

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

Order Instituting Rulemaking to Oversee the
Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local Procurement Obligations

R.11-10-023
(Filed October 27, 2011)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC
COMPANY (U 902 E) ON ORDER INSTITUTING
RULEMAKING**

Alvin Pak
Randall Nicholson
101 Ash Street, HQ 12B
San Diego, California 92101-3017
Telephone: 619-696-2190
Facsimile: 619-699-5027
E-mail: APak@semprautilities.com

Attorneys for
San Diego Gas & Electric Company

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In accordance with the October 27, 2011, Order Instituting Rulemaking (“OIR”), San Diego Gas & Electric Company (“SDG&E”) respectfully submits this reply to opening comments on preliminary matters pertaining to the scope, schedule, and administration of this proceeding.

a. SDG&E Recommends a Separate Track to Address the CAISO’s Non-generic Capacity Procurement Proposal

To help ensure that the resource-adequacy (RA) fleet has sufficient operational flexibility to allow the California Independent System Operator (CAISO) to integrate increasing volumes of variable energy resources, the CAISO last year asked the Commission to direct load-serving entities (LSEs) to consider a resource’s operational characteristics during year-ahead procurement.¹ In opening comments to this proceeding, several parties, including SDG&E, support including the CAISO’s request in Phase 1.²

¹ Motion of the California Independent System Operator Corporation for Expansion of the Phase 2 Scope to Include a Proposal for Procurement of Non-generic Capacity Through the Resource Adequacy Program (November 30, 2010).

² See e.g., Initial Comments of San Diego Gas & Electric Company (November 7, 2011); Comments of the Independent Energy Producers Association on the Scope of this Proceeding (November 7, 2011); Initial Comments of the California Independent System Operator Corporation on the Order Instituting Rulemaking at p. 7 (November 7, 2011); Comments of the Calpine Corporation on Order Instituting Rulemaking (November 7, 2011).

Others commenters propose addressing the issue in a completely separate OIR. In its comments, Pacific Gas & Electric acknowledges the issue's importance, but suggests it is too large to be adequately addressed in the tight timeframes allocated to this proceeding.³ Consequently, PG&E recommends the Commission open a new rulemaking to ensure proper coordination between Commission and CAISO processes. SCE also recommends opening a separate proceeding, arguing that: 1) the deadlines for the RA proceeding do not provide sufficient time to address the issue; 2) the CAISO has not yet completed studies necessary to evaluate the issue; 3) the CAISO has, to date, failed to quantify both its need for flexible capacity, and identify the cause of that need.⁴ SCE also raises the thorny issue of cost allocation for the procurement of non-generic or flexible capacity necessary to integrate renewables. On this point, SCE notes, appropriately, that it would be inequitable to require load to absorb the entire cost of flexible procurement when renewable generator intermittency is causing the need for that capacity procurement. Additionally, SCE is concerned that the Commission may lack the authority to require non-jurisdictional entities to absorb the cost burden of procuring flexible capacity.

SDG&E shares its sister IOUs' concern that the interplay between CAISO and Commission procurement is becoming increasingly complex, but disagrees that the best forum to resolve those issues is a new rulemaking. SDG&E's practical concern with this strategy is potential delay: delay in opening a new rulemaking, delay in scoping the issues, delay in scheduling workshops, and delay in ultimate resolution. As the CAISO makes clear in its opening comments, it seeks to utilize the non-generic capacity

³ Initial Comments of Pacific Gas and Electric Company on the Rulemaking (November 7, 2011).

⁴ Comments of Southern California Edison Company regarding Preliminary Matters Pertaining to the Scope, Schedule, and Administration of this Proceeding (November 7, 2011).

procurement proposal to address flexible capacity needs arising during the upcoming RA compliance year. Beyond the RA compliance year, however, the CAISO intends to establish a backstop procurement mechanism designed “to retain flexible resources needed in future years that are at risk of retiring during the current or next RA program cycle.”⁵ Even further, beyond this additional, intermediate step of procuring *existing* flexible capacity at risk of retirement, the CAISO has also recently signaled a desire to engage in market-based procurement of *new* flexible capacity to meet future capacity needs arising three to five years out.⁶ These activities highlight the CAISO’s increasing need for and interest in forward capacity procurement of all flavors.⁷ SDG&E fears that delays in harmonizing the CAISO’s forward procurement needs with the Commission’s RA program could lead to increased, yet wholly preventable, CAISO backstop procurement.⁸

While SDG&E’s practical fear is delay, its principle fear is being required to anticipate, plan for and meet the capacity needs of two separate jurisdictional entities. Absent close and timely coordination, that outcome appears increasingly certain. To stave off that end result, and give the appropriate nod to the complexity and seriousness

⁵ Initial Comments of the California Independent System Operator Corporation on the Order Instituting Rulemaking at p. 7 (November 7, 2011).

⁶ See e.g., California ISO, *Renewable Integration Market Vision and Roadmap* at 11 (Oct. 11, 2011). A copy of the report is available at: <http://www.caiso.com/Documents/RenewablesIntegrationMarket-ProductReviewPhase2Vision-Roadmap.pdf>.

⁷ Increasing renewable integration, coupled with the state’s Once Through Cooling resource retirement aspirations, are creating near, mid and long-term capacity concerns for the CAISO. These operational concerns are perhaps exposing the limitations of an RA program that only looks ahead a single year, and was not designed to address long-range capacity needs created by the state’s policy and environmental goals. One way to address this gap has the CAISO engaging in forward procurement. Another path, suggested by Calpine and others in their opening comments, is to consider expanding the Commission’s RA program from a single to multi-year paradigm. SDG&E takes no position on Calpine’s proposal, but suggests that to the extent the Commission includes it in the scope of this proceeding, it should be considered in tandem with the CAISO’s flexible capacity proposal. The CAISO proposal and the Calpine proposal are two sides of a much debated coin, and neither should be assessed in isolation.

⁸ SDG&E’s support for identifying non-generic capacity needs in this proceeding is based on reducing CAISO’s use of CPM, which is procured at an administrative price and allocated to load.

of this issue, SDG&E recommends creating a separate track within this rulemaking to address the CAISO's flexible capacity procurement proposals. Importantly, this new track would have separate workshop(s) and separate comment opportunities, allowing for a full and deep vetting of the issues, with the hope of reaching clarity and resolution in time for a Phase 1 (June 2012) decision. If no consensus is reached, the issue can be renewed in Phase 2 utilizing the gains made in Phase 1.

Finally, SDG&E notes the CAISO's increased flexible capacity needs arise not from changes in the load profile, but from the operating characteristics of variable energy resources. Consequently, any the procurement costs associated with any long-term solution to meet the CAISO's flexible capacity needs should be allocated to entities causing the need, and not to load. SDG&E urges the Commission to remain actively engaged with the CAISO in the design of a forward flexible capacity market (as outlined in the CAISO's Renewable Integration Market Product Review Phase 2 Market Vision and Roadmap)⁹ to ensure ratepayers are not unfairly burdened with costs that should be allocated to variable energy resources.

b. AREM's Request to Consider Requirements Governing Sales of Excess Local RA by Investor Owned Utilities.

The Alliance for Retail Energy Markets (AREM) posits that "investor owned utilities (IOUs) own or control most of the Local RA capacity" and that current IOU approaches for selling excess Local RA "disadvantage [energy service providers] and impose the risk of non-compliance."¹⁰ AREM suggests the Commission consider

⁹ California ISO, *Renewable Integration Market Vision and Roadmap* (Oct. 11, 2011).: <http://www.caiso.com/Documents/RenewablesIntegrationMarket-ProductReviewPhase2Vision-Roadmap.pdf>

¹⁰ Comments on Scope, Schedule, and Administration of Order Instituting Rulemaking by the Alliance for Retail Energy Markets (November 7, 2011).

imposing requirements that would “ensure the IOUs employ nondiscriminatory and timely practices for sales of Local RA capacity to ESPs.”¹¹

While AReM’s claims lack the requisite specificity to comment completely, SDG&E notes that it engages in timely, non-discriminatory bilateral or request for offer (RFO) transactions to sell excess Local RA, and does not believe these practices disadvantage any particular purchasing entity. Moreover, while AReM claims that these undefined IOU practices are not timely and impose the risk of non-compliance for ESPs, to date SDG&E is unaware of the Commission receiving or approving a single Local RA waiver request from ESPs. This anecdotal evidence indicates that the risk AReM hopes to mitigate may not exist. In the absence a specific harm, and in light of the multitude of actual issues to consider in this OIR, SDG&E recommends the Commission not accept AReM’s invitation to scope this issue.

Respectfully Submitted,

/s/ Alvin S. Pak

Alvin S. Pak
Attorney for San Diego Gas & Electric Company

101 Ash Street, HQ12
San Diego, California 92101

Telephone: 619.696.2190
Facsimile: 619.699.5027
E-Mail: APak@SempraUtilities.com

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¹¹ Id.