



November 7, 2013

Richard Corey
Executive Officer
California Air Resources Board
1001 "I" Street
Sacramento, CA 95814

Re: South Coast Air Basin Electric Reliability and Offset Assessment

Dear Mr. Corey:

On behalf of the Coalition for Clean Air, Sierra Club, Communities for a Better Environment, and Physicians for Social Responsibility-Los Angeles, we write to provide input on the draft *Assembly Bill 1318: Assessment of Electrical Grid Reliability Needs and Offset Requirements in the South Coast Air Basin*. Our organizations have major concerns with this proposed report because it relies on outdated information, is not consistent with several energy planning efforts throughout the state, and does not comport with the mandates of AB 1318. At a minimum, we recommend that significant flaws be cured before a final report is released. And most importantly, we encourage the Air Resources Board ("ARB") to refrain from initiating efforts that lead the South Coast Air Basin down a path of placing fossil powerplants above other more important priorities like energy efficiency, demand response, and renewable energy resources.

I. Background

The ARB describes the AB 1318 report in the following manner:

The AB 1318 studies reflect an 'all gas case' where capacity losses from the shut down of [San Onofre Nuclear Generating Facility ("SONGS")] and [Once Through Cooling ("OTC")] plant retirements are replaced with conventional natural gas generation through repowers or replacement with new generation to illustrate a worst-case offset need within the 10-year study timeframe.¹

The Legislative Counsel Digest for AB 1318 states that the bill

would require the [ARB], in consultation with specified agencies, to prepare and submit to the Governor and the Legislature a report that evaluates the electrical system reliability

¹ California Air Resources Board, *Electrical System Reliability Needs of the South Coast Air Basin (AB 1318)*, available at <http://www.arb.ca.gov/energy/esr-sc/esr-sc.htm>.

needs of the South Coast Air Basin and recommends the most effective and efficient means of meeting those needs while ensuring compliance with state and federal law.²

The text of the bill further elaborates that the report is designed to recommend “the most effective and efficient” means of meeting electrical system reliability “while ensuring compliance with state and federal law,” including AB 32, the federal and state Clean Air Act, and state renewable energy and efficiency laws.³

II. The Report Does Not Reflect a Realistic Energy World.

The question of what, if any, additional resource procurement is needed in the South Coast Air Basin is being squarely addressed by the California Public Utilities Commission (“CPUC”) in the Long-Term Procurement Plan (“LTPP”) proceeding. The DRAFT “Preliminary Reliability Plan for LA Basin and San Diego,” issued by California Energy Commission (“CEC”)/CPUC/California Independent System Operators (“CAISO”) staff on August 30, 2013 recommends utilities procure approximately 3,000 MW in the southern California area affected by the closure of SONGS.” However, technical analysis submitted as testimony both before and since issuance of the August 30 draft, has yielded very different conclusions. For example, the CAISO had originally asked for the CPUC to wait until next year, after the completion of its new transmission plan, to determine whether there is any generation need to replace SONGS. Furthermore, separate testimony by Natural Resources Defense Council, Sierra Club, California Environmental Justice Alliance and others have independently concluded that when accounting for factors such as an updated CEC Demand Forecast showing significantly less future demand and increased deployment of preferred resources and energy storage, in addition to transmission improvements already identified as extremely effective in replacing SONGS, closure will not require additional authorizations of gas-fired power plants in the South Coast Air Basin. In addition, the Preliminary Reliability Plan indicated that one contingency plan could consist of working with the State Water Resources Control Board on the possible extension of OTC retirement dates to address any short- reliability concerns.

Given that “[a]dditional scenarios are currently being evaluated under separate processes through the CAISO’s annual transmission planning process and CPUC’s [LTPP] proceeding,” moving forward with recommendations to pursue an “all gas case” assuming the worst case scenarios is unwise and could thwart efforts to comply with needs and legal requirements through more efficient deployment of energy resources. In fact, the specific modeling and

² AB 1318.

³ See Cal. Health & Safety Code § 39619.8.

evidence in the CPUC Track 4 SONGS proceeding shows that CAISO used some extremely conservative assumptions that will almost certainly never occur.

Because SONGS was such a large source (over 2200 MW), and because many OTC plants will be retiring, many assume there *must* be a major new need. In reality, conditions have changed with respect to generation needs provided by SONGS, and OTC plant retirements have already been addressed in Track 1 of the LTPP (with a decision requiring 1400 to 1800 MW of new procurement).⁴ Furthermore, CAISO has already added several “reactive support” and other transmission fixes in the vicinity of SONGS to replace functions SONGS previously provided. In addition, the updated September 2013 demand forecast is 1,320-3,200 MW lower for the target 2022 date, compared to the forecast numbers used by CAISO, which could by themselves wipe out any need identified by CAISO,⁵ and testimony found that even these updated forecast numbers left out significant natural energy efficiency improvements that will occur.⁶ Southern California Edison (“SCE”) and San Diego Gas & Electric (“SDGE”) are also required to procure 745 MW of new Energy Storage resources. CAISO plans to model identified transmission upgrades to reduce local needs by over 1500 MW (300 MW reduction through an additional 550 MVAR of reactive support near SONGS that CAISO has identified,⁷ plus 1200 MW from the Mesa Loop-in transmission upgrade proposed by SCE).⁸ CAISO also stated that it has several more transmission improvements it plans to model that could be carried out expeditiously.

These missing resources and overestimated demand is not even comprehensive, but it illustrates clearly that the megawatts are available to replace SONGS.

⁴ California Public Utilities Commission, Revised Scoping Ruling and Memo of the Assigned Commissioner and Administrative Law Judge, (May 21, 2013).

⁵ CEJA, Direct Track 4 Testimony, at pp. 46-48.

⁶ R. 12-03-014, Track 4 Opening Testimony of The Natural Resources Defense Council (NRDC), Sierra Martinez, September 30, 2013.

⁷ CAISO, ISO Response to the Second Set of Data Requests Related to Track 4 of the Division of Ratepayer Advocates; California Environmental Justice Alliance; Sierra Club, CA; and Clean Coalition in Docket No. R.12-03-014, Request No. 4 (Aug. 8, 2013).

⁸ Letter from Manuel Alvarez, Manager, Regulatory Policy and Affairs, Southern California Edison Company to Mike Jaske, California Energy Commission, Re: Docket No. 13-IEP-1L: Comments on Joint Workshop on Electricity Infrastructure Issues Resulting from SONGS Retirement, at 3 (July 29, 2013), *available at* http://www.energy.ca.gov/2013_energypolicy/documents/2013-07-15_workshop/comments/SCE_Comments_on_Workshop_on_Electricity_Infrastructure_Issues_Resulting_from_SONGS_Retirement_2013-07-29_TN-71750.pdf.

III. The Report Does Not Comport with the Legal Requirements of AB 1318.

In defining its purported duties under AB 1318, ARB states that the law requires two components. First, it requires “an assessment of the generation resources required to maintain the electric grid reliability in the South Coast Air Basin.”⁹ Second, it requires “an evaluation of whether permitting constraints related to air pollutant emission offsets exist in siting any of the fossil generation identified as needed for reliability.”¹⁰ While ARB accurately portrays the first prong of its task, the second prong is not presented in the text of AB 1318. In pertinent part, AB 1318 requires ARB to identify “the most effective and efficient” means of meeting electrical system reliability “while ensuring compliance with state and federal law.”¹¹ The law contains no language that directs the agency to focus on permitting constraints to the siting of additional fossil generation. Unfortunately, the draft report does not follow the clear directive of the law, and instead focuses on issue-spotting ways to facilitate fossil generation in the South Coast Air Basin.

In particular, the report’s focus on strategies to facilitate the permitting of fossil powerplants does not ensure compliance with state and federal law. California law mandates that the procurement plan of a utility “shall first meet its unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.”¹² Thus, an “all gas case” contravenes California’s directive to pursue other strategies beyond the construction and procurement of energy from gas powerplants. Moreover, the “all gas case” assessed by this report does not comport with the state and federal Clean Air Act, which requires the South Coast Air Basin to attain federal and state clean air standards. ARB does not provide the requisite evidence that adding additional gas capacity in the South Coast Air Basin will not interfere with the attainment of state and federal air quality standards. Finally, the draft report does not provide evidence that these additional gas plants in the South Coast Air Basin will not interfere with compliance with AB 32. Recent evidence suggests that even under more stringent assumptions for renewables and other strategies, California may not meet the 2050 targets required under AB 32.¹³ The report must reconcile how an “all gas case” promotes compliance with this important global warming law.

Second, beyond compliance with state and federal, the ARB has skipped a step in explaining how building fossil powerplants is the most “effective and efficient means” to filling reliability needs. As our organizations have previously pointed out in several venues, expanding the fleet of gas plants is not the most efficient and effective strategy. Any subsequent report

⁹ Report, at i.

¹⁰ *Id.*

¹¹ See Cal. Health & Safety Code § 39619.8.

¹² Cal. Public Util. Code § 454.5(b)(9)(C).

¹³ See Jeffrey G. Greenblatt, Estimating Policy-Driven Greenhouse Gas Emissions Trajectories in California: The California Greenhouse Gas Inventory Spreadsheet (GHGIS) Model, November 2013, *available at* <http://eetd.lbl.gov/sites/all/files/lbnl-6451e.pdf>.

must follow AB 1318's mandates and clearly articulate what are the most effective and efficient means to fill reliability needs.

IV. The Report's Recommendations Must Be Amended.

ARB makes five recommendations on page 22 of the draft report. Only the third recommendation should make it as a recommendation in the final report. The third recommendation mentions CAISO's Transmission Planning Process and the CPUC's LTPP. In particular, it references that these proceedings will examine "demand-side and other preferred resources types in greater depth than was possible for this study to ensure the potential for these resources is appropriately considered."¹⁴ The corollary to this point is that the instant report did not appropriately consider these preferred resources. The Transmission Planning Process and the LTPP processes are of great importance to understanding the energy planning landscape for Southern California. Given that the report acknowledges that "there are unresolved issues about the extent to which such preferred resources can substitute for generating capacity and/or transmission system upgrades in satisfying local reliability requirements," efforts to fill any purported gaps in reliability with more gas powerplants in the South Coast Air Basin must be paused.¹⁵

V. The Discussion of Offsets is Premature.

One of the "major recommendations" from this report is "the [ARB] should partner with the [South Coast Air Quality Management District] to immediately form a Working Group that will identify options and make recommendations at the earliest practicable date to address long-term permitting needs."¹⁶ This recommendation places the cart before the horse. The ARB has acknowledged that

[a]dditional scenarios are currently being evaluated under separate processes through the CAISO's annual transmission planning process and CPUC's Long-Term Procurement Plan (LTPP) proceeding, which are expected to provide information on the effects of additional preferred resources and transmission options. As a result of these efforts, the potential future reliability needs introduced in the AB 1318 report are expected to be further evaluated, refined, and addressed through these separate venues.¹⁷

Thus, instead of having air pollution control agencies (i.e. ARB and SCAQMD) undertake this energy planning process, it is more prudent to allow these important proceedings to take place

¹⁴ Report, at 23.

¹⁵ *Id.*

¹⁶ Report, at v.

¹⁷ California Air Resources Board, Electrical System Reliability Needs of the South Coast Air Basin (AB 1318), available at <http://www.arb.ca.gov/energy/esr-sc/esr-sc.htm>.

before initiating an effort to provide access to government-subsidized priority reserve credits to facilities beyond what is allowed under the SCAQMD Rule 1304 repower exemption. Additional planning processes will reveal that the worst case scenario that forms the factual predicate of this report is not reflective of reality.

Moreover, if the agencies desire to engage in the energy planning exercise articulated in this report, this process should be completed after the 2015/2016 Air Quality Management Planning process ends. Notably, the South Coast Air Basin continues to have a large “black box” for ozone attainment, which means it has no full plan to show how it will meet federal and state ozone standards. In addition, it continues to be out of attainment for the federal PM2.5 standards and the state PM10 standard. Any discussion of permitting additional fossil-fueled plants must be done in concert with this discussion of how to eliminate the “black box” and actual achieve state and federal clean air standards.

V. Conclusion

We appreciate your consideration of these comments. We are more than happy to discuss with the authors of this report how to make it truly reflective of the mandate imposed by AB 1318 and more reflective of the reality of energy needs in the South Coast Air Basin. Please feel free to contact us if you have questions about any issues raised in this letter.

Sincerely,

/s Adrian Martinez

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