

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

Application of San Diego Gas & Electric
Company (U902E) for Authority to Partially
Fill the Local Capacity Requirement Need
Identified in D.14-03-004 and Enter into a
Purchase Power Tolling Agreement with
Carlsbad Energy Center, LLC.

Application 14-07-009
(Filed July 21, 2014)

**COMMENTS ON PROPOSED DECISION OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Roger E. Collanton
General Counsel
Anthony Ivancovich
Deputy General Counsel
Anna McKenna
Assistant General Counsel
Jordan Pinjuv
Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel.: (916) 351-4429
Fax: (916) 608-7222
jpinjuv@caiso.com

Attorneys for the California Independent
System Operator Corporation

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Table of Contents

I. Introduction	1
II. Discussion.....	1
A. Uncontroverted Evidence in This Proceeding Indicates that Additional Generation Resources Are Needed in the San Diego Area in 2018.	1
B. The Commission Should Not Plan on the Continued Operation of the Encina Generating Station to Ensure Reliability in the San Diego Area.....	3
C. The Commission’s Proposed Decision Will Result in a Suspension of the Compliance Dates of the Once-Through-Cooling Regulations for the Encina Generating Station.	5
D. The Alternative Approach Suggested by Carlsbad Provides Enhanced Reliability Compared to the Proposed Decision.....	7
III. Conclusion.....	8

TABLE OF AUTHORITIES

Cases

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission	1
<i>State Water Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling</i>	4

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I. Introduction

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the California Independent System Operator Corporation (CAISO) files these comments regarding the proposed *Decision Denying Without Prejudice San Diego Gas & Electric Company's Application for Authority to Enter into Purchase Power Tolling Agreement with Carlsbad Energy Center, LLC (Proposed Decision)*. The CAISO recommends that the Commission modify the proposed decision and approve the power purchase tolling agreement (PPTA) between San Diego Gas & Electric Company (SDG&E) and the Carlsbad Energy Center, LLC (Carlsbad) to address both the significant reliability concerns in the San Diego local capacity area and the state's environmental goals related to the retirement of once-through-cooling units.

II. Discussion

A. Uncontroverted Evidence in This Proceeding Indicates that Additional Generation Resources Are Needed in the San Diego Area in 2018.

Uncontroverted factual evidence in this proceeding indicates that generation resources are needed in the San Diego area in 2018. The only reliability analyses on record in this proceeding are the CAISO's modeling presented in Track 4 of the 2012 long-term procurement plan (LTPP)¹ and the CAISO's 2013-2014 transmission plan. The Track 4 modeling shows a need for additional resources by 2018 specifically for the purpose of replacing once-through-cooling units in the northwest San Diego area.² The 2013-2014 transmission plan shows that even with significant new generation at the Carlsbad site, residual need still exists over a longer timeframe.³ In D.14-03-004, the Commission largely accepted the CAISO's Track 4 modeling and authorized the procurement of 500-800 megawatts (MWs) of additional resources by SDG&E. The CAISO submitted additional evidence in this proceeding reiterating the need for additional resources in the San Diego area by 2018.⁴

The Proposed Decision disregards this evidence and inappropriately marginalizes 2018 local capacity requirement (LCR) needs by indicating that procurement of resources authorized in Track 1 of the 2012 long-term procurement plan⁵ adequately met 2018 LCR needs.⁶ This analysis ignores the fact that the San Onofre Nuclear Generating Station (SONGS) had not been permanently retired when the Commission issued its Track 1 procurement authorization and that the Commission's subsequent decision approving SDG&E's PPTA with the Pio Pico Energy Center to meet the need identified in Track 1 expressly stated that "a prolonged outage of [SONGS]" was an issue beyond the scope of the proceeding."⁷ Closure of SONGS exacerbated

¹ Rulemaking (R.)12-03-014.

² Exhibit 31, p. 19, Table 9.

³ Exhibit 32, p. 108.

⁴ Exhibit 4, p. 4-5.

⁵ D.13-02-015 authorized SDG&E to procure up to 343 MW of additional resources to meet the need identified in Track 1 if the 2012 long-term procurement plan. SDG&E primarily met this need through a power purchase tolling agreement (PPTA) with the Pio Pico Energy Center approved by the Commission in D.13-03-029.

⁶ Proposed Decision, p. 18.

⁷ D.13-03-029, p. 17.

the long-term reliability issues previously identified in Track 1, and the Track 1 procurement was never intended to—and does not—address this reliability concern. The Proposed Decision conflates the solutions identified in Track 1 of the LTPP with the Track 4 reliability concerns subsequently identified by the CAISO and recognized by the Commission in D.14-03-004.

Authorizing procurement of resources prior to the planned December 31, 2017 retirement date of the Encina Generating Station is fully consistent with the Commission’s Track 4 decision in D.14-03-004. That decision noted in three separate instances that needs may become critical in 2018.⁸ The Commission specifically emphasized the importance of quick action to address 2018 concerns by stating that “SDG&E must expeditiously pursue procurement of any gas-fired generation expected to take several years to develop.”⁹ The Proposed Decision erroneously suggests that these statements should be discounted because the Track 4 decision did not explicitly state a procurement need for 2018. The evidentiary basis for the Track 4 decision, including the planned retirement of the Encina Generating Station by 2018, does not support the Proposed Decision’s interpretation of 2018 LCR needs.

B. The Commission Should Not Plan on the Continued Operation of the Encina Generating Station to Ensure Reliability in the San Diego Area.

The Encina Generating Station is scheduled to retire on December 31, 2017 to comply with the State Water Resource Control Board’s (Water Board’s) once-through-cooling regulations.¹⁰ The CAISO’s power flow modeling for both the Track 4 testimony and the 2013-2014 transmission plan reflect the retirement of the Encina Generating Station.¹¹ In the past, the Commission has stated that claims the Encina Generating Station would not retire in 2017 were

⁸ D.14-03-004, p. 11; p. 113; p. 134;

⁹ Id. at 113.

¹⁰ Exhibit 2, p. 5; Proposed Decision, p. 32, Finding of Fact 4.

¹¹ Exhibit 32, p. 132; Exhibit 31, p. 12.

speculative and that continued operation would be “undesirable” and “would only occur as a response to an emergency.”¹²

However, the Proposed Decision assumes that the once-through-cooling regulations will be suspended so the Encina Generating Service can remain in operation after December 31, 2017, thereby eliminating any need for incremental capacity in 2018. Not only is this assumption speculative and undesirable (as the Commission has recognized in the past), it is inconsistent with the state’s environmental goals of retiring once-through-cooling units by the earliest feasible date, and is an inappropriate use of the process for deferring compliance with the once-through-cooling regulations. Under the regulations, the Water Board has established a compliance schedule for units to implement best technology available for power plant cooling. The Water Board established this compliance schedule recognizing that it is necessary to develop replacement infrastructure to maintain electric reliability.¹³ Indeed, the policy contemplates that the Commission will authorize replacement, repowered or otherwise compliant generation capacity to meet reliability needs.¹⁴ Although the once-through-cooling regulations contemplate the possibility of an extension of the compliance schedule to address permitting constraints, the Proposed Decision does not seek deferral due to permitting constraints; the Proposed Decision seeks an extension because it disagrees with SDG&E’s procurement. The once-through-cooling regulations do not contemplate extensions of this schedule to keep existing units operating because of disagreement with procurement decisions and without identifying specific replacement infrastructure.¹⁵ Merely extending the compliance schedule without any specific

¹² D.14-06-053, at p. 38.

¹³ *State Water Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling* adopted on May 4, 2010 (as amended in 2011, 2012 and 2013), Section 1(G).

¹⁴ *Id.* at Section 1(J).

¹⁵ *Id.* at Section 1(I).

replacement infrastructure plan for the Encina Generating Station does not constitute best technology available under the regulations. The Proposed Decision acknowledges that a prolonged suspension of the once-through-cooling regulations will require approval by the Water Board,¹⁶ but expecting the Water Board to simply extend the compliance schedule for Encina without a replacement infrastructure plan underway is a speculative and imprudent course of action.

The Commission has recognized that suspending the OTC compliance date for Encina may result in certain unforeseen circumstances and “undesirable” results. Even if the OTC compliance date is suspended by the Water Board and the Encina Generating Station *can* continue to operate, there is no assurance that plant operator *will* continue to operate the facility. In light of plant operator’s stated intention to retire the plant and its projected maintenance based on that retirement date, the Commission or the CAISO may be required to take extreme measures to ensure the continued reliable operation of the Encina Generating Station past 2017.¹⁷ Such an extreme solution could potentially be costly to ratepayers, especially if it necessary for an undefined period tied to the conclusion and implementation of SDG&E’s RFO, as suggested by the Proposed Decision.

C. The Commission’s Proposed Decision Will Result in a Suspension of the Compliance Dates of the Once-Through-Cooling Regulations for the Encina Generating Station.

If the Commission approves the Proposed Decision in its current form and delays SDG&E’s procurement until its request for offers (RFO) concludes, then an extension of the once-through-cooling compliance date for the Encina Generating Station will be necessary. The Proposed Decision denies approval of the Carlsbad PPTA without prejudice to SDG&E

¹⁶ Proposed Decision, p. 32, Finding of Fact 4.

¹⁷ For example, pursuant to CAISO Tariff Sections 41 and 43.

renewing an application in the event that the RFO fails to produce more than 200 MW of preferred resources and energy storage.¹⁸ In the course of this proceeding, SDG&E stated that the results of its RFO will not be submitted for approval by the Commission until the first quarter of 2016.¹⁹ Based on this representation and the mandate in the Proposed Decision, the CAISO expects that there will be no new Commission-approved resource procurement in the San Diego area resulting from the Track 4 long-term procurement plan decision²⁰ until late 2016, at the earliest. Based on the record in this case, it is not clear when these approved resources will actually be available to meet LCR needs in the San Diego area. It is also unclear how the Proposed Decision's denial of the Carlsbad PPTA will affect that project's timeline for completion, if it is still necessary after the results of the RFO have been reviewed.

The CAISO objects to using suspension of the once-through-cooling regulations as a tool for planning system reliability. The state's once through cooling the policy itself makes clear that it expects the Commission to use its procurement processes as needed to effect infrastructure replacement.²¹ Here, the Commission has waited too long to insist on using SDG&E's RFO to develop an infrastructure replacement plan for the Encina Generating Station. The need for additional resources in 2018 will effectively force a suspension of the once through cooling policy's compliance date for the Encina Generating Station. The Proposed Decision's denial of the Carlsbad PPTA combined with the delay in any new resource procurement until after SDG&E's RFO is complete will create significant uncertainty regarding the timing and operating characteristics of resources that will eventually be approved to meet LCR needs in the San Diego area. Given the lead time necessary for resource development after completion of SDG&E's

¹⁸ Proposed Decision, pg. 31.

¹⁹ Proposed Decision, pg. 12, Exhibit 20.

²⁰ Decision (D.) 14-03-004.

²¹ Water Board policy on the use of coastal or estuarine waters for power plant cooling, paragraph 1.J.

RFO, the Proposed Decision does not adequately address infrastructure replacement needs given the compliance deadline for the Encina Generating Station. The Commission should, therefore, modify the Proposed Decision to approve the Carlsbad PPTA. .²²

D. The Alternative Approach Suggested by Carlsbad Provides Enhanced Reliability Compared to the Proposed Decision.

In its March 20, 2015 Opening Comments, Carlsbad proposes an alternative approach that preserves reliability, while leaving incremental procurement capacity in the event the SDG&E RFO produced more than 200 MW of preferred resources and energy storage. Carlsbad suggests that the Commission could modify the PPTA to “provide for construction of five generating units of the Carlsbad Energy Center as proposed to meet 500 MW of LCR need, with the sixth unit to be added if the RFO does not produce more than 200 MW of feasibly available and cost effective preferred resources and energy storage capable of meeting reliability needs.” This proposal contemplates an immediate approval of the Carlsbad PPTA with a reduced 500 MW capacity and a quick and efficient review of SDG&E’s RFO results to determine whether the remaining 100 MW of capacity are necessary.

As stated throughout the course of this proceeding, the CAISO believes that the full 600 MW of capacity from the Carlsbad PPTA is necessary and provides an electrically efficient solution to meet identified reliability issues in the San Diego area. However, the CAISO agrees that it would be more prudent to proceed with a slightly downsized plan that maintains the current construction schedule for the Carlsbad Energy Center. While the CAISO has not conducted any specific analysis with 500 MW of installed capacity, the locational and timing

²² If the Commission adopts the Proposed Decision, the Commission will need to work with the State Advisory Committee on Cooling Water Intake Structures (SACCWIS) in order to develop a revised implementation schedule that ensures grid reliability. As stated previously in this proceeding, the State Water Resources Control Board has ultimate authority over whether to grant an extension of compliance dates for the once-through-cooling regulations and there is no guarantee that the SWRCB will accept the Commission’s request.

benefits of the Carlsbad PPTA are maintained and the 2018 reliability risks will be significantly reduced. The CAISO notes that the 500 MW alternative is comparable to the planning assumptions the used in the CAISO's Track 4 LTPP testimony and the 2013-2014 transmission plan.²³ However, even with Carlsbad assumed in the base case planning assumptions the 2013-2014 transmission plan indicates a residual shortfall of up to 900 MW in the combined San Diego and Los Angeles Basin area by 2023.²⁴

In any event, the CAISO agrees that review of SDG&E's RFO results must be conducted as expeditiously as possible. If the RFO does not produce results in excess of 200 MW, the Commission must be prepared to act swiftly in order meet the identified reliability issues and minimize the extension of the once-through-cooling regulations for the Encina Generating Station. If necessary, the Commission should exercise the option to increase the size of the Carlsbad facility to 600 MW without the need for an additional application filing.

III. Conclusion

For the reasons discussed above, the Commission should modify the Proposed Decision and approve the Carlsbad PPTA. The evidence in this proceeding is clear and uncontroverted that there are significant reliability issues in the San Diego area beginning in 2018. The Proposed Decision will require the CAISO to address those issues through a requested suspension of the once-through-cooling regulations. Continued operation of the Encina Generating Station is not a prudent planning assumption to meet identified LCR needs and the CAISO cannot ensure that its request for suspension of the once-through-cooling regulations will be granted.

²³ The CAISO's Track 4 testimony assumed 520 MW of generation at the Carlsbad site, Exhibit 31, Table 9. The CAISO's 2013-2014 transmission plan assumed 558 MW of generation at the same site, Exhibit 32, Appendix A, p. A-28.

²⁴ Exhibit 32, p. 108.

The CAISO believes that the Carlsbad Energy Center's alternative is preferable to Proposed Decision because it addresses the reliability concerns in the San Diego area while preserving the locational and timing benefits associated with the Carlsbad PPTA.

The CAISO has included its recommended modifications to the Proposed Decision's findings of fact and conclusions of law as Appendix A to these comments.

Respectfully submitted

By: /s/ Jordan Pinjuv

Roger E. Collanton

General Counsel

Anthony Ivancovich

Deputy General Counsel

Anna McKenna

Assistant General Counsel

Jordan Pinjuv

Counsel

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

Tel.: (916) 351-4429

Fax: (916) 608-7222

jpjuv@caiso.com

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System Operator Corporation

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APPENDIX A

Appendix A
CAISO-Recommended Modifications to the Proposed Decision

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3. **The evidence in this proceeding demonstrates a need for 600 MW of new generating capacity to be operational near Carlsbad in time to meet reliability needs in 2018 after Encina retires, and Notwithstanding the Commission's LCR need determinations in D.13-03-029 and D.14-03-004, the potential for miscalculating and under-procuring future procurement needs upon the retirement of the Encina OTC units poses a risk of a reliability gap and/or delay in the Encina OTC retirement.**

4. To the extent that the Encina OTC retirement were to cause a system reliability gap, **it is unknown whether** the SWRCB, pursuant to CAISO recommendation, would adopt an extension of its operation beyond its December 31, 2017, OTC compliance date.

5. An extension of the Encina retirement could result in ratepayer costs, **and prolonged environmental impacts by delaying compliance with stringent water use standards imposed in the OTC regulation.**

6. Approval of the Carlsbad PPTA ~~would~~ **is necessary to avoid the reliability gap associated with the Encina retirement and meet reliability needs in 2018** ~~preclude~~ ~~SDG&E from procuring preferred resources and energy storage in excess of the required~~ ~~minimum 200 MW.~~

7. **Although** SDG&E's RFO has produced a robust number of offers for preferred resources and energy storage which could potentially meet **LCR needs in excess of the minimum 200 MW required in D.14-03-004** ~~some, if not all, of the 600 MW of SDG&E's LCR need that may be procured from any sourcee, we reiterate~~ **Finding of Fact 83 from Decision 14-03-004 that pursuing procurement of preferred resources consistent with the Loading Order must be balanced by ensuring that grid operations are not potentially compromised by excessive reliance on intermittent resources and resources with uncertain ability to meet LCR needs.**

8. While it is not possible at this juncture to determine the viability of offers for preferred resources and energy storage, the evidence ~~does not~~ leads us to **affirm our prior finding in Decision 14-03-004 that a significant amount of the authorized procurement level must be met through conventional gas-fired resources to ensure LCR needs will be met** ~~presume that the RFO will fail to produce any preferred resource options to meet SDG&E's procurement requirement beyond the 200 MW minimum of preferred resources and energy storage.~~

Conclusions of Law

...

4. D.14-03-004 determined SDG&E's incremental ~~LCR~~**LCR** need stemming from the retirement of SONGS **and the expected retirement of OTC units**, and authorized SDG&E to procure new generation to ~~meet that need by 2022~~ **reliability needs that may become critical as early as 2018, and certainly by 2020.**

5. D.14-03-004 ~~did not~~ determined that SDG&E's LCR need **may become critical as early as would arise in 2018, and certainly by 2020, based on modeled retirement and replacement of the Encina OTC units in 2018.**

6. D.14-03-004 requires SDG&E to procure at least 200 MW, and allows SDG&E to procure up to 100 percent, of its LCR need from preferred resources and energy storage, **while also affirming the necessity to procure conventional gas-fired resources en an expeditious manner in order to ensure LCR needs will be met.**

7. **In accordance with D.14-03-004, pursuing procurement of preferred resources consistent** ~~Consistency~~ with the Loading Order and advancing California's policy of fossil fuel reduction ~~demand~~ **and by requiring the utility to procure preferred resources and energy storage to the fullest extent possible, must be balanced by ensuring that grid operations are not potentially compromised by excessive reliance on intermittent resources and resources with uncertain ability to meet LCR needs.**

8. **The reliability concerns arising in 2018, the uncertainty and additional ratepayer costs associated with potential extension of the OTC compliance deadline and the environmental consequences of prolonging operation of OTC units support approval of the Carlsbad PPTA.** ~~the public interest in awaiting the results of SD&E's RFO for purposes of ascertaining the availability of feasibly available and cost-effective preferred resources and/or energy storage in excess of the minimum required 200 MW outweighs the risk of a reliability gas/and or delay in the Encina OTC retirement (and its potential ratepayer costs).~~

9. The Carlsbad PPTA is a reasonable means of meeting SDG&E's LCR need ~~in the event that the RFO fails to produce more than the minimum required 200 MW of feasibly available and cost-effective preferred resource and energy storage.~~

...

13. This application should be **approved** ~~denied without prejudice.~~

Ordering Paragraphs

1. Application 14-07-009 **is approved** ~~denied without prejudice.~~