respectfully submitted,

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