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Comments of Middle River Power, LLC, on the Joint Agency Workshop on Southern California Energy Reliability 2019 IEPR

Additional submitted attachment is included below.

COMMENTS OF MIDDLE RIVER POWER, LLC, ON THE JOINT AGENCY WORKSHOP ON SOUTHERN CALIFORNIA ENERGY RELIABILITY 2019 INTEGRATED ENERGY POLICY REPORT
(CEC Docket No. 19-IEPR-09)

I. Introduction

Middle River Power, LLC ("MRP") would like to express its appreciation to the California Energy Commission ("CEC), the California Public Utilities Commission ("CPUC"), the California Independent System Operator ("CAISO"), Los Angeles Department of Water and Power ("LADWP") and all of the other agencies (collectively, the "Joint Agencies'"), who participated in the May 23, 2019, *Joint Agency Workshop on Energy Reliability in Southern California*. MRP believes the Joint Agencies' meetings serve the important purpose of bringing California's energy leadership together in a single setting, providing a holistic review of the State's efforts to ensure reliability for Southern California electric and natural gas systems. MRP thanks the Joint Agencies for their participation and their diligence.

MRP owns, operates and manages a diverse portfolio of assets, including geothermal, combined cycle natural gas, and high efficiency peaking resources. MRP is also developing solar power plants and battery energy storage systems. MRP's portfolio represents generation resources important to grid reliability, both today and going forward in furtherance of the State's Climate policy objectives. We appreciate the opportunity to add our voice to this important proceeding, informed by practical experience gained by operating resources that support grid reliability.

II. The Joint Agencies Should Continue to Monitor Operational Flow Orders this Summer and Support Timely Maintenance and Repairs on the SoCalGas System

With respect to natural gas supply issues, MRP believes that it is critically important for the agencies to closely monitor the SoCalGas system, in general, and the Operational Flow Orders ("OFOs") that have added to the uncertainty in Southern California. MRP has been closely monitoring in the August 15, 2018 petition for modification filed by Southern California Edison Company ("SCE") and Southern California Generation Coalition ("SCGC") for "Low Operational Flow Order and Emergency Flow Order Requirements" (A.14-06-021 and A.14-12-017). The proposed decision was approved at the CPUC's May 30, 2019, Business Meeting (D.19-05-030, the "CPUC OFO Decision").

MRP remains concerned that the Summer 2019 OFO penalties of $5.00/decatherm (dth) in Stage 4 and $5.00/dth plus the daily balancing standby rate in Stage 5 may not create the right incentives to ensure system stability and market certainty. As SoCalGas disclosed to the Joint Agencies, under its "Worst Case" scenario, the SoCalGas system is impaired: "Worst Case: Insufficient receipt capacity to both serve summer customer demand and fill storage; unable to

meet forecast peak day demand without curtailment or the use of Aliso Canyon."[1] The SoCalGas worst case scenario may require the Joint Agencies to recommend changes to ensure system reliability and stability, given the likely occurrences of OFOs again this summer. Accordingly, the Joint Agencies should continue to actively monitor the Summer 2019 OFO conditions on the SoCalGas system and proactively change course, if natural gas system conditions require swift action.

MRP also supports the effort of the Joint Agencies to expedite maintenance and repair programs for the SoCalGas system. As was evidenced by the presentations at the May 23 workshop, many of the conditions leading to the issuance of OFOs are directly related to system maintenance, repairs, and replacements affecting supplies.[2] We appreciate the Joint Agencies' recognition of these important issues as they affect system reliability.

III. Southern California Faces Electric Reliability Challenges Due to Retirements of Critical Natural Gas Units and Over-Reliance on Imported Energy from Out of State Resources

With respect to Southern California electric reliability, MRP believes that the Joint Agencies must remain equally vigilant. Dispatchable natural gas-fired generation resources will be essential for a reliable electric grid in California for the foreseeable future. These resources supply about half of the total system Resource Adequacy ("RA") capacity in California[3], and the modern fleet will continue to play an important role for reliability going forward as other sources of capacity continue to dwindle.

California will continue to see a net reduction in existing thermal generation capacity due to the phase-out of once-through cooling units and announced retirements including the planned retirement of Diablo Canyon. In fact, the CPUC Staff informed the Joint Agencies that "9,498 MW of Capacity in Southern California (within CAISO BAA) will have retired by December 31, 2020."[4] These near-term, predictable reductions in capacity resources illustrate the importance of long-term, stable support for the modern fleet of natural gas-fired generation resources that will continue to be counted on to support reliability.

With generation resources retiring throughout the West, it is also not clear how much supply California can continue to rely on for imported RA going forward. A recent reliability assessment by the North American Electric Reliability Corporation references a report by the Western Electricity Coordinating Council ("WECC") that states "[s]ystem reserve margins are expected to become increasingly tight through 2026, driven by baseload coal and nuclear retirements as well as steady increases in power demand; as a result, Wood Mackenzie and E3 forecast natural gas demand for power generation across the Western Interconnection to increase

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[1] TN #: 228351, *Summer 2019 Outlook Summary*, Presentation by David Bisi and Jennifer Walker, Southern California Gas Company, Slide 2.

[2] TN #: 228348, *CPUC-CEC Interagency Reliability Workshop*, Presentation by Matthewson Epuna, California Public Utilities Commission, Safety Enforcement Division, Slide 11.

[3] See the California ISO's Department of Market Monitoring's Q4 2018 Report on Market Issues and Performance, February 13, 2019 at p. 63. http://www.caiso.com/Documents/2018FourthQuarterReportonMarketIssuesandPerformance.pdf.

[4] TN #: 228345, Panel 1 - OTC Replacement, Presentation by Pete Skala California Public Utilities Commission, Slide 3.

by 30% by 2026."[5] This WECC-wide demand increase coincides with California's in-state reduction, making reliance on imported energy precarious, at best.

The Wood Mackenzie Report indicates that the western region will see approximately 9 GW of coal and 2 GW of nuclear plant retirements across the region by 2026, concluding that "at the levels of baseload retirements and renewable additions considered in this study, overall reliance on natural gas for electricity generation will increase in the coming decade. The amount of renewable generation needed to meet current state policy goals is not sufficient to entirely offset the loss of roughly 12,000 MW of baseload generation retirements."[6] Natural gas resources are clearly both required and represent an important part of the ability of the State to ensure electric reliability while also advancing California's Climate Change policies.

IV. Given the Limitations of Solar Resources to Meet Peak Reliability Demands, the Joint Agencies Should Work Together to Refine Equivalent Load Carrying Capability and Expand the State's Resource Adequacy Programs to Include Forward Contacting for System and Flexible Resource Adequacy Products

MRP appreciates and recognizes the central role solar power continues to play in California. Notwithstanding this critical role, the Joint Agencies' workshop presentations demonstrate the substantial limitations of solar for peak reliability. As the CAISO informed the Joint Agencies, "The downward trend for capacity benefits of grid connected solar in the area is expected to continue into the future; this presents further challenges with forecasted load growth and may require further mitigation measures."[7] For peak capacity, solar has its limitations.

Given these realities, it is critically important that Equivalent Load Carrying Capability ("ELCC") calculations be updated and incorporated annually into the RA requirements to ensure system reliability. MRP supports treating behind-the-meter solar PV resources the same as other supply-side resources, rather than as load modifying resources. The CPUC's recent Proposed Decision in the Track 3 proceeding (R.17-09-020) reached the same conclusion: "The Commission concludes that calculating solar ELCC on a supply-side basis, rather than including BTM solar in the calculation, is reasonable and aligns with generally accepted ELCC methodologies adopted in D.17-06-029. Accordingly, we adopt Energy Division's revised ELCC proposal, and the numbers resulting from the proposal, as the approved ELCC factors to use for establishing the QC values for wind and solar supply-side resources in the RA proceeding." (Track 3 PD, p. 51.)

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[5] North American Electric Reliability Corporation, *2018 Long-Term Reliability Assessment*, December 2018 at p. 26, fn. 18. [https://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_LTRA_2018_12202018.pdf], referencing a June 2018 Western Electricity Coordinating Council study published by Wood Mackenzie, *Western Interconnection Gas-Electric Interface Study* at p. 3 [https://www.wecc.org/Administrative/WECC%20Gas-Electric%20Study%20Public%20Report.pdf] (the "Wood Mackenzie Report.") The Wood Mackenzie Report also states: "Expansion of low-cost renewable generation capacity driven largely by state renewable policy goals will limit the overall need for utilization and dispatch of natural gas generation but will not fully replace the need for dependable electric generation capacity needs to meet peak demands and ensure the reliability of the bulk power system (BPS); while some of the capacity needs may be met by energy storage added in conjunction with increasing renewable penetration, the need for firm generation will not be eliminated." (*Id*.).

[6] Wood Mackenzie Report at p. 6.

[7] TN #: 228346; *2019 IEPR Update Joint Agency Workshop on Energy Reliability in Southern California*; Presentation by Neil Millar, Executive Director, Infrastructure Development, California Independent System Operator, Slide 9.

To further ensure reliability in the longer term, MRP believes that Local RA is not the only Resource Adequacy product that requires forward contracting to support a reliable grid. In-state resources capable of providing System RA and Flexible RA also need longer-term commitments to signal that they remain important to grid reliability for the near and mid-term. Adding System RA and Flexible RA to the three-year procurement framework is a straightforward and low-risk step towards ensuring continued supplies from in-state resources.

A three-year forward contracting strategy adding System RA and Flexible RA products creates a sufficiently short-term commitment to allow for preferred resource development through the longer-term driver of the IOU and POU IRP frameworks. These in-state System RA and Flexible RA resources in turn provide local reliability benefits that cannot be procured from imports and also assure that California's in-state renewable generation portfolio continues to grow without detriment to electric system reliability.

V. Conclusions

MRP recognizes and supports California's policies moving the State to a future where carbon-free resources will provide all of the state's electric supply. In turning these policy and planning objectives into realities, it is critically important that the State also ensure electric and natural gas system reliability.

MRP appreciates the Joint Agencies diligence toward ensuring natural gas and electric systems reliability and the opportunity to provide comments in this important proceeding. Thank you.

Sincerely,

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Joe Greco
Senior Vice President
Middle River Power, LLC

MIDDLE RIVER POWER