

**PREPARED DIRECT TESTIMONY OF DAVID ASHUCKIAN ON BEHALF OF THE
CALIFORNIA ENERGY COMMISSION REGARDING THE ISSUE OF RETIREMENT
OF AGING POWER PLANTS AS ADDRESSED IN THE LONG-TERM
PROCUREMENT PLANS OF SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E)**

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2 **CALIFORNIA ENERGY COMMISSION REGARDING THE ISSUE OF RETIREMENT**
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5
6 **Q1: Please state your name and business address.**

7 **A1:** My name is David Ashuckian. My business address is California Energy
8 Commission, 1516 9th Street, Sacramento, California 95814.

9
10 **Q2: Please briefly describe your responsibilities at the California Energy**
11 **Commission.**

12 **A2:** I am employed as manager of the Electricity Analysis Office of the Systems
13 Assessment & Facilities Siting Division of the California Energy Commission (Energy
14 Commission). In this capacity, my responsibilities include managing the work of
15 professional staff engaged in conducting independent, objective analyses of California's
16 electricity and natural gas systems, market, and operations.

17
18 **Q3: Please summarize your educational and professional background.**

19 **A3:** I am a Professional Engineer registered in the State of California. I obtained my
20 Bachelor of Science degree in Mechanical Engineering in 1992 from California State
21 University Sacramento, in addition to my Bachelors degree in Criminal Justice which
22 was obtained in 1981 from California State University Sacramento. My employment at
23 the Energy Commission began in 1998. My professional experience at the Energy
24 Commission includes managing the activities of the Electricity Analysis Office (EAO) for
25 the last 4 years. The function of the Electricity Analysis Office is to provide
independent, objective analysis of the electricity market and electrical system

1 operation.. As manager of the EAO, I supervise 35 professionals who have expertise in
2 the following subject matter areas: Electric Generation Systems Electrical Engineering
3 Mechanical. In my capacity as Manager of the EAO, I am responsible for managing the
4 development of the Summer Outlook Report, and a number of the electricity and natural
5 gas reports that Energy Commission staff have developed for the 2003, 2004, and 2005
6 Integrated Energy Policy Reports. I have also served as policy advisor to
7 Commissioner Boyd, supervised the Energy Commission's Transportation Technology
8 Program and have served as the Energy Commission's spokesperson on electricity
9 system need before the Governor's Office, Legislature and the Joint Agency Energy
10 Action Plan.

11
12 **Q4: Please state the purpose of your testimony.**

13 **A4:** The purpose of my testimony is to sponsor the position of the Energy Commission
14 in this proceeding on the issue of the retirement of aging power plants by providing the
15 California Public Utilities Commission (CPUC) with an evaluation of SDG&E's Long
16 Term Procurement Plan (LTPP) on that issue. The issue of APP retirement is
17 addressed by the IOUs in Section IV, C. *Supply Forecasts*, and Section IV, H.,
18 *Candidate Resource Plans* of their respective LTPPs. This testimony is intended to
19 provide CPUC with the Energy Commission's assessment of how the SDG&E is
20 planning to reduce its reliance on aging gas-fired plants through planning for long-term
21 contracts with new, fuel efficient units, in order to reduce long-term financial risk to its
22 ratepayers.

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Specifically, the purpose of this testimony is to provide:

1. Identification of the requirements of the Assigned Commissioner's Ruling and Scoping Memo on the Long-term Procurement Phase of R.06-02-013, dated September 25, 2006 (Scoping Memo) that are applicable to IOUs with respect to aging power plants;
2. Identification of the pertinent recommendations set forth in the Energy Commission's 2005 Integrated Energy Policy Report (IEPR) and associated report entitled "*Transmittal of 2005 Energy Report Range of Need and Policy Recommendations to the California Public Utilities Commission* (Transmittal Report) that are applicable to the aging power plant requirements set forth in the Scoping Memo (item 1 above);
3. A description of the substance of the IOU's Long Term Procurement Plan (LTPP) with respect to aging power plant issues;
4. An analysis of whether the IOU's LTPPs comply with the requirements of the Assigned Commissioner's Ruling and Scoping Memo on the Long-Term Procurement Phase of R.06-02-103 (Scoping Memo) with respect to the aging power plant issues identified in item 1 above;
5. An analysis of whether the IOUs' LTPPs comply with the requirements of the IEPR with respect to the aging power plant issues in item 2 above;

6. On behalf of the Energy Commission, present the Energy Commission's written recommendations concerning the course of action that CPUC should take in this proceeding with respect to each IOU's LTPP as it relates to the issue of aging power plants.

I am authorized to present this written testimony on behalf of the Energy Commission.

Q5: What direction does the Scoping Memo give to IOUs regarding planning for the replacement of aging plants in IOU portfolios?

A5: The Scoping Memo states in relevant part:

"The Commission will establish a new resource need determination that includes at a minimum: the range of need (e.g., 500-700 MW of new resources), the time frame of the need (e.g., 2010-2012), the location of the need (e.g., x% should be targeted within local areas), the type of resource needed (blackstart, quickstart, VAR support capacity, wind integration, baseload/shaping/peaking), and the timeframe of the IOU long-term RFO for new resources." ¹

The Scoping Memo further states that "[i]t is not sufficient for the 2006 LTPPs to assume that the resource will 'show up . . .'" ².

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¹ Scoping Order, at p. 22.

² Scoping Order, page 21

1 **Q6: What is the significance of the above guidance to the issue of how aging**
2 **power plants are treated in the LTPP?**

3 **A6:** The need for new resources is influenced by assumptions regarding the retirement
4 of aging plants, many of which are more than 40 years old. This is acknowledged, for
5 example, in SCE's LTPP which states that:

6
7 "[The] need for new resources before 2013 in the SP-26 geographical area...is
8 influenced by the amount of retirements of existing generation that actually
9 occurs."³
10

11 Just as the CPUC has established that it is not sufficient to assume that needed new
12 resources will simply show up, it equally insufficient to assume that aging resources will
13 simply continue indefinitely. It is therefore the recommendation of the Energy
14 Commission that CPUC should not deem it sufficient for an IOU's LTPP to assume that
15 aging power plants will not be retired.
16

17 It is the recommendation of the Energy Commission that the IOUs should directly
18 address the issue of retirement of aging power plants in their LTPPs by identifying
19 therein and using specific assumptions concerning the retirement of aging plants that
20 reflect the policy directives set forth in the Energy Commission's IEPR and Transmittal
21 Report.

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24 \\\

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³ SCE 2007 – 2016 Long-term Procurement Plan, Vol. 1B, p. 33.

1 **Q7: What does the 2005 IEPR and Transmittal Report recommend that the CPUC**
2 **should direct IOUs to do in their 2006 procurement plans?**

3 **A7:** The Energy Commission's *Transmittal of 2005 Energy Report: Range of Need and*
4 *Policy Recommendations to the California Public Utilities Commission* (the "Transmittal
5 Report") called for "an orderly transition to the retirement of [aging] plants by 2012," as
6 "continued reliance on these plants is not in the economic interest of IOU customers[;]...
7 it would be imprudent for the IOUs to contract with the aging units beyond that time."⁴

8 The reason this policy is important is that virtually all of the state's aging power plants
9 operate at high heat rate capacities that would typically not be sufficiently dispatched in
10 the open market to cover their fixed costs and justify their continued operation. While it
11 is likely true that operation of some of these aging plants is necessary to meet local
12 reliability, it is the position of the Energy Commission that the state is best served by
13 repowering the plants that are in locations critical to the state's electricity system.

14
15 Maintaining many older plants on life support at low capacity factors has the negative
16 effect of deterring or preventing construction of more efficient plants..

17
18 *The Transmittal Report states:*

19
20 "As noted in the 2004 Energy Report Update, aging power plants currently play
21 an important role in the state's electricity system, including 'provid[ing] local
22 reliability services...; contribut[ing] to regional and statewide reliability...; and
23 help[ing] alleviate transmission system congestion. . . .' While these [aging]
24 plants have provided needed resources during the last several years and will
25 unavoidably play a role in the near term, the state cannot afford to rely

1 indefinitely on power plants that are 30 years old or older. Instead, the state
2 must begin an orderly process to retire them.”⁵

3
4 “The Energy Commission is reporting the aging plant replacement energy and
5 capacity amounts in this manner to emphasize the need for IOU planning and
6 procurement activities in the 2006 procurement cycle to accommodate the
7 recommended replacement of all of these aging plants. Because continued
8 reliance on these plants is not in the economic interest of IOU customers, it
9 would be imprudent for the IOUs to contract with the aging units beyond that
10 time.”⁶

11
12 The *Transmittal Report* asserts that to the extent that these plants can be replaced by
13 demand response programs, efficiency programs, renewable resources, combined heat
14 and power (CHP), and an appropriate level of conventional power plants, the state will
15 see significant benefits in terms of reliability, reduced reliance on natural gas, reduced
16 greenhouse gas emissions, and other environmental benefits.⁷

17
18 To facilitate an orderly transition to the retirement of these plants by 2012, the
19 *Transmittal Report* included a four-year ramp-up of this increment, starting with 25
20 percent of the utilities' share of energy or capacity in 2009, and increasing to 50 percent,
21 75 percent and the full share in 2010, 2011, and 2012, respectively.⁸

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25 ⁴ *Transmittal Report*, p. 57

⁵ *Transmittal Report* at page 14.

⁶ *Transmittal Report* at page 58.

⁷ *Transmittal Report*, at p. 56

⁸ *Transmittal Report*, at p. 57.

1 The *Transmittal Report* contains the following recommendation to ensure long-term
2 contracts are signed that provide adequate electricity supplies for IOUs:

3
4 "The CPUC should require that IOUs procure enough capacity from long-term
5 contracts to both meet their net short positions and allow for the orderly
6 retirement or repowering of aging plants, by 2012."⁹
7

8 **Q8: Does SDG&E's LTPP set forth a plan to cease reliance on aging gas-fired**
9 **plants by 2012?**

10 **A8:** No. In its assessment of new capacity needed in the San Diego basin, SDG&E
11 assumes the continued operation of the steam boilers at the Encina facility throughout
12 the planning period.¹⁰ However, SDG&E does assume that the South Bay power plant
13 will retire after 2009.¹¹
14

15 The *Transmittal Report* calls for "an orderly retirement of [aging] plants by 2012,"
16 facilitated by a gradually reduced reliance on these plants by the IOUs over the 2009 –
17 2012 timeframe.
18

19 In its long-term procurement plan, SDG&E fails to address the role that the existing
20 Encina units may be called upon to play in meeting the energy and capacity needs of
21 the utility, including local capacity requirements for resource adequacy. It fails to
22 address the financial risks to which it is putting its ratepayers by continuing to contract
23 with the Encina units after 2012.
24
25

⁹ *Transmittal Report*, at p. 69.

¹⁰ SDG&E 2007 – 2016 Long-term Procurement Plan, Exhibit IV-10

¹¹ *Id*

1 **Q9: Does the Energy Commission have a recommendation about whether or how**
2 **the CPUC should direct SDG&E to amend its treatment of the retirement of aging**
3 **power plants in the LTPP?**

4 **A9: Yes.**
5

6 **Q10: What is that recommendation?**

7 **A10:** It is the recommendation of the Energy Commission that the CPUC should direct
8 SDG&E to remove the Encina power plant from its projections of existing resources by
9 2012 and revise its range of need accordingly. The Energy Commission recommends
10 that if SDG&E wishes to demonstrate that Encina should be relied on after 2012, CPUC
11 should require SDG&E to provide a supplemental filing in this proceeding describing
12 their assessment of an orderly replacement of this aging generation. As Encina is
13 located in a local reliability areas, the Energy Commission recommends that such an
14 assessment should address the related generation and transmission needs.
15

16 The Energy Commission recommends that the CPUC direct SDG&E to either issue
17 RFOs to obtain replacement of this aging capacity and energy or propose transmission,
18 demand response, energy efficiency or renewables that could be used to replace the
19 attributes of this generation.
20

21 **Q11: Does this conclude your testimony?**

22 **A11: Yes.**
23
24
25

Docket Optical System - Fwd: Re: Can you docket the staff testimony in the CPUC's LTPP here at the Commission under 06-IEP-

From: David Vidaver
To: Docket Optical System
Date: 6/19/2007 4:26 PM
Subject: Fwd: Re: Can you docket the staff testimony in the CPUC's LTPP here at the Commission under 06-IEP-
CC: Michael Doughton
Attachments: Michael Doughton

DOS,

Can you Please docket the attached electronic files in 06-IEP-1J?

thanks.