REPLY TESTIMONY OF
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ON BEHALF OF THE
CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION

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I. Introduction

This reply testimony is presented by Catherine E. Yap and Paul D. Nelson on behalf of the California Large Energy Consumers Association (CLECA). Ms. Yap has four decades of experience preparing and delivering testimony regarding utility ratemaking before this Commission as well as in other jurisdictions. Mr. Nelson has nearly three decades of experience in utility ratemaking. Ms. Yap’s statement of qualifications is included as Attachment A to their opening Phase 2 testimony. Mr. Nelson’s statement of qualifications is included as Attachment B to their opening Phase 2 testimony. The material included in this reply testimony was prepared by Ms. Yap and Mr. Nelson or under their supervision. The information contained herein is factually correct and represents the witnesses’ best judgment. Ms. Yap and Mr. Nelson adopt this reply testimony along with their opening testimony as their sworn testimony in Phase 2 of this proceeding.

This reply testimony responds to opening testimony served on September 1, 2021, by a subset of the numerous parties who served such testimony pursuant to the August 10, 2021, Assigned Commissioner’s Amended Scoping Memo and Ruling for Phase 2. It also elaborates on CLECA’s opening testimony at pages 5-7 addressing potential solutions to the increase in forced outages among gas-fired generating facilities in the years 2020 and 2021.
II. Proposal to Address Increasing Forced Outages of Gas-Fired Generation During Severe Heat Events

In our opening testimony we noted that while the Commission has decided not to authorize any new gas-fired generation, existing gas-fired generation has been relied upon during the severe heat events in 2020 and 2021. Furthermore, there has been an increase in forced outages during 2020-2021 compared to 2019, with 2020 having 2500 MW of forced outages due to plant maintenance issues or equipment failures and 5300 MW of forced outages for other reasons. These increased forced outages could be an indication that there is a problem that the Commission needs to address.

A. The Commission Should Address the Appropriate Means for Encouraging Natural Gas-Fired Generators to Remain Available During the Transition to Renewable Resources.

It is critical to maintain the current fleet of gas-fired generation if it is to remain available to provide reliability during severe heat events and to integrate renewables; however, it is not clear that generators are earning sufficient revenues through market mechanisms and one-year resource adequacy contracts to underwrite expanded maintenance activities. Middle River Power’s (MRP’s) opening testimony notes that a multi-year forward procurement of existing gas-fired generation would allow the spreading of maintenance costs over multiple years, smoothing the recovery of such costs. Some of the same issues may exist for biomass and wind generators that are facing the end of their existing contracts as observed by the California Biomass Energy Alliance/the California Wind Energy Alliance (CBEA/CalWEA); while these

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2 MRP Phase 2 Opening Testimony at 9.
resources are expected to remain within the resource stack, without sufficient contracts going forward they may not continue to operate.\textsuperscript{3}

MRP makes the point that existing resources should not be assumed to continue to operate without contracts. MRP notes that while the forecasts in the California Energy Commission’s Preliminary Stack Analysis, which was used to support the procurement called for in the Staff Proposal for this proceeding, seem to contain the assumption that all current resources will continue to operate within the CAISO market, this is not a good assumption.\textsuperscript{4}

Apparently, MRP has received solicitations from out-of-state load serving entities who are interested in entering into multi-year contracts for MRP’s resources.\textsuperscript{5} Given the current state of resource constraints, the Commission should be concerned about the possibility that generators like MRP may simply exit the California market.

The Independent Energy Producers (IEP) supports re-contracting with existing resources whose contracts will expire during the 2022-2023 window and cites the benefits of three-to-five-year contracts to allow plant operators to make investments necessary to keep plants running reliably.\textsuperscript{6} Calpine also points to the option for pursuing long-term contracts with gas generators presented in the Staff Guidance Paper and agrees that longer-term contracts would be very helpful in addressing near-term reliability to secure existing capacity to allow for “upgrades” because the cost of those upgrades could be amortized over several years.\textsuperscript{7} While Calpine does not clearly define “upgrades”, to the extent these upgrades would improve reliability, they may be very beneficial.

\textsuperscript{3} CBEA/CalWEA Phase 2 Opening Testimony at 1-3.
\textsuperscript{4} MRP Phase 2 Opening Testimony at 5-6.
\textsuperscript{5} Id. at 6.
\textsuperscript{6} IEP Phase 2 Opening Testimony at 8.
\textsuperscript{7} Calpine Phase 2 Opening Testimony at 4.
B. A Procurement Bidding Process to Promote Resource Reliability
Combined with Three-to-Five-Year Contracts May Be Necessary to
Maintain Adequate Capacity Levels

These proposals are consistent with our opening testimony, which stated there may be
augmented maintenance or repair activities that could be conducted at existing sites that would
ensure the reliable provision of capacity and, possibly, the restoration of capacity lost due to
equipment failure or damage, if additional funds were provided. We noted that there also might
be opportunities to provide some augmentation to capacity through the addition of equipment
such as chillers that might make the existing turbines work more efficiently during high
temperature weather events. San Diego Gas and Electric Company (SDG&E) also proposes
adding chillers to existing combined cycle plants along with addition of energy storage to
existing sites.\(^8\) MRP also mentions adding storage to existing sites.\(^9\) These types of
opportunities should be considered if the cost is cheaper than a contract for a new non-gas-fired
facility under a long-term contract and if they also serve to retain existing gas-fired generation
that will be needed for flexibility and renewable integration for decades.\(^10\)

We recommend that the Commission direct the utilities to conduct a procurement bidding
process that seeks bids for existing resources (which would include gas-fired, biomass and,
possibly, wind generation) that reasonably cover maintenance and repair activities that could be
conducted in the short-term that would provide cost-effective support for more reliable
operations at these existing generation sites. A commitment would have to be made by the
project owner to make all needed repairs and to assure a given level of reliability under the term
of the contract. For gas-fired generation, we recommend contracts of no longer than three to five

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\(^8\) SDG&E Phase 2 Opening Supply side at 2.
\(^9\) MRP Phase 2 Opening Testimony at 17-18.
\(^10\) Id. at 12-15.
years. For other resources like biomass and wind, the terms could be longer if the contracts are reasonably cost-competitive compared to other available alternatives in determining the best overall portfolio for improving the availability of resources during the summers of 2022 and 2023.

As we noted in our opening testimony, and as seconded in Calpine’s testimony\textsuperscript{11}, providing capacity restoration and augmentation for high temperature events could provide cost-effective means for minimizing reliance on capacity additions made through temporary reliance on diesel-fired backup generators.\textsuperscript{12}

### III. Reply to Opening Testimony Regarding Demand Response Programs

#### A. Reliability Demand Response Resources Should be Used as Load Modifying Resources

Southern California Edison Company’s (SCE) Opening Testimony raises several issues to which we would like to respond. First, SCE points out that recent CAISO market changes referred to as Reliability Demand Response Resource (RDRR)-related market enhancements for summer 2021 are extremely problematic because they could result in “multiple on/off dispatches and scattered and overlapping resource dispatch instructions during CAISO System Emergencies.”\textsuperscript{13} This would be highly problematic for the Base Interruptible Program (BIP) because it involves discrete dispatch, i.e., dispatch down to a fixed Firm Service Level (FSL) for each participant. Even if the change in dispatch correlated exactly with the size of an individual BIP resource within a Resource ID, so that it could be turned off or on, BIP only allows one

\textsuperscript{11} Calpine Phase 2 Opening Testimony at 8.
\textsuperscript{12} CLECA Phase 2 Opening Testimony at 7.
\textsuperscript{13} SCE Phase 2 Opening Testimony (SCE-4) at 49-50.
event per day, so once turned off it cannot be turned on again. Furthermore, it appears that the
CAISO proposal would lead to fragmentation of RDRR resources like BIP, whereas it is highly
challenging to schedule and dispatch lots of small demand response (DR) resources. Given that
RDRR is called after a Warning or Stage Emergency and is rarely dispatched at a more granular
level than the sub-load aggregation point (SLAP) or system-side, there is no upside to such
fragmentation. We concur with SCE that the RDRR fleet should be called:

in the largest MW blocks possible (either all at once, of by SLAP as SLAP is the largest
single unit of MW per CAISO market integration rules). Keeping the fleet together from
a CAISO-integration perspective makes it possible for SCE to monitor and manage
program constraints, manage and direct rotating outage blocks, issue DR/outage
notifications through SCE channels (e.g. SCE.com and SCE DR Alerts App) and ensure
our Customer Call Center as well as our Business Customer Division have consistent
information to manage customer interactions and inquiries. At present, CAISO’s
enhancement project poses multiple risks including SCE-violation of DR program tariff
rules as well as introducing the risk that SCE is not able to properly administer RDRR
events and meet the real-time objective to minimize or avoid rotating outages.\textsuperscript{14}

SCE’s concerns here are very disturbing. CAISO tariff changes should not disrupt the
ability to dispatch utility DR programs consistent with clear tariff rules. For many years, the
issue of how to adapt the CAISO market rules to allow DR dispatch consistent with the tariffs
has been discussed without any proper resolution. The recent changes apparently fail to provide
the needed improvement and are even making things worse.

SCE proposes to remove only the Summer Discount Plan (SDP)\textsuperscript{15} as a supply-side
resource due to the above concerns, but SCE does not offer an explanation why its concerns
apply only to SDP.\textsuperscript{16} SCE’s concerns are also applicable to BIP, which represents the majority
of RDRR, and to SCE’s Agricultural Pumping – Interruptible (AP-I), so it is logical to remove
all RDRR from treatment as supply-side market integrated resources.

\textsuperscript{14} Id. at 50.
\textsuperscript{15} The Summer Discount Plan is an air-conditioning cycling program.
\textsuperscript{16} SCE Phase 2 Opening Testimony (SCE-4) at 15 and 17.
The CAISO’s proposed market changes are supposedly designed to allow RDRR to be dispatched in the market and help set market prices, which, to the best of our knowledge has never occurred. (Instead, these programs have generally been exceptionally dispatched. For example, during the August and September 2020 heat waves, RDRR was exceptionally dispatch.) However, we conclude that the proposed CAISO market changes will still not allow for BIP’s tariff conditions to be met in a reasonable way; therefore, it is imperative that the Commission remove all RDRR including all utilities’ BIP and SCE’s AP-I from the CAISO’s markets, not just SDP, so these programs can be dispatched consistent with the tariffs. As reliability programs are intended to be used when grid conditions are in a Warning or Stage Emergency, it is not clear a market dispatch is required to maintain grid reliability as the resource can always be exceptionally dispatched.

B. The Event Parameters and Triggers Should be Consistent for All Reliability Demand Response Resources

We do not object to SCE’s proposal to modify Reliability Program Event Parameters such that BIP and AP-I parameters match and SDP and SEP parameters match. We also have no objection to SCE’s decision to better coordinate and simplify its residential DR programs by allowing dual participation for Smart Energy Program (SEP) and SDP customers. However, we are very concerned that SCE’s proposal would only trigger SDP in the case of a Stage 1-3 Emergencies, whereas it can now be triggered at a Warning, like BIP and AP-I. SDP as a

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17 California ISO Market Enhancements for Summer 2021 Readiness: Revised Final Proposal at 34.
18 CAISO Department of Market Monitoring, Feb 2021, Q3 2020 Report on Market Issues and Performance, at 122, states: “The majority of CPUC-jurisdictional utility demand response dispatches were due to the ISO issuing manual dispatches to reliability demand response resources (RDRR) on August 14-18 and September 5-6.”
19 SCE Phase 2 Opening Testimony (SCE-4) at 50-51.
20 Id. at 17.
21 Id. at 18.
RDRR should be eligible to be triggered at the same time as BIP and AP-I, not afterward. It is not appropriate to trigger DR programs that affect the ability of manufacturers to provide goods and services and employ workers ahead of reducing air conditioning use. Therefore, either all RDDR programs should be eligible to be triggered during CAISO Stage Emergencies (which do not include a Warning) or SCE’s proposal to remove a CAISO Warning as a trigger for only SDP should be rejected.

C. Changes are Needed to Allow the Base Interruptible Program to Participate in the Emergency Load Reduction Program

We also support Pacific Gas and Electric Company’s (PG&E’s) proposal to eliminate the special conditions limiting dual participation in BIP and the Emergency Load Reduction Program (ELRP). PG&E states: “Parts (a) and (b) of the provision diminishes the ability for dual enrolled BIP and ELRP participants to be compensated for ELRP during non-overlapping events. PG&E has observed that less than 1 percent of all Group A enrolled service agreements were from BIP customers as of mid-August 2021.” BIP participants should be eligible for ELRP incentives for periods when no BIP event is called and represent a significant amount of load that could be shed when supply is tight.

IV. Response to SDG&E’s Proposal for Inappropriate Use of the Cost Allocation Mechanism

SDG&E proposes that the Commission “clarify that the Cost Allocation Mechanism (“CAM”) established under Public Utilities Code Section 365.1 allows recovery of costs for resources procured in response to direction provided in this proceeding that provide additional

22 PG&E Phase 2 Opening Testimony at 2-4 and 2-5.
23 Id. at 2-5.
capacity but are not RA-eligible.”\textsuperscript{24} SDG&E appears to believe that this is permitted based on its interpretation of D. 21-03-056 that “suggests that a resource offering capacity that can help to provide system reliability but is not eligible for RA compliance is nonetheless eligible for CAM treatment.”\textsuperscript{25} The Commission should not do this because traditionally the CAM has, appropriately, only been used for RA resources, whose net capacity benefits and net capacity costs are readily allocable to benefitting customers. When the Legislature expanded retail choice and authorized the CAM, it set forth specific requirements built around the RA framework.

Notably, P. U. Code Section 365.1(c)(1) requires procurement to be obtained “under any programs or rules adopted by the Commission to implement the resource adequacy provisions of Section 380”. Moreover, P.U. Code Section 365.1(c)(2)(A) restricts the spreading net capacity costs to “generation resources that the Commission determines are needed to meet system or local area reliability needs for the benefit of all customers”; further, P.U. Code Section 365.1(c)(2)(B) requires that the generation resources “meet a system or local reliability need in a manner that benefits all customers of the electrical corporation” and that the cost allocation is “fair and equitable to all customers, whether they receive electric service from the electrical corporation, a community choice aggregator, or an electric service provider.” Most importantly, P.U. Code Section 365.1(c)(2)(C) explicitly references the “resource adequacy benefits” of generation resources acquired by electrical corporations pursuant to subparagraph (A)” and details the calculation of the net capacity costs. Finally, P.U. Code Section 365.1(c)(2)(D) explains the Legislature’s intent that these provisions “provide additional

\textsuperscript{24} SDG&E Phase 2 Opening Testimony at 2-4.
\textsuperscript{25} Id. at 4.
guidance to the commission with respect to the implementation of the statutory sections on RA in Section 380.

V. Conclusion

This concludes our reply testimony.