THE STATE OF CALIFORNIA
BEFORE THE
CALIFORNIA ENERGY COMMISSION

In the Matter of:	)	
	)	
Preparation of the	)	Docket No. 11-IEP-1D
2011 Integrated Energy Policy Report	)	
	)	
	)	

COMMENTS OF THE
CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION DRAFT STAFF PAPER ON THE INFRSTRACTURE NEEDS ASSESSMENT REPORT

Pursuant to the procedures established by the California Energy Commission ("Commission" or "CEC"), the California Municipal Utilities Association ("CMUA") respectfully submits these Comments on the Draft Staff Paper, Infrastructure Need Assessments for the 2011 Integrated Energy Policy Report ("IEPR"), Reconciling Policy Goals with Reliability Constraints, CEC-200-2010-010-SD (November 2010) ("Draft Paper"). CMUA's Comments are not intended to be exhaustive of its positions on the broad array of topics contained in the Draft Paper.

CMUA is a statewide organization of local public agencies in California that provide water, gas, and electricity service to California consumers. CMUA membership includes over forty electric distribution systems and other public agencies directly involved in the electricity industry ("POUs").[1] CMUA members own and operate significant local and interregional transmission facilities for the benefit of their customers

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[1] CMUA electric utility members include the Cities of Alameda, Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Corona, Glendale, Healdsburg, Lodi, Lompoc, Los Angeles, Needles, Palo Alto, Pasadena, Pittsburgh, Rancho Cucamonga, Redding, Riverside, Roseville, Santa Clara, and Vernon, as well as the Imperial, Merced, Modesto, Turlock Irrigation Districts, the Northern California Power Agency, Southern California Public Power Authority, Transmission Agency of Northern California, Lassen Municipal Utility District, Power and Water Resources Pooling Authority, Sacramento Municipal Utility District, the Trinity and Truckee Donner Public Utility Districts, the Metropolitan Water District of Southern California, and the City and County of San Francisco, Hetch-Hetchy.

and all of California. In total, CMUA members provide electricity to approximately one quarter of Californians.

CMUA agrees that comprehensive consideration of transmission, generation, reliability, local air and water quality issues, climate change, and other related policies, is warranted. However, while CMUA lauds the intent of the Draft Paper, CMUA has concerns about the proposed execution. First, it appears that many of these activities are already underway. Second, it is not apparent how the CEC could translate possible study results into action. Nor would CMUA support a needs conformance to be revived at the CEC in order to accomplish that goal. As such, CMUA is concerned that the study proposal could become a policy distraction that diverts resources from forums in which infrastructure decisions are already being made.

I. COMMENTS ON ISSUES RAISED IN THE STAFF PAPER

A. While Comprehensive Analysis is Valuable, it is Already Underway. The Proposed Studies are Duplicative of Ongoing Efforts, and May Cause Additional Administrative Burdens or Policy Confusion.

CMUA members participate in numerous efforts to comprehensively study the grid. A non-exclusive list of such forums would include:

- At the Commission, as part of the ongoing IEPR processes, CMUA members work with staff to provide load, resource, transmission, and other data and provide policy input into the IEPR process.

- At the California Independent System Operator Corporation ("CAISO"), CMUA members are involved in several interrelated stakeholder processes to consider transmission planning needs, local capacity requirements, integration of renewable resources, and market design changes that may be necessary to accommodate increased penetration of intermittent resources. It is inaccurate to describe the integration studies at the CAISO as being focused solely on the CAISO balancing authority. Examination of CAISO documents associated with the study show they are looking at statewide generation and transmission infrastructure.

- At the California Transmission Planning Group ("CTPG"), and also through the Renewable Energy Transmission Initiatives ("RETI"), CMUA members have provided data, plans, technical assistance and leadership to RETI and CTPG. The CTPG has produced an initial statewide transmission plan, folding in various renewable resource scenarios and the California Renewable Energy Zone results developed through RETI. Work at the CTPG is ongoing. Many of the issues proposed for study in the Staff Proposal are being studied at CTPG.

While CMUA did not participate in its creation, CMUA has reviewed the California's Clean Energy Future Implementation Plan and Roadmap ("Plan"), which spells out in some detail the coordinated actions of various state agencies that are charged with achievement of state energy policy goals. A clear message from the Plan is that there is concerted agency action on the various interrelated proceedings that affect infrastructure investment.

The Commission has broad authority to analyze and assess energy issues that affect California. CMUA does not object on legal grounds to the analytical work proposed in the Draft Paper. However, CMUA is concerned that resources must be focused in forums where decisions will be made, and by the nature of the Commission's statutory authority it will not be at the CEC. Thus, there is no avoiding the fact that the studies proposed in the Draft Paper will be duplicative of efforts in which procurement and transmission investment decisions are being made. No amount of coordination will eliminate this inherent duplication. CMUA asks the Commission to assess whether this additional study will actually bring benefit. CMUA is not convinced that it will.

B. CMUA Does Not Support a Formal Needs Assessment by the CEC Linked to Infrastructure Siting.

POUs are largely vertically integrated entities that plan for their own system needs while collaborating and coordinating with several planning entities, including the

Commission, the CTPG, and the CAISO. POUs are dissimilar to merchant generators in that infrastructure investment decisions are tied directly to rate decisions of POU Boards.

POUs are subject to renewable procurement and GHG emission reduction requirements under California law. POUs within the CAISO footprint are subject to the local capacity provisions contained in the CAISO Tariff. California law also requires that planning reserve margins carried by POUs meet industry guidelines. POUs are also registered entities under numerous functions within the North American Electric Reliability Council ("NERC") functional model, and must operate their systems consistent with reliability standards enforced by NERC, the Western Electricity Coordinating Council ("WECC") and the Federal Energy Regulatory Commission ("FERC"), subject to potentially heavy financial penalties.

Within these policy and reliability requirements, POU planning is largely guided by economics. Resource and rate determinations are made consistent with statutory and regulatory requirements and the existing framework of state and federal law. Within that framework, POU governing boards must make economic trade-offs with each proposed infrastructure investment, and reflect those trade-offs in rates.

It is unclear what other regulatory requirements can be integrated into that investment decision as part of a "needs assessment" that the Draft Paper is proposing, on top of these many requirements already in existence. The Draft Paper states that study results may be used to alter the current regulatory framework, asking whether "the Energy Commission should consider a power plant proposed to be built that is not flexible in operating characteristics and is not located in a local capacity area with resource needs?" *Draft Paper at 2.* Further, the Draft Paper describes the "eventual

creation of a needs conformance in the permitting of power plants." *Draft Paper at 30.* The Commission does not need to be reminded that its ability to condition power plant siting on a finding of need was removed by SB 110, in 1999. The reasons for that statutory change remain current today. In large part, California has moved to a wholesale market design in which the economic risk of power plant development is borne by project developers. Further, the CAISO markets were created to establish transparent prices for services needed to operate the grid. Determinations on whether to site new generation in a local reliability area are educated by local capacity and energy prices, not regulatory directive. Similarly, when it comes to ramping flexibility, ancillary services prices provided by the CAISO markets are the adopted mechanism to provide the appropriate incentives for infrastructure investment.

With respect to POUs that operate Balancing Authorities outside the CAISO, those POUs must operate their systems pursuant to state and federal rules as outlined above. Thus, even without a needs assessment or needs conformance in a siting case, a POU does not avoid renewable portfolio or GHG emission reduction requirements. Further, these systems must balance their Area Control Area and meeting NERC reliability standards that will require that loads and resources be balanced in real time. In turn, this will require that development of fast-ramping units or storage technologies that can integrate intermittent resources.

For POUs in particular, infrastructure investment means ratepayer dollars. Thus, the economic choices inherent in considering among various options must be made by the ratemaking body for that POU. The CEC is poorly positioned to direct a POU, for example, to build a gas-fired combustion turbine rather than install energy storage.

Similarly the CEC would be hard pressed to balance additional infrastructure investment with rate design or other demand side options, since it is not the ratemaking body for POUs.

Thus, while CMUA agrees that study of the state's comprehensive infrastructure needs in light of conflicting energy policies may be warranted, the Commission must make clear that it does not intend to use the needs assessment to breathe life into a need conformance finding as part of its generator siting process.

II. CONCLUSION

CMUA appreciates the opportunity to provide these Comments on the Proposal.

Dated: December 20, 2010

Respectfully submitted,

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