California PUC Aims to Replace Shuttered Nuclear and Gas With More 'Preferred Resources'

Is this decision a calling card for the post-Peevey CPUC?

by Eric Wesoff
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The California Public Utilities Commission (CPUC) made a proposed decision on Friday that denied approval of a new gas-fired power plant in the coastal Southern California city of Carlsbad.

According to the PUC, approval for the plant was denied because the utility, San Diego Gas & Electric (SDG&E), did not sufficiently consider "preferred resources," meaning renewable energy, efficiency measures, demand response, and energy storage.

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Although efforts to get this plant approved have persisted for almost a decade, the origin of this particular procurement starts in March 2014. The CPUC unanimously approved a decision guiding Southern California Edison (SCE) and SDG&E to procure up to 1,500 megawatts of new generation capacity by 2022 to replace the retired San Onofre Nuclear Generation Stations (SONGS), which closed permanently in 2013. (Jointly owned by SCE and SDG&E, the nuclear plant's faulty steam generators were deemed too costly to repair, so the plant is being decommissioned.)

The relevant decision (D.14-03-004) "authorizes SCE to procure between 500 and 700 megawatts, and [authorizes] SDG&E to procure between 500 and 800 megawatts by 2022 to meet local capacity needs stemming from the retired San Onofre Nuclear Generation Stations. SCE is required to procure at least 400 megawatts, and may procure up to the full 700 megawatts of authorized additional capacity, from preferred resources or energy storage. SDG&E is required to procure at least 200 megawatts, and may procure up to the full 800 megawatts of authorized additional capacity, from preferred resources or energy storage."

In July 2014, adhering perhaps to the letter if not the spirit of the regulation, SDG&E sought to garner approval for 600 megawatts of new natural gas generation to repower the 965-megawatt Encina Power Station in Carlsbad as part of the Local Capacity Requirement (LCR) procurement. (Encina began providing power in 1954, and its current owner, NRG, must replace the plant, because the ~~EPA's~~ State Water Resources Control

Board's once-through cooling rules will render the ocean-cooled plant unlawful.)

In a release in September 2014, SDG&E said of the proposed 600-megawatt peaking facility: "If approved, the Carlsbad Energy Center would provide the quick-start flexibility needed to reliably integrate the increasing amount of intermittent renewable energy that is being added to the system. The proposed plant would also be available when customer demand is highest in the late afternoon and early evening when renewable power slows or stops producing."

The Sierra Club and the California Environmental Justice Alliance (CEJA) contend that, "by aiming to fulfill the entirety of its LCR need that is not set aside for preferred resources, this application violates D.14-03-004's requirement that SDG&E issue a meaningful all-source request for offers for 'some or all' of its resource requirement," adding that it violates "D.14-03-004's requirement that the request for offers be technology-neutral."

At the time, critics of the plant called it a "non-competitive solicitation." Groups including CEJA, Sierra Club, Vote Solar, and the NRDC were not happy. Evan Gillespie of Sierra Club said, "SDG&E is resorting to special treatment to prop up a dirty power plant proposal when cost-effective clean solutions can get the job done," adding, "Now is the time for both our regulators and utilities to show real energy leadership by replacing SONGS with 100 percent clean energy." Matt Vespa, senior staff attorney with Sierra Club, wrote in a statement: "From the beginning, we knew that 100 percent of San Onofre could be replaced with clean energy."

Whether preferred resources can completely replace the 2.2 gigawatts of SONGS' contribution to the grid is debatable. Energy storage technology is still in its early (albeit high-growth) stage and works mostly with subsidies and edge cases -- although that could change in a few years. Solar power is more effective during the day. Demand response and energy efficiency work today.

Historically, California utilities, the CPUC, independent system operators like CAISO, and independent power producers have a long-established trust and attachment to synchronous gas-powered sources.

SCE added gas plants and plenty of preferred resources

Last year, neighboring investor-owned utility SCE revealed the contract winners for its 2.2-gigawatt LCR RFO to help Los Angeles and Orange County make up for the closure of SONGS. Much of that new power will come from natural-gas-fired power plants. Still, there are plenty of preferred resources in the SCE mix and an outsized amount of distributed and grid-connected energy storage. SCE's mix includes 85 megawatts of behind-the-meter batteries from startup Stem, and another 50 megawatts of battery-centered "hybrid electric building" projects from startup Advanced Microgrid Solutions. Another 25.6 megawatts of thermal energy storage will come from Ice Energy. The biggest winner was AES Energy Storage, which will build a 100-megawatt "in-front-ofmeter" battery system in SCE's West LA Basin region.

In the brief, SDG&E suggested that the Carlsbad plant "provides additional benefits including reliability benefits by virtue of being able to meet SDG&E's LCR need by 2018, renewable resources integration benefit due to its flexible dispatchability, and locational benefits by virtue of being highly compatible with the existing transmission system and on previously disturbed land."

The CPUC replied, "While we acknowledge these attributes as being beneficial, they do not overcome our commitment to first determining if additional preferred resources and energy storage can be made available to meet SDG&E's all-source LCR need."
It continued, "We therefore find it unreasonable to approve the Carlsbad [plant] at this juncture pending a determination that the results of SDG&E's RFO demonstrate the lack of feasibly available and cost-effective preferred resources or energy storage to meet some or all of SDG&E's LCR need beyond the 200-megawatt minimum that must be met by preferred resources or energy storage."

The CPUC emphasized its "commitment to the Loading Order" and stressed that it is incumbent on SDG&E "to meet its procurement authority to the extent feasible with preferred resources and energy storage."

A commitment to the loading order

We spoke with Tamara Zakim, associate attorney with Earthjustice, on Friday evening. Zakim said that the utility "tried to fast-track the Carlsbad plant and undermine the competitive process." She added, "It was unreasonable to ram 600 megawatts of dirty energy through the approval process when the priority is the loading order and competition between all energy sources. The PUC properly recognizes that in its proposed decision."

A source close to the discussions suggested that Governor Jerry Brown and new CPUC President Michael Picker were in favor of getting Carlsbad on-line. We've reached out to the CPUC as well as SDG&E for comment.

Zakim suggested that her team was "surprised" by what amounted to one of "the strongest positions the PUC has taken" in these matters. She suggested that it might represent "a tidal shift, if it holds, to deny a power plant that's ready to go -- and give clean energy a shot." She added that this was "the first time the PUC affirmed its commitment to the loading order."

NRG, the owner of the Encina plant, provided this statement to GTM: "We disagree with the proposed decision. As dictated by California's once-through cooling regulation, 965 megawatts of capacity will be retired by the end of 2017. The decision to negotiate a PPA for the Carlsbad Energy Center represented the only viable approach to have the appropriate, flexible capacity on-line when needed to enable additional renewable generation and preserve the reliability of the grid. That said, the proposed decision is only an intermediate step in the regulatory process. What really matters is a majority vote of the CPUC commissioners. We remain optimistic that the CPUC will approve our contract with SDG&E and that we can meet our expected COD of late 2017."

Following a comment period, a final vote on this project could come in April.