BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Promote Policy and Program Coordination and Integration in Electric Utility Resource Planning	)	R.04-04-003

OPENING BRIEF OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR ON LONG-TERM PLANS OF THE INVESTOR OWNED UTILITIES

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Pursuant to Rule 75 of the Commission's Rules of Practice and Procedure and Administrative Law Judge Brown's Ruling Establishing a Briefing Outline and Setting Briefing Schedule ("ALJ Ruling"), dated September 28, 2004, the California Independent System Operator ("CAISO") respectfully submits this opening brief on the long-term procurement plans ("LTPPs") of Southern California Edison ("SCE"), Pacific Gas and Electric Company ("PG&E") and San Diego Gas & Electric Company ("SDG&E").

I. INTRODUCTION

In its order instituting this rulemaking, the Commission explicitly invited the CAISO to participate in this proceeding to "ensure coordination of transmission-related issues, as well as resource adequacy issues."[1] Consistent with this request, in this phase of the proceeding, the CAISO has focused on transmission planning and siting, resource deliverability,[2] and other

[1] *Order Instituting Rulemaking,* R.04-04-003 (April 6, 2004) ("OIR"), mimeo at 6.

[2] Some parties/intervenors have argued that the positions advanced by the CAISO in this proceeding conflict with those taken in the resource adequacy workshops where the CAISO stated it is uniquely qualified to perform the necessary detailed analyses to assess "deliverability." For purposes of this LTPP proceeding and brief, the CAISO uses the term deliverability to signify a transmission assessment, that could be more conceptual and preliminary in

potential resource adequacy issues. Consequently, the CAISO does not advance a position on many of the topics specified in the ALJ Ruling's "detailed briefing outline."

The CAISO believes the LTPPs represent material progress toward the Commission's goal of reinvigorating integrated resource planning in California. In particular, the CAISO acknowledges the effort made by the IOUs to address local reliability issues in their plans. However, the CAISO also believes the effort is incomplete and further enhancements in the LTPPs are needed to fulfill the Commission's objectives. This is especially true with respect to ensuring that transmission needed in conjunction with supply and demand resource plans are identified in a timely manner. Thus, the CAISO recommends, as discussed further below, that the Commission improve the next iteration of the LTPPs' by requiring additional scenario analysis and by adoption of interim guidelines for local capacity requirements should the resource adequacy process fail to finalize such requirements prior to the 2006 LTPP submissions.

II. DISCUSSION

A. LONG-TERM PLANS AND THEIR INTEGRATION WITH OTHER PROCEEDINGS. DO THE FILED PLANS MEET THE CRITERIA ESTABLISHED IN THE ACR AND SCOPING MEMO?

2. How the Utilities' Long-Term Plans Reflect Policies, Goals, and Outcomes from Other Umbrella Proceedings – Key Issues that Were (Or Will Be) Decided in the Following Proceedings: … Transmission Assessment Process, R.04-01-026

3. Integrated Generation and Transmission System Planning. Timing, Planning, Flexibility.

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nature than the baseline analyses proposed in the resource adequacy context, to confirm that the proposed resource plans (additions) explicitly account for transmission conditions. (See Tr., Vol. 14 at 1928:24-1929:3.)

The Commission opened this rulemaking to "adopt long-term resource plans for electric utilities and to continue [its] ongoing efforts to promote … integration in electric utility resource planning."[3] Also, in connection with this goal, the Commission initiated its Transmission Assessment Process rulemaking, R.04-01-0-26 ("Transmission OIR"). The fundamental purpose of the Transmission OIR is "to streamline the transmission planning process for … [Investor Owned Utilities ("IOUs")] by eliminat[ing] duplicative transmission need assessments that currently exist at the CAISO and the Commission."[4] This salutary goal is subsumed within the broader objective of reinvigorating California's integrated resource planning process and, therefore, the CAISO addresses, in combination, outline headings A2 and A3 as set forth. The CAISO does so from the perspective of what needs to be improved upon in the LTPPs *on a going forward basis* to realize the goal of more rational infrastructure planning in California.

The Transmission OIR proposes to achieve a more efficient transmission review process by eliminating regulatory redundancy through a framework that allows the Commission to defer, in the context of an application for a certificate of public convenience and necessity ("CPCN"), to the prior determination of project need reached by the CAISO in its Grid Coordinated Planning Process. The Transmission OIR provides that the Commission's proposed deference will extend to CAISO need determinations for both reliability and economic projects to the extent the CAISO applies Commission-adopted standards. Specifically, once economic and reliability methodologies are adopted by the Commission, the Commission's review of a particular project's need determination during the CPCN proceeding would be limited to

[3] OIR, mimeo at 1.

[4] Transmission OIR, mimeo at 1 and 5.

confirming that the adopted methodologies were applied by the CAISO.[5] Under this construct, the Commission would continue to conduct an environmental review of the proposed project under California Environmental Quality Act ("CEQA") through the CPCN proceeding.[6]

Notwithstanding that the adoption of reliability and economic standards remains pending in R.04-01-026, an implicit predicate to deference - however ultimately defined - to the CAISO on regulatory "need" is the preservation of authority of the Commission over comprehensive, coordinated infrastructure planning. Indeed, the Transmission OIR builds off of the direction in D.02-10-062 that "the utilities … undertake a resource planning effort to include procurement from a mixture of different sources," by stating "[t]hat the staring point [for infrastructure planning] should be the comprehensive analysis that takes place in the proceeding that examines the IOUs' long-term procurement plans. The OIR summarized the Commission's vision as follows:

> Once the Commission determines that transmission is needed after balancing competing options such as generation and demand side alternatives, that determination would be reflected in the CAISO's planning process, where a detailed analysis occurs for specific transmission projects. The Commission's upfront determination on transmission need in the procurement process would accomplish two objectives: 1) a comprehensive analysis of the alternatives available to meet customer resource requirements; and 2) an upfront determination that transmission is needed and fits within the comprehensive infrastructure plan that can be recognized once a specific project has been developed in the CAISO planning process and, if required, is before the Commission for a CPCN.[7]

Thus, the issue is whether the LTPPs were adequate to allow the Commission to accomplish the objectives outlined by the Commission in the Transmission OIR. The CAISO

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5 *Id.* at 5 and 8.

6 *Id.* at 8.

7 *Id.* at 7.

believes the current LTPPs are insufficient, and additional information must be obtained from the IOUs in future submissions to allow the Commission and the CAISO to accurately assess the transmission requirements needed to ensure the procurement activities outlined in the LTPPs are feasible, i.e. deliverable to load. First, in order to be able to review resource plans from a transmission perspective, information on present and future supply resources are necessary. The CAISO included in its opening testimony, as Attachment 2 to Exhibit 96, a template of the information that should be provided by the IOUs to facilitate transmission assessment.

At the most basic level, included among the data requested is information regarding the location of the resources the IOUs intend to rely upon to meet future needs. There was considerable debate in testimony and the hearing regarding the feasibility of identifying future resources prior to the outcome of any bidding process. The CAISO concurs that the exact location of the ultimate resource will remain uncertain until selection of a winning bidder. However, as emphasized by CAISO witness Mr. Pettingill: "It's important to recognize that with new resources to the system or potentially being connected to the system this transmission system as it is now wasn't designed for those resources. So it may be able to accommodate those new connections or it may not." (Tr., Vol. 14 at 1928:18-23.) Thus, the introduction of any new resource must be evaluated to determine whether transmission is required to ensure it is an effective resource addition.

The IOUs possess substantial expertise and understanding with respect to critical elements of generation planning, such as the availability of land, water resources, fuel, emission limitations, and transmission. (Tr., Vol. 14 at 1929:10-26.) Consequently, the CAISO recommends that the utilities should include conceptual scenarios for planned resource additions. Without such an assessment, the outcome is inconsistent with the Commission's objective of "an

upfront determination that transmission is needed and fits within the comprehensive infrastructure plan."

This conceptual analysis would, at a minimum, be useful for prioritizing the issues. Once the most critical issues are resolved, the analysis could be updated and firm infrastructure plans could be developed that would ensure that the least-cost, best-fit criteria would be met. For example, PG&E proposed that an economic analysis of resource alternatives in different locations and the associated transmission be performed as part of its CAISO Transmission Expansion Planning Process ("TEP"). PG&E's "Draft 2004 Electric Transmission Reliability Assessment Study Report " includes exploratory studies intended to identify the impacts on the transmission system of potential generator retirements and RMR reduction analysis beyond the typical one-year horizon studied in the LARS process. However, there does not appear to be significant discussion that describes how these analyses are integrated with PG&E's LTPP. Logically integrating TEP with the LTPP process is a key element to this proceeding. One example of integrating the LTPP and the TEP would be to include a scenario with the addition of strategically located new generation capacity in the LTPP, built because of a power purchase contract. Then one could show the benefits this new generation would have on eliminating RMR or mitigating generation retirement. Another example would be for the IOUs to use all available information regarding potential development of new resources, including publicly available generation development plans, to select a few potential resource portfolios to fully meet their future resource needs, and to identify the transmission expected to be needed to make the potential portfolios deliverable from a resource adequacy perspective. An analysis of ratepayer impacts, energy not served, emissions etc., would then be performed for each of the scenarios.

An estimate of congestion costs associated with delivering the energy from these contracts should also be included.

The CAISO also emphasized that the LTPPs are part of a temporal continuum. Greater uncertainty will exist the farther out in time the planning horizon moves. However, waiting to evaluate transmission needs only after identifying a successful bid and after the interconnection process possess risk to the outcome of an effective long-term procurement plan. .

4. Implementing the Energy Action Plan (EAP) Loading Order. Cost-Effectiveness, Given Constraints of Loading Order. Transmission Upgrades and Expansion.

Each of the three IOUs included a description of potential transmission projects in their LTPP. However, very little, if any, technical analysis was provided comparing these projects to other alternative resource solutions or demonstrating how the resource scenarios would change if the transmission lines were not completed. In other words, there was no effort to demonstrate how the benefits of the proposed line, whether locational or system benefits, compared with meeting that need through another resource type. Such an analysis not only allows for the Commission to select a preferred option, but also forces the IOUs to establish contingency scenarios should its preferred option need to be replaced.

For example, SCE included a discussion of the Palo Verde-Devers #2 500 kV line project along with a qualitative discussion of the benefits of that project. (Exhibit 73 [SCE] at156-157.) However, given the cost and uncertainty of this project, both in regard to its ultimate construction and its timing, a prudent resource plan would include scenarios with and without the project. As noted, a resource plan without this transmission project could serve as a backup plan in the event that the project is delayed. SCE responds by asserting that scenario analysis is irrelevant because "the purpose of the LTPP is to describe the strategic direction for the utility

regarding resource choices." (Exhibit 78 [SCE] at 75:9-13.) However, it is the very nature of this proceeding to look forward into the various possibilities that may materialize and consider the needed investments for those possible contingencies. As such, SCE's stated position is potentially damaging to its customers and reflects little appreciation for the dilemma faced by SDG&E following rejection of its Valley-Rainbow project. If an IOU pursues a transmission option without developing in parallel local generation alternatives, the IOU could be faced with procuring additional resources from a limited set of suppliers should that transmission line be delayed or not receive approval. (See, Exhibit 117 [TURN] at 34:23-35:6.) Indeed, PG&E has recognized that because of the long lead-time for major transmission projects, resource alternatives to these transmission projects should be analyzed in parallel rather than in sequence. (Exhibit 34 [PG&E] at 4-52.) The CAISO agrees with this statement and suggests that in the future all resource plans include a "with and without scenario" for major transmission projects that have not received CAISO approval or a CPCN.

SDG&E proposed to build one or two new 500 kV lines to increase transfer capability into their service area. The CAISO has performed both economic and reliability analyses[8] of the benefits associated with building either one or two 500 kV lines into San Diego, but it has not made a final determination of need for any new 500 kV lines. The analyses were performed for one possible set of future load and resource assumptions and revealed significant benefits for building at least one 500 kV line into San Diego. (Exhibit 97 [CAISO] at 7:5-15.) Moreover, SDG&E provided the minimum level of analysis that should be included when transmission projects are proposed. Table 1 of Linda Brown's testimony demonstrated the MW amount of local resource deficiency with and without the 500 MW increase in import capability created by

adding one new 500 kV line project. In contrast, SCE stated that the Palo Verde-Devers #2 500 kV line project would increase the East of River transmission path transfer capability by 1200 MW. However, SCE did not provide a MW amount of local resource deficiency with and without the Palo Verde-Devers #2 500 kV line project. This is necessary given that the 1200 MW increase in non-simultaneous transfer capability on the East of River path may not necessarily translate to 1200 MW of increased simultaneous import capability to SCE load. Nor would it necessarily translate to a 1200 MW reduction in local generating capacity requirements. Clearly, without the Palo Verde-Devers #2 500 kV project, the SCE system is likely to find itself short. Thus, an alternative is necessary. Further, the lack of alternatives would appear to reflect a bias towards transmission solutions and impairs the Commission's ability to review the efficacy of generation and demand response to meet the identified need.

C. Policy Issues Related to Long-Term Plans and Hearings

5. Procedures, Rules and Protocols, Including Third-Party Evaluators

Under the schedules proposed in both the Draft Decision of ALJ Wetzell and the Alternate Decision of Commissioner Lynch on resource adequacy issues, the rules related to generator and import deliverability will be finally defined, at the earliest, in mid-2005 and to load pockets in 2006. Prior to this time, the IOUs anticipate completing significant procurement activities: (1) SDG&E renewables purchases (Exhibit 1 [SDG&E] at 9); (2) PG&E anticipates issuing two Requests for Offers and seeks Commission decisions on the solicitations by Spring 2005 (Exhibit 34 [PG&E] at ES-2); SCE anticipates purchasing "peaking" resources to close its 2005 and beyond capacity gap (see, e.g., Exhibit 76-C [SCE] – 2004 IRP Medium Load Case).

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[8] http://www1.caiso.com/docs/2004/05/25/2004052512370627763.pdf, http://www1.caiso.com/docs/2004/05/17/2004051710385016456.pdf

Deliverability remains a critical consideration in procurement decisions during this interim period leading to final clarity on resource adequacy deliverability rules and their implementation. The CAISO, as the operator of the transmission system and responsible entity for planning the expansion of the transmission system, possesses a unique perspective that should be included as input to procurement decisions as deliverability standards remain in development. The CAISO's transmission expertise would enable it to comment on the deliverability of procurement proposals on a case-by-case basis. This input could be through various vehicles, including, but not limited to, an invitation by the Commission for CAISO participation on each IOUs procurement review group ("PRG"), or the CAISO could provide the PRG an assessment on deliverability of various procurement proposals. At a minimum, however, the CAISO requests that it be granted access to information concerning IOU procurement proposals so as to allow the CAISO to perform a timely deliverability assessment.

D. OTHER PROCUREMENT ISSUES

1. Resource Adequacy Matters Not Addressed in the Resource Adequacy Decision

2. Local Reliability as Part of the Procurement Process

The CAISO views the issues of resource adequacy and local reliability as inexorably intertwined and therefore will also address the above-headings together. In this regard, the CAISO interprets the first heading as requesting comments on what findings or rulings can, or should, be made in the context of this long-term procurement proceeding that will support the Commission's resource adequacy requirement by closing any perceived gaps in either of the recently issued Draft Decision of ALJ Wetzell or Alternate Decision of Commissioner Lynch on resource adequacy.

The testimony in this matter preceded the publication of either the Draft Decision or Alternate Draft Decision. Perhaps out of an abundance of caution over the then uncertain scope of those decisions, PG&E, the CAISO, TURN, IEP, and others submitted testimony that addressed resource adequacy issues. Many, if not most, of the issues raised in testimony will be resolved, or procedures for reaching resolution established, in the Commission's upcoming resource adequacy decision expected on October 28, 2004, and need not be addressed in the LTPP decision. In particular, the CAISO believes it is appropriate to defer to later Commission decision-making the following subjects on which testimony was submitted:

- Adoption of specific binding load pocket criteria, in terms of a specific reliability standard and cost allocation method.[9] (See, e.g., Exhibit 117 [TURN] at 30:17-32:13 rebuttal.) However, as discussed below, the Commission should adopt some standards to guide the IOUs' 2006 submission should load pocket standards not be timely adopted by the Commission in the resource adequacy process;
- Generator deliverability certification standards with respect to "generation pockets" (Exhibit 34 [PG&E] at 4-55);
- Capacity markets (see e.g., Exhibit 48 [IEP]); and
- Reporting and enforcement provisions to ensure LSEs comply with resource adequacy requirements. (Exhibit 116 [TURN] at 12:12-15.)

[9] In its rebuttal testimony, the CAISO stated that because the Commission's *Interim Order Regarding Reliability Issues,* D.04-07-028 (July 8, 2004), remains effective only until the earlier of the end of 2005 or other action is taken in this proceeding, that local reliability issues should be addressed in this phase of the proceeding. (Exhibit 97 [CAISO] at 3:4-13.) The CAISO continues to believe that "long-term methods to resolve local reliability issues [should be] in place by the end of 2005." (*Id.*) The CAISO further stated that in this phase the Commission should explicitly adopt a one day in ten year loss of load probability ("LOLP") load pocket criteria. (*Id.* at 3:16-24.) The CAISO continues to support the one day in ten year LOLP, but simply considers the resource adequacy proceeding to be the more appropriate procedural venue to engage in the coherent and comprehensive planning necessary to adopt load pocket requirements.

Nevertheless, several points on resource adequacy warrant discussion.

Investment in Infrastructure Development

The CAISO has noted, "there are two temporally distinct objectives of resource adequacy." (Exhibit 95 [CAISO] at 6:1.) The first objective of a resource adequacy mechanism is to provide a long-term platform for future investment in California's electric infrastructure. (*Id.* at 6:2-3.) It is generally acknowledged that under the current market conditions, generators cannot finance and will not build new plants without the assurance of a long-term contract with load. (Exhibit 34 [PG&E] at 2-12, line 11-12.) Thus, a resource adequacy mechanism, if properly designed, would provide incentives or otherwise compel LSEs to enter into long-term contractual arrangements for capacity. Both the Draft Decision and the Alternate Decision defer consideration of a multi-year commitment until the so-called "second generation" resource adequacy proceeding, which is scheduled to begin sometime after mid-2005. In contrast, PG&E requests that the Commission immediately impose on all LSEs a multi-year forward capacity commitment as part of its decision on the LTPPs. (*Id.* at 2-10 and 2-11.) PG&E specifically advocates imposing an 80% forward contract requirement two years in advance and 70% for three to five years in advance. (*Id.*) TURN suggests a "minimum commitment of ten years," but is unclear regarding when, and if, such standard must be adopted. (Exhibit 116 [TURN] at 12:7-8l; Tr., Vol. 16 at 2272:18-2273:7.)

The CAISO is highly sympathetic to PG&E's and TURN's views and strongly agrees that a long-term resource adequacy obligation is necessary. The current resource adequacy framework only requires LSEs to demonstrate compliance with a 90% forward commitment one-year in advance. The CAISO concurs with PG&E that "this does not constitute a sufficient long-term commitment to have adequate infrastructure (generation or transmission) development in

California." (Exhibit 95 [CAISO] at 5:9-14.) Nevertheless, CAISO witness Mr. Pettingill defended the approach taken in the resource adequacy decisions to further evaluate the parameters of any long-term commitment, rather than presently adopt PG&E's or TURN's proposal in this decision. (Tr., Vol. 14 at 1926:6-16.) PG&E notes that its proposal provides sufficient flexibility to accommodate short- to mid-term resource diversity as well as customer migration due to community choice aggregation and/or implementation of a core/non-core requirement. (Exhibit 34 [PG&E] at 2-11, lines 9-24.) While true, shorter-term commitments accommodate PG&E's load migration concerns to an even greater extent and the uncertain impact of PG&E's proposal on community choice aggregation and the development of ESPs compels additional vetting and careful consideration.

The real issue is whether the *immediate* adoption in the LTPP decision of a long-term resource adequacy commitment, in addition to the current year-ahead showing, is necessary to avert a near-term resource deficiency crisis. Again, the answer is clear that a long-term capacity obligation must be adopted, but the answer regarding when is not as apparent. The CAISO has advocated for acceleration of the full implementation of the resource adequacy requirement to June 1, 2006 from 2008, in part, to address the near-term potential that approximately 3,000 to 4,000 MW will retire or mothball without a contractual commitment from an LSE. (Exhibit 101 [SCE] at p. 19; Exhibit 95 [CAISO] at 4:21-28.)[10] PG&E's proposal is consistent with this goal. However, in the near-term – before new resources can be constructed – accelerating the full resource adequacy obligation to June 2006 along with extending the IOUs current procurement

[10] TURN witness Woodruff confirmed that to the extent older, less-efficient units have relatively low book values due to appreciation over time, unit owner's "might [have] a low threshold to meet to decide to retire an asset." (Tr. 2293:5-2294:6.)

authority through 2008 should adequately serve to preserve the availability of existing capacity.[11] (Exhibit 97 at 5:23-26; Tr., Vol. 14 at 1937:10-1938:2.)

The CAISO also agrees that PG&E's proposal is consistent with spurring new development. However, the proposal has to be measured against the reasonable assumption that the difference in the timing for adoption of a long-term obligation under the resource adequacy decisions and PG&E's request for inclusion in this decision is approximately 1 year, i.e., December 2004 for the LTPP decision v. December 2005 for "second generation" resource adequacy issues. The CAISO's Five-Year Assessment "anticipates that adequate supply will most likely be available to meet peak demands for the next five years, based upon a comparison of base resource capacity and forecasted base peak demand." (Exhibit 101 [SCE] at p. 2.) However, the CAISO has also reported concern that reserve shortages could return by 2005 and be particularly acute by 2008 under conditions of high demand or, alternatively, moderate demand coupled with adverse supply scenarios resulting from excessive forced outages or low hydro conditions.[12] (*Id.* at p. 2-3.) In fact, TURN, which has strenuously argued the existence of a current capacity glut, acknowledges that construction of new resources to meet the "state's overall portfolio needs" is likely necessary beyond a three or four year time horizon. (Tr., Vol. 16 at 2311:26-2312:24.) PG&E reasonably concludes, therefore, that since it can take from three to five years to bring a new central station generating plant on-line, construction should commence in 2005. (Exhibit 34 [PG&E] at 2-12.)

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[11] PG&E has requested immediate authority from the Commission to execute short-term and mid-term commitments under its existing short-term procurement plan. Specifically, PG&E has filed a petition to modify that would grant five-year contracting authority for these purposes. The CAISO agrees that PG&E and the other IOUs need flexibility to cost-effectively fill out its mid-term portfolio over time when conditions are most favorable.

[12] This concern is heightened by the recent summer operations of 2004, where the CAISO broke increasing record service levels five times under conditions of moderate temperatures.

This proceeding represents the very vehicle for the IOUs to initiate *direct* procurement activities to the extent resources are needed by 2008. In fact, the efficacy of this approach is manifest from PG&E's own proposal to issue two Requests for Offers by the end of this year. Moreover, to the extent PG&E is concerned that other LSEs would "lean" on PG&E or other IOUs in the event of a capacity shortfall in 2008, it is unlikely that there will be sufficient clarity on the core/non-core program or the outcome of the community choice aggregation proceeding to realistically permit those LSEs to stimulate new construction in 2005 regardless of the adoption of a long-term capacity commitment in the LTPP decision.[13] (See, Tr., Vol. 16 at 2306:8-14.) Accordingly, the CAISO concurs with TURN that if the Commission believes resources, beyond those proposed by the IOUs to meet the anticipated needs of their bundled customers in 2008, must be constructed by 2008 for aggregate system capacity needs, the IOUs represent the most realistic entities that can currently implement such an undertaking. (Tr., Vol. 16 at 2312:26-2313:24.) Any role the IOUs assume as an "agent" for resource adequacy policy for other LSEs must, however, be extremely limited. The CAISO agrees with the limits TURN itself recognizes on its proposal that (1) IOUs would act in this capacity solely as an "interim" or "one-shot" basis, (2) for limited quantity of capacity, i.e. one-years' load growth, (3) split on a locational basis, (4) procured by means of a power purchase agreement for the minimum time necessary to finance the projects, not to exceed 10 years; and (5) costs are equitably allocated to all customers benefiting from the capacity. (*Id.*; see also, Tr., Vol. 16 at 2305:22-2306:24.)

Thus, while the CAISO strongly agrees that a long-term resource adequacy commitment should be proposed, and that PG&E's proposal may form the model going forward, the CAISO

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[13] The CAISO agrees that the potential for LSEs to lean on other LSEs to satisfy their capacity obligations is a legitimate concern that must be address in phase 2 of the resource adequacy workshops through development of reporting, compliance, and enforcement protocols.

believes such discussion should take place in the open dialogue of the resource adequacy workshops and not be foreclosed by a ruling in this proceeding. On the other hand, should the Commission conclude that the aggregate supply/demand forecast for 2008 warrants development of generation resources in addition to those included in the IOUs LTPPs, the CAISO believes it is prudent for the Commission to enlist the IOUs as agents for resource adequacy on behalf of all LSEs and that the benefits to all California purchasers of electricity exceeds the potential administrative complexities of developing an equitable method to allocate such resource costs.

Local Reliability

The second objective of resource adequacy is to support reliable system operations. The concept of resource adequacy, and the measure of success of any resource adequacy program, is driven by the need to serve load in real-time. The CAISO's ability to serve load in real-time is dependent on having adequate resources available to it in real-time to serve the aggregate load and to meet any locational operating requirements. (Exhibit 95 [CAISO] at 6:11-21.) In the LTPPs, the IOUs have performed the necessary analyses to reasonably identify the quantity and time frame in which additional resources are likely to be needed to meet overall load, but have not provided sufficient information to determine where those resources should be procured to ensure reliable service to all customers, including those behind transmission constraints or in load pockets. (*Id.* at 8:11-19.)

This deficiency in the IOUs' LTPPs, while fundamental, is anticipated to be temporary and ultimately remedied by the adoption in the resource adequacy proceeding of specific local capacity requirements that will be fully incorporated into, and dictate, the next iteration of the IOUs' LTPPs in 2006. Both the Draft Decision and Alternate Decision propose to adopt a local deliverability requirement and "direct parties to address the implementation of a local reliability

requirement in future proceedings."[14] As noted above, the CAISO concedes that the development of detailed local capacity obligations should be addressed in the context of the resource adequacy workshops, rather than in this decision. Nevertheless, in order to support the objective of reliable system operation in the interim period, the decision on the LTPPs should (1) clarify that all procurement activities conducted in 2005, whether deemed pursuant to the IOUs' short-term procurement plans or long-term procurement plans will comply with the Commission's *Interim Order Regarding Electric Reliability Issues* ("Reliability Order")[15] and (2) adopt guidelines for analyzing load pocket requirements for the 2006 LTPPs should local capacity requirements remain pending in the resource adequacy process.

In the Reliability Order, the Commission clarified that an IOU has the "responsibility to procure all the resources necessary to meet its load, not only service area wide but also locally." (D.04-07-028, mimeo at 2.) Accordingly, the Reliability Order directed the IOUs to work with the CAISO to ensure that IOU scheduling and procurement practices better account for the deliverability of procured energy to load and local reliability. The CAISO has worked collaboratively with the IOUs to facilitate compliance with the Reliability Order. (Exhibit 95 [CAISO] at 10:11-13.) However, by its express terms, the Reliability Order will remain in effect only through the earlier of the end of 2005, or the issuance of a superseding Commission order on the same issues. (Reliability Order, mimeo at 33.) The CAISO interprets the Reliability Order as mandating that all IOU "procurement decisions … incorporate all CAISO-related forward commitment costs that result from the utility's decisions, including all known or reasonably anticipated CAISO-related costs, such as congestion, re-dispatch, and must-offer

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[14] Draft Decision and Alternate Decision, Conclusion of Law # 23.
[15] D.04-07-028 (July 8, 2004).

costs." (*Id.*, mimeo at 32.) However, other references in the Reliability Order to "short-term procurement plans" creates ambiguity as to whether procurement decisions made pursuant to authority granted in the LTPP decision or, even potential modifications to the short-term procurement plans approved in this decision, will be subject to the requirements of the Reliability Order. Consequently, this decision should specify that all resource procurement activities conducted by the IOUs in 2005, including any specifically authorized RFOs, must comply with the Reliability Order considerations.

This is especially appropriate with respect to PG&E's proposed requests for offers ("RFOs"). PG&E's proposal to obtain long-term capacity to satisfy load growth beginning in the 2007-2008 time frame permits PG&E to fill a local area need on a long-term basis and mitigate the exercise of market power. An LSE's advance purchase of capacity in the three to five year time-frame allows for the effective mitigation of market power by retaining the option to buy from existing available or newly constructed resources. (Exhibit 95 [CAISO] at 7:10-15.) Thus, the Commission should compel PG&E to procure a portion of the capacity under its proposed RFOs in the currently defined reliability-must-run ("RMR") area or justify why such procurement is impracticable.

The CAISO is confident that local capacity requirements can be, and will be, adopted by the Commission prior to the end of 2005.[16] However, to the extent such requirements are not sufficiently defined by the time the IOUs must submit their 2006 LTPPs, the Commission must articulate backup criteria that must be applied by the IOUs in their next LTPP submissions. The

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[16] The Draft Decision states that it expects local capacity requirements to be "in place for 2006 compliance filings for 2007 summer months." (Draft Decision, mimeo at 32.) The Alternate Decision, because it rejects acceleration of implementation of the full planning reserve margin, provides that local capacity requirements are to be in place "well before the 2007 compliance filings for 2008 summer months." (Alternate Decision, mimeo at 32.)

CAISO offers that the AC Ruling, prior to modification by the *Administrative Law Judge's Ruling Clarifying Instructions on Long-Term Plan Filings*, issued June 16, 2004, provides an appropriate point of departure. The AC Ruling stated:

> Finally, assume that in addition to a general service area-wide requirement, LSEs must satisfy a resource adequacy requirement for any load pockets in their service areas. In preparing and documenting both the input assumptions (e.g., definition of load pockets, load forecasts for such load pockets, resources tabulated by load pocket, etc.) and results (e.g., additional resources required, costs of these additional resources, reduction in RMR costs, etc.) of these two alternative possibilities for the delivery issue, the differences between these two variants of each Resource Plan should be thoroughly explained. (AC Ruling, mimeo at 9.)

A load pocket is a particular area of load and local generation with insufficient transmission to cover its load requirements without the operation of the local generation. (Exhibit 96 [CAISO] at 5:25-27; Tr., Vol. 14 at 1943:12-22.) Accordingly, the CAISO proposes that each IOU provide an assessment to determine, within an established probability, whether the load contained within constrained transmission areas will have sufficient transmission so that an adequate amount of generation from resources located outside the local area can be delivered to serve the local load. If insufficient transmission exists, the IOUs must demonstrate how they intend to procure adequate supply resources, or construct new transmission facilities, within the load pocket to meet the load serving probability. The CAISO recommends for both purposes of the backup criteria, as well as for the permanent standard in the resource adequacy workshops, the adoption of the one day in ten years LOLP. (Tr., Vol. 14, 1953:15-28; Exhibit 97 [CAISO] at 3:18-24; Attachment to Exhibit 97.) In fact, this standard reflects the basis for the overall planning reserve margin of 115-117% of peak load adopted by the Commission and, therefore, provides an assessment criteria to judge the appropriate level of investment and ensures customers in load pockets receive equivalent reliability as that enjoyed by consumers in other

parts of the IOUs' systems. (Tr., Vol. 14 at 1973:23-1974:21.)[17] As described above, the IOUs possess substantial expertise and understanding with respect to critical elements of generation planning, such as the availability of land, water resources, fuel, emission limitations, as well as a the unique understanding that comes from owning and operating their transmission systems. Simply put, each of the IOUs has the technical capability and data to perform such an analysis. (*Id.* at 1941:9-1942:28; 1960:4-22; Exhibit 96 [CAISO] 5:16-28.) Thus, it is necessary and achievable to require that future long-term plans include the specific analysis of load pockets, (e.g., definition of load pockets, load forecasts for such load pockets, resources tabulated by load pocket, etc.)

III. CONCLUSION

The CAISO respectfully requests that the Commission adopt a decision that incorporates, or is otherwise consistent with, the substance of the foregoing arguments.

October 18, 2004

Respectfully Submitted:

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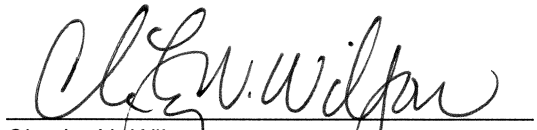
[17] The fact that the system-wide LOLP equated to a roughly 115-117% planning reserve margin of peak load does not necessarily indicate that the same planning reserve margin would be required in any particular load pocket. Some parties have suggested that a cost-effectiveness test be applied alongside the implementation of the LOLP criteria.

CERTIFICATE OF SERVICE

I hereby certify that I have served, by electronic mail, a copy of the foregoing Opening Brief of The California Independent System Operator Corporation on Long-Term Plans of Investor Owned Utilities to each party in Docket No. R.04-04-003.

Executed on October 18, 2004, at Folsom, California.



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