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IEP Comments CEC IEPR Wkshop on Southern CA Electric Reliability

Additional submitted attachment is included below.

September 9, 2016

California Energy Commission
Dockets Office, MS-4
Docket No. 16-IEPR-06
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512

Re: CEC IEPR Workshop on Southern California Electric Reliability (August 29, 2016)

The Independent Energy Producers Association (IEP) appreciates the opportunity to provide comments on the California Energy Commission (Commission) workshop to review efforts to ensure electricity reliability in Southern California. The workshop is important and timely in light of the closure of the San Onofre Nuclear Generating Station (San Onofre) and the impending retirement of a significant amount of capacity due to the state's implementation of the federal law related to Once-Through-Cooling (OTC) policy. Moreover, while Southern California Edison (SCE) conducted a competitive, all-source Request for Offers (RFO) solicitation in 2014 to replace in whole or in part the lost capacity associated with the closure of San Onofre, the Commission's workshop provides a valuable opportunity to assess the viability of the replacement resources chosen in that particular RFO. IEP's written comments are intended to supplement and not supplant IEP's oral comments at the workshop.

I. Overview

Workshop panelists discussed a number of contingency events and critical planning uncertainties that raise concerns as to whether southern California faces a near-term supply/resource imbalance as early as 2021. The panelists discussed the risk of delays or termination of planned transmission expansions and/or upgrades (due to litigation); the risk of delays or termination in planned replacement capacity for the OTC retirements (due to litigation); and, the risk that resources selected in the 2014-2015 Long-Term Procurement Policy (LTPP) Track I and Track 4 procurement authorizations and resources embedded in long-term planning fail to materialize as hoped, particularly preferred resources such as energy efficiency (EE) and demand-response (DR).

Importantly, the panelists discussed the implications if the contingency events occur and the planning assumptions fail to be met in a timely manner. Panelists reported that electricity supply disruptions may not occur for just a few minutes, hours, or even days; but, rather, the risk of supply disruption may be on the order of weeks (particularly in the case of a delay or outage of critical transmission assets). Moreover, the supply disruptions likely will occur in highly urbanized areas, thereby exacerbating the social and economic costs. Given the high economic costs associated with grid outages versus the relatively low-cost to mitigate this risk, IEP urges policymakers to act now to ensure that sufficient capacity is installed to more effectively mitigate the risks that are present.

II. Studies Indicate Critical Supply/Demand Deficits in Southern California by 2021

In assessing local reliability in southern California, the staff 2016 Update Assessment projects electricity surplus or deficit on an annual basis from 2015 to 2025 for five local capacity areas (sub-areas) throughout the Los Angeles Basin and San Diego. The staff employed the Local Capacity Annual Assessment Tool (LCAA) to conduct its 2016 Update Assessment. The baseline results show deficits in two key areas – West LA Basin subarea and the San Diego Imperial Valley local capacity area - beginning in 2021 and steadily increasing through 2025.¹ The 2016 Update Assessment states the baseline results for the combined LA Basin-San Diego subarea closely match CAISO studies for 2021 and 2025.²

While alternative assumptions can worsen or improve study results, the Update Assessment notes that future savings expected from demand-side programs and peak load reduction programs are so large that “credible degrees of failure can lead to resource shortfalls large enough to affect local reliability in one or more areas.” Moreover, the Update Assessment finds that treating the policy goals (e.g. MWs/MWhs) associated with preferred resources, including DR and EE, as credible planning assumptions *may* threaten future reliability and *will limit* resource choices as the time horizon shrinks.³ [Emphasis in original]

IEP strongly concurs with these assessments and findings. Accordingly, we urge the energy planning agencies, i.e. the Commission, the CPUC, and the CAISO, to act quickly over the next 4 months to re-assess the risk identified in the LCAA local assessment. By the end of 2016, the energy planning agencies should be prepared to take action in early 2017 to mitigate

¹ California Energy Commission Staff Report, “Assessing Local Reliability in Southern California Using a Local Capacity Annual Assessment Tool: 2016 Update.” August 2016. Page 14. [CEC-200-2016-011]

² Ibid, p. 14-15.

³ Ibid, p. 52

the capacity shortfalls, if any, that are identified in these Southern California Reliability Assessments.

III. Risk Mitigation Options

In light of the most recent LCAA and CAISO TPP analyses, Commission staff have proposed mitigation options to address the contingencies that threaten electric grid reliability in Southern California. Essentially, the staff provides two mitigation options: (1) Once-Through-Cooling Compliance Date Deferral and (2) New Generation Construction Option.⁴ Option 1 relies on the existing State Water Resources Control Board to defer the compliance for an existing generating facility until replacement resources are built and synchronized with the electric grid. Option 2 is to conduct a procurement relying on already-permitted projects. As described briefly below, each option is associated with various factors that may impede its timely implementation and, thus, its effectiveness in resolving the problem. Both Options suggest implementation steps that appear complicated; and, both Options risk triggering lengthy and contentious CPUC approvals that can undermine timely implementation.

Option 1, the OTC Date Deferral Option, hinges on joint and coordinated action by state agencies within a limited timeframe. Complexities and uncertainties arise with regards to the timing of the construction of replacement capacity; how to ensure appropriate role for Preferred Resources; how to treat deferral requests, particularly those triggering additional mitigation measures; and the specific steps to consider and approve deferral requests. This option is dependent on mechanisms to ensure cost recovery of facility operations and/or needed investment in facility upgrades. As a result, this option hinges on obtaining a CPUC-sanctioned power purchase agreement (PPA) with a Buyer or a Reliability Must Run (RMR) Contract with the CAISO.

Option 2, the New Generation Construction Option, appears to be the staff's preferred option. Under Option 2, a pool of projects possessing all necessary construction and/or operating permits (or in a viable position to extend them) will be created. Once a reliability risk has been confirmed, a solicitation will ensue in which policymakers select a specific generator (or generators) from the pool of eligible projects to be awarded a PPA. The awarded PPA would be subject to review and approval of the CPUC, presumably prior to initiating any operations and/or facility upgrades.

⁴ California Energy Commission Staff Report, "Mitigation Options for Contingencies Threatening Southern California Electric Reliability," August 2016 [CEC-200-2016-010]

IEP supports open, transparent, and competitive solicitations. We recognize the immediacy of the reliability problem (beginning in 2021) and the time it may take to ensure the availability and deliverability of capacity resources. However, the path forward to mitigate the supply shortage expected in 2021 should be one that is as open, transparent, and competitive as practical and which minimizes the risk of delay, litigation, etc.

It is in this context that IEP concurs with the staff that the preferred option ought to be the New Generation Construction Option. However, the preferred Option 2 as proposed by staff will be effective in ensuring timely implementation, minimize the risk of litigation, etc. Accordingly, we offer the following recommendations to improve the viability of the New Generation Construction Option:

- **Conduct an “All –Source” Competitive Procurement.** The Request for Offers (RFO) should be open to “all sources” including existing resources with un-contracted or un-committed capacity available to meet the identified need. Experience has shown that an open, transparent competitive process mitigates litigation risk in the future and, thereby, can help ensure more timely outcomes. In recognition of the limitations of time, the RFO Protocol should specify a firm date for obtaining all necessary permits (e.g. 2019); a firm date for commencing construction (if needed); and, a firm date for meeting deliverability requirements as identified in the RFO (e.g. 2021). Given the time-sensitive nature of the need, projects that already have all necessary permits and, thus, mitigate the risk of not obtaining the necessary permits, should be valued appropriately.

The goal, however, should be to provide an opportunity to participate for all resources that can provide the requisite operational attributes to meet the identified need in a timely manner. Moreover, facilities that have NQC determinations from CAISO and have not forward contracted that NQC should be allowed to participate in the procurement process. Restrictions on bidders not having a NQC determination or not being on the Commission’s list of permitted or in permitting projects may undermine the least-cost and best-fit outcomes that may be available to meet the identified need.

- **The RFO(s) Should Seek Completed Projects.** The goal is to obtain “capacity insurance” to mitigate the risk of a supply shortage in 2021. The product sought is

installed capacity with specific operational attributes needed to maintain electric grid reliability. Accordingly, in comparison to the staff proposal to tailor the RFO to a “pre-construction permit,” the RFO should be designed to solicit a resource fully constructed and deliverable by a date certain. If a resource is contracted but not needed, then Buyer and Seller can address that contingency in the contract and/or negotiate a buy-out provision. This approach will eliminate the risk of gaming by bidders and increase the importance of Project Viability in bid-evaluation.

- **Conduct RFO by the 2nd Quarter of 2017.** Assuming that a need exists in Southern California in 2021 as indicated by the staff’s analysis (and supported by CAISO studies), then the date for conducting a competitive RFO cannot be postponed past 2017. The following tables provides some realistic timelines that should be factored into the timing of the procurement:

1 Quarter 2017	CPUC Authorization To Conduct RFO
2 nd Quarter 2017	Conduct of RFO
1 st Quarter/2 rd Quarter 2019	Review Bids, Submittal of Advice Letter, Approval of PPA (18-24 months)
1 st Quarter 2020-21	Time to Construct (1-2 years)
1 st Quarter 2021	Deliverability Achieved

IV. Conclusion

The New Generation Construction Option likely provides the best pathway to timely mitigation of the identified capacity shortage, assuming the Option is modified to be an all-source solicitation as recommended by IEP. An all-source, competitive procurement provides the fairest means to compare and contrast the capabilities of all technologies to meet the specified need, including preferred technologies. Thus, this approach best mitigates the risk of litigation and untimely delay.

While supporting the competitive alternative, IEP wishes to note for the record that it does not oppose pursuit of the OTC Compliance Date Deferral option. However, the OTC Compliance Date Deferral does not appear to avoid many of the contentious issues and approvals that can impede timely implementation. Accordingly, the OTC Date Deferral Option ought to follow from the success (or failure) of the all-source, competitive procurement option outlined above rather than supplant the competitive-first option.

Finally, in light of the reliability risk beginning in 2021 identified by Commission staff and the timeframe in which it takes to place in service resources capable of meeting the identified need, it is imperative that the IEPR become a vehicle for alerting the CPUC to the risk of near-term capacity shortage in southern California and a recommended procurement path forward. To the extent that mitigation is pursued by a competitive solicitation, as preferred by staff and recommended by IEP, consideration must be made soon as to whether the existing CPUC IRP/LTPP proceeding provides a viable procedural pathway forward to address this matter or, alternatively, whether a new CPUC proceeding is warranted to ensure timely decision-making and action.

Respectfully Submitted,

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Steven Kelly
Policy Director