

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Develop an
Electricity Integrated Resource Planning
Framework and to Coordinate and Refine
Long-Term Procurement Planning
Requirements.

Rulemaking 16-02-007
(Filed February 11, 2016)

**JOINT REPLY COMMENTS OF THE BAY AREA MUNICIPAL TRANSMISSION
GROUP AND THE CITY AND COUNTY OF SAN FRANCISCO IN RESPONSE TO
ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENT ON THE
PROPOSED REFERENCE SYSTEM PLAN AND RELATED COMMISSION POLICY
ACTIONS**

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November 9, 2017

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The Bay Area Municipal Transmission Group (“BAMx”)¹ and the City and County of San Francisco (“San Francisco”) respectfully submit these reply comments in response to the Administrative Law Judge’s September 19, 2017, Ruling (“Ruling”) seeking comment on the Proposed Reference System Plan (“PRSP”) (Attachment A to the Ruling)² and related California Public Utilities Commission (“Commission”) policy actions.

BAMx/San Francisco note that several parties share our concerns with respect to the greenhouse gas (“GHG”) emission reduction scenarios and the policy recommendations in the Ruling. In particular:

1. The opening comments support BAMx/San Francisco’s view that early procurement of renewables should not be driven solely by the goal of taking advantage of federal tax credits; the record shows that there are too many uncertainties creating the risk of higher costs and stranded assets. Extreme caution is appropriate given the relationship of early procurement with the California Independent System Operator’s (“CAISO”) Transmission Planning Process

¹ The members of BAMx are City of Palo Alto Utilities and City of Santa Clara, *dba* Silicon Valley Power.

² The Attachment A was subsequently presented and discussed during the Energy Division workshop on September 25-26, 2017.

(“TPP”), and the potential impact of increasing transmission congestion and adding to ever-growing CAISO transmission access charge (“TAC”) costs.³ The comments of the Independent Energy Producers (“IEP”) and TransWest supporting early procurement ignore the costs and risks to consumers, and Southern California Edison’s (“SCE”) comments illustrate how changes in key assumptions erode or eliminate any of the potential benefits in the out years, with the result that the assumed benefits are outweighed by the significant near term costs.

2. The CAISO is correct that the *42 MMT Scenario* and associated portfolios have not been shown to support policy driven projects in the TPP for 2018.
3. Instead of studying out-of-state (“OOS”) wind as a policy-driven scenario, BAMx/San Francisco support the CAISO’s proposal to learn more about commercial interest in OOS wind using a request for offers/interest that includes the cost of transmission.

1. Early Procurement Of Renewables To Take Advantage Of Federal Tax Credits Imposes Risks And Near-Term Costs On Consumers That May Outweigh Potential Benefits.

BAMx/San Francisco believe that it is essential to identify and fully vet the assumptions that are driving RESOLVE to recommend procuring renewable resources early given its relationship with the CAISO’s TPP, and the potential impact of increasing transmission congestion and TAC costs.⁴ As explained in our opening comments, the Energy Division (“ED”) modeling indicates that any benefits from early procurement occurs only in out years and are offset by significant additional near term costs. Certainly, there is no support for the recommendation of IEP that the Commission direct early procurement of 3,000 MW of renewable resources. Moreover, TransWest’s argument in favor of early procurement because commitments can be made now while deferring construction does not consider the cost and risk to consumers from early and unnecessary commitments. Finally, SCE’s opening comments illustrate one of the many assumptions that when changed would reduce or eliminate the benefits

³ BAMx and San Francisco Joint Opening Comments, p. 6.

⁴ BAMx and San Francisco Joint Opening Comments, p. 6.

from early procurement. These results suggest extreme caution in requiring premature procurement to take advantage of tax credits. IEP, in its opening comments, recommends that the Commission.⁵

IEP suggests that if 3,000 MW of renewables are needed in 2030, the Commission should authorize LSEs to procure this amount now. However, the *Default* and *42 MMT Reference* scenarios recommend only 300MW and 1,145MW of early renewable resource procurement in 2018, respectively.⁶ As noted in BAMx/San Francisco joint opening comments, the RESOLVE model's inclusion of even these more modest amounts is suspect because it relies on unvetted assumptions and on benefits more than a decade into the future to justify significant near-term additional costs.⁷ IEP's suggestion that even more premature procurement should be authorized ignores the significant risks and additional costs to consumers and should be rejected.

BAMx/San Francisco appreciate the information provided by TransWest on how certain Wyoming wind projects might be able to meet the requirements for some federal tax credits even if they are placed in-service after 2020 (the current estimate for those projects to be online is starting in 2022 and going through 2024).⁸ TransWest implies that this early procurement would make sense to get tax benefits because construction can be delayed. This assessment ignores three important factors. First, the ED modeling did not show OOS wind that would require major new transmission projects to be economic. The fact that construction could be deferred does not change this outcome. Second, customers assume unnecessary costs and risks if they commit now to OOS wind that is currently shown to be uneconomic even if the projects are only constructed in the future. Third, customers assume unnecessary expense and risk to the extent they are required to fund transmission for OOS wind that has not been shown to be economic.

Finally, SCE's comments also note that the RESOLVE model results indicating benefits of early renewable procurement are very sensitive to changes in the underlying assumptions. For

⁵ IEP Opening Comments, p. 14.

⁶ Ruling, Attachment A, p.51 and p.52.

⁷ BAMx and San Francisco Joint Opening Comments, pp. 5-9.

⁸ TransWest Opening Comments, pp.18-20.

example, SCE shows that the results are very sensitive to the assumption that renewable developers will fully pass through federal tax benefits to customers:⁹

SCE's analysis utilizing RESOLVE suggests that if the developer captures only five percentage points of tax credit, the optimal incremental renewable resources added in 2022 drop by approximately 30%. If the developer and the customer split the incremental tax credit savings equally, incremental renewable resources added by 2022 drop by approximately 70%.

SCE's analysis confirms the BAMx/San Francisco concerns that early procurement of renewables would not necessarily be cost-effective, and supports the recommendation that the Commission defer a decision on early procurement of renewables until better information is developed.

2. The CAISO Is Correct That The 42 MMT Scenario And Associated Portfolios Should Be Studied, But Have Not Been Shown To Support Policy Driven Projects In The TPP For 2018.

The CAISO proposes that the 2018-2019 TPP can reflect a Reference System Portfolio from the Reference System Plan as a sensitivity scenario to analyze policy-driven needs.¹⁰ By reflecting the RSP as a sensitivity, the CAISO can assess potential transmission solutions as Category 2 rather than Category 1 transmission upgrades.¹¹ The CAISO explains:¹²

⁹ SCE Opening Comments, pp.22-23.

¹⁰ CAISO Opening Comments, pp. 9-10.

¹¹ The CAISO will be able to reflect the portfolio in the TPP to provide an indication of potentially necessary transmission upgrades without seeking CAISO Board approval for new policy-driven transmission solutions in the 2018-2019 TPP cycle. Per the CAISO tariff section 24.4.6.6 (Policy-Driven Transmission Solutions), Category 1 transmission solutions are those which are found to be needed and are recommended for approval as part of the comprehensive Transmission Plan in the current cycle, whereas Category 2 transmission solutions are those that could be needed to achieve state, municipal, county or federal policy requirements or directives but have not been found to be needed in the current planning cycle. Furthermore, any transmission solutions that are in the baseline scenario and at least a significant percentage of the stress (sensitivity) scenarios may be Category 1 transmission solutions, whereas transmission solutions that are included in the baseline scenario but which are not included in any of the stress (sensitivity) scenarios or are included in an insignificant percentage of the stress scenarios, generally will be Category 2 transmission solutions.

¹² CAISO Opening Comments, p. 10.

The (Category 2) outcome is preferable to conducting “special studies” which do not carry weight under the CAISO’s tariff. Furthermore, analyzing the portfolio and designating only Category 2 solutions based on the Reference System Plan would eliminate the complicated and arbitrary task of categorizing undefined portions of the policy portfolio as “energy only” to avoid triggering reliability upgrades....The “rule of thumb” was developed by CAISO in 2015 to represent the approximate capacity available on the existing transmission system by renewable energy zone to interconnect energy only resources before significant congestion is expected to occur. However, as the name reflects, these rules of thumb are not a guarantee that no transmission is needed. Actual upgrades based on realistic locations still need to be verified through modeling in the TPP.

BAMx/San Francisco agree with the CAISO’s comment on the preliminary nature of the rules of thumb. That was precisely the rationale for our recommendation that the Commission seek feedback from the CAISO before the resource portfolios associated with the RSPs/PSPs are officially adopted.¹³ By potentially categorizing transmission resulting from the RSP in the 2018-19 TPP as *Category 2* rather than *Category 1* policy-driven transmission, the CAISO could be creating a feedback loop, albeit with an annual cycle. BAMx/San Francisco appreciate the CAISO’s preference for using the RSP portfolios in the 2018-19 TPP as a sensitivity scenario to analyze policy-driven needs over conducting “special studies” which do not carry any weight under the CAISO’s tariff. Therefore, BAMx/San Francisco would conditionally support the CAISO’s proposal assuming it would not lead to any *Category 1* policy-driven projects. However, the question remains how the CAISO plans to study the potential *Category 2* projects identified in the 2018-19 TPP in the subsequent TPP cycles. The CAISO’s proposal lacks clarity on how it would ensure that any determination of *Category 1* policy-driven transmission in the subsequent TPP’s is informed by the most up-to-date IRP portfolios based upon the least cost procurement logic deployed in RESOLVE (or any comparable capacity expansion model).

¹³ BAMx and San Francisco Joint Opening Comments, pp. 10-11.

3. Instead Of Studying Out-Of-State (“OOS”) Wind As A Policy-Driven Scenario, Bamx/San Francisco Support The CAISO’s Proposal To Learn More About Commercial Interest In OOS Wind Using A Request For Offers/Interest.

In responding to whether the OOS wind should be included in a special study or as part of a policy-driven scenario for TPP, the CAISO indicated its preference for an “Option 3” to have the Commission direct LSEs to conduct requests for offers/interest to better understand where renewable development interest is located and at what cost. In particular, the CAISO elaborates that

Of these three options, CAISO believes Option 3 may work well to inform the Commission of its ultimate policy direction. It may also be possible to receive interest for out-of-state wind development that is packaged with the transmission rights to deliver to California. Through this information provided by the LSEs, the Commission can develop the policy-preferred portfolio envisioned under Option 1.^{14, 15}

Although BAMx/San Francisco suggested a “Special Study” approach to study OOS wind in our opening comments, we acknowledge that conducting a new special study with no weight under the CAISO’s tariff may not be useful.¹⁶ We remain convinced that there is no merit in having transmission for OOS wind be treated as a policy driven project given that the IRP scenarios indicate that OOS wind that requires new transmission is not a least-cost-best-fit solution. However, BAMx/San Francisco support the CAISO’s preferred option of having the Commission gauge commercial interest in OOS wind using a request for offers/interest provided that such process adequately takes into consideration the high cost of transmission to access OOS wind rather than assuming that the OOS transmission cost is socialized over the entire CAISO BAA. In other words, the LSEs showing commercial interest in procuring OOS wind resource need to be responsible for paying the cost of the new transmission needed to access the OOS

¹⁴ Option 1 refers to transmitting policy-preferred portfolio reflecting one or more approaches to serving CA load with OOS wind to CAISO’s TPP, whereas Option 2 entails conducting a study under the aegis of a broader regional western transmission planning process.

¹⁵ CAISO Opening Comments, p. 15.

¹⁶ As the RESOLVE RSP portfolios are populated with only new generic resources.

wind resource based on their pro-rata share of the capacity.¹⁷ It would be premature and inappropriate to make a transmission upgrade for OOS wind a CAISO policy-driven project, especially since OOS wind has not been shown to be economic by the ED modeling.

CONCLUSION

BAMx/San Francisco appreciate the opportunity to provide responses to the opening comments and to emphasize the continued importance of reducing costs for California electricity consumers.

November 9, 2017

Respectfully submitted,

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¹⁷ We agree with the CAISO that LSEs should be encouraged to consider the transmission cost and other information available in the CAISO study work being released at the end of 2017 and the RETI 2.0 work in developing their IRPs in 2018.