Comments of The Utility Reform Network
regarding *Summer 2005 Electricity Supply and Demand Outlook*
(Docket 05-SDO-1)
March 25, 2005

The Utility Reform Network (TURN) offers the following comments in California Energy Commission (CEC) Docket 05-SDO-1 ("Summer 2005 Electricity Supply and Demand Outlook"). Most of these comments are focused less on the details of Summer 2005 load-resource analyses *per se* and more on the implications of the hubbub over this summer and the CEC's related March 11 Report[1] for the mid- and longer-term resource planning efforts of this Commission and the California Public Utilities Commission (CPUC).

First, TURN thanks the CEC for holding the March 21 workshop on Summer 2005 issues. Further, TURN urges the CEC to hold workshops in future efforts to assess load-resource balances much earlier in the respective processes.

TURN has been aware that the CEC, CPUC, the California Independent System Operator (CAISO), the Governor's staff ("State Entities"), and the utilities – particularly Southern California Edison (SCE) – have been assessing Summer 2005 load and resource data for several months now and considered many actions to address perceived load-resource deficiencies in time for this Summer. This effort has been well-intentioned and appears to have yielded some reasonable, cost-effective actions to maintain reliable electric service in this and future summers. But this effort also posed the potential to impose substantial new costs on ratepayers in exchange for negligible reliability benefits. This criticism was particularly true for the earlier versions of the State Entities' analysis that TURN was able to see, which contained some specific proposals that offered no reliability benefits despite potential significant costs to ratepayers. But customer

[1] *Summer 2005 Electricity Supply and Demand Outlook*, Staff Draft Report, March 2005 (CEC-700-2005-006-SD), available at http://www.energy.ca.gov/2005publications/CEC-700-2005-006/CEC-700-2005-006-SD.PDF.

representatives such as TURN were only afforded the opportunity to discuss these issues in any detail in a public forum at the CEC's March 21 hearing. TURN believes the State Entities' efforts could have and should have been subjected to critical public review several months ago, and that any future such efforts should be open to critical public review at a much earlier point in the process.

Second, the CEC and CPUC must recognize and resolve the key inconsistency between the state's adopted long-term system planning standards and the standards the CEC applied in its March 11 Report.[2]

The state's long-term planning standard was adopted by the CPUC by means of the forward procurement obligations its Resource Adequacy Requirement (RAR) places on all Load-Serving Entities (LSEs). In brief, the CPUC will require LSEs to acquire resources equal to 115 – 117 percent of their "1-in-2" (normal) peak loads. However, the March 11 Report instead assesses this summer's load-resource balance on the basis of a "Quadruple Contingency" (QC) criterion of "1-in-10" (hot) weather peak load, plus "1-in-6" (high) outages, plus "high risk retirements", plus 7 percent.[3] This latter criterion is much more stringent than the adopted planning standard. *The March 11 Report thus assesses this summer's supply adequacy based on a standard that will never be met by the state's long-term planning standard.* If the CEC and remaining State Entities continue to use this criterion to assess future summers, they will put themselves in the position of:

- Assuring the state that resources are adequate because the long-term planning standard is being met,

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2 The same inconsistency was present in the State Entities' earlier analyses of Summer 2005 load-resource issues.

3 The March 11 Report's use of an outage figure equal to "one standard deviation" above the mean (pp. 10–11) is equivalent to a "1-in-6" (high) level of outages.

- While telling the state that resources may be inadequate when analyzing the situation on a year-ahead basis using the QC criterion.[4]

Clearly, such contradictory policies and statements serve no one well – except the forces of confusion and uncertainty. Fortunately, as discussed below, the CEC and State Entities can easily resolve this conflict among apparent reliability policies.

Third, to make the state government's RAR policies and public statements consistent, the CEC and State Entities should focus – in assessing the Summer of 2005, developing the 2005 Integrated Energy Policy Report (IEPR), and pursuing their other duties with regard to electric system planning – on the *already-litigated and formally-adopted long-term planning standard.*

This long-term planning standard – established unambiguously last year by the CPUC – calls for aggregate resources to equal the forecast "1-in-2" (normal) peak load plus a 15 – 17 percent planning reserve margin.[5] This policy, in addition to being the only system planning standard that could possibly withstand legal challenge, reflects several decades of pre-restructuring system planning policies that did a generally good job of "keeping the lights on". Conversely, the QC test applied in the March 11 Report has no validity as a planning standard or rationale for acquiring additional resources. Instead, the QC criterion is an extreme standard that threatens to impose substantial costs on the state's ratepayers for increases in reliability that equal virtually zero.

Fourth, TURN disagrees with the apparent implication of the CEC's March 11 Report that there is a "problem" with SP26 loads and resources this summer.

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4 Further, if the state wishes to take short-term actions to meet the QC criterion, it will have no ready means to cause such actions to be taken, because LSEs will have already complied with their forward procurement requirements to meet the long-term planning standard.

5 The CPUC established this standard in Decision (D.) 04-01-050, D.04-10-035, and D.04-12-048.

The March 11 Report's conclusion seems to be summarized in Table 4 of the report, which shows 1,791 MW being "needed" in SP26 to address the four contingencies I just discussed. *However, careful review of that table shows that, even in this extreme scenario, firm load would not be interrupted.* Instead, SP26 resources plus interruptible loads are projected to be sufficient to meet "1-in-10" hot summer *firm load* and still leave an operating reserve margin of greater than 3 percent.[6] TURN believes that the fact the "the lights stay on" even in this extreme scenario should be taken as a good sign – not as a warning signal. More generally, the Commission must recognize that a system that provides for a 15 – 17 percent planning reserve margin *will* show signs of stress given the four contingencies cited in the March 11 Report.[7] But such signs of stress are merely the "flip side" of the system resource target of 115 to 117 percent of normal summer load, which was developed explicitly to balance the benefits of higher reliability against the costs of achieving higher reliability.[8]

Fifth, TURN is concerned that the focus on the Summer of 2005 has taken the state's attention away from those years where the state's load-resource balance is much more threatened: the summers of 2007 through 2009. TURN suggests that the CEC and State Entities make special efforts to determine on the amount of resources that will be needed between 2007 and 2009 – using the proper planning criterion – and then take actions to ensure that this level of resources will be available.

If the time and effort that have gone into assessing and reacting to perceived 2005 shortages had been spent assessing our mid- to longer-term needs and devising means to ensure that any needed new plant will be financed and built, the state would be much father along toward meeting its mid- to long-term needs. Instead, to TURN's knowledge,

6 TURN is not saying it wants such hot weather to occur, for interruptible customers to lose service, or for the ISO's "Operating Reserve Margins" to fall below 5 or even 7 percent.

7 TURN is open to the possibility that there might be a load-resource balance problem in SP26 or SP15 for this summer. TURN simply finds the March 11 Report (and similar previous analyses conducted by the State Entities) unpersuasive in this regard.

8 Aside from its concerns about the March 11 Report's use of a QC criterion, TURN has not reviewed the report's other assumptions in detail and is neither endorsing nor criticizing them.

no party aside from PG&E is now actively in the market for *new* resources – and PG&E is only seeking resources to meet its bundled loads, not for "NP26" as a whole. How the growing aggregate needs of SCE's, ESPs', and CCAs' loads will be met in coming years is thus still an open question. Given the schedule for the CEC's development of the 2005 IEPR and the CPUC's review of the long-term plans the IOUs file in conformance with the 2005 IEPR, the CPUC will not issue any direction to the IOUs to engage in long-term procurement until later next year. Direction given at that date would not likely lead to new plant being built until 2009 or else will result in a very narrow field of bidders for projects needed in 2007 and 2008. And given the RAR policy's current requirement that LSEs only make "year-" and "month-ahead" showings of resource adequacy, it is doubtful that any other LSEs will engage new construction soon either.[9] Instead, we are faced with a "window of vulnerability" starting in the summer of 2007 that no one seems to be addressing. Quick action is warranted in assessing and responding to these needs.[10]

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9 TURN believes that multi-year forward commitments from LSEs will be needed for developers to obtain the financing needed to build new plant. The CPUC will be addressing if and how to impose such longer-term forward commitments upon LSEs in the "next generation" of RAR issues to be considered in Rulemaking 04-04-003 (D.04-10-035, Section 4.2.).

10 TURN recognizes that such an effort would be an *ad hoc* change to the Commissions' emerging joint work plans on these issues.