BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans.	Rulemaking 10-05-006 (Filed May 6, 2010)

COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) ON PROPOSED DECISION APPROVING MODIFIED BUNDLED PROCUREMENT PLANS

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I. INTRODUCTION AND SUMMARY

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the "Commission"), San Diego Gas & Electric Company ("SDG&E") hereby submits these comments concerning the proposed *Decision Approving Modified Bundled Procurement Plans*, issued November 11, 2011 in the above-captioned docket (the "Proposed Decision" or "PD").

The Proposed Decision approves, with modifications, the plans of the three California investor-owned utilities ("IOUs") to procure electricity for their bundled customers, and provides guidance concerning the IOUs' future bundled procurement plans. While claiming that the changes to the IOUs' procurement authority proposed in the PD are "largely technical" and not intended to establish new policies, the PD proposes that a new procurement cost cap be incorporated into the bundled procurement plans of SDG&E and Pacific Gas & Electric Company ("PG&E").[1/] Specifically, the PD would require that procurement activities of SDG&E and PG&E result in no more than a 10% system average rate increase over a rolling 18-month period. Procurement costs above this 10% cap would be subject to an after-the-fact reasonableness review. In addition, the PD clarifies the procurement requirements associated

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[1/] *See* PD, p. 4.

with the Commission's established loading order and alters the Customer Risk Tolerance ("CRT") applicable to utility hedging. Finally, the PD addresses several additional proposals offered by parties to the proceeding.

As is discussed in more detail below, SDG&E strongly opposes adoption of the cost cap proposed in the PD. It submits that the proposed cost cap is ill-conceived, unsupported by the record and inconsistent with Public Utilities Code § 454.5,[2/] and that it may interfere with SDG&E's ability to meet procurement mandates and reliability requirements. SDG&E notes that a procurement cap based on cost rather than MW of need would likely result in negative unintended consequences. SDG&E therefore recommends that the PD be revised to eliminate the cost cap or, alternatively, that it be revised to replace the proposed cost cap with a capacity procurement quantity limit similar to that used by Southern California Edison ("SCE"). SDG&E also recommends that the PD be revised to clarify that ongoing procurement of energy efficiency ("EE") and demand response ("DR") products should occur in the context of the relevant dedicated Commission proceedings. SDG&E supports the PD's resolution of the remaining issues addressed in the PD.

II.
DISCUSSION

A. The PD Errs in Adopting a Procurement Cost Cap that is Not in the Public Interest

In the *Assigned Commissioner's and Administrative Law Judge's Scoping Memo for Track II Bundled Procurement Plans* ("Track II Scoping Memo"), the Commission noted that in order to reach a Track II decision in a timely manner, the scope of Track II would be necessarily limited.[3/] Rather than requiring a comprehensive reworking of the IOUs' respective bundled plans, the Scoping Memo directed the IOUs to submit an "update" of their existing,

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[2/] All statutory references herein are to the Public Utilities Code unless otherwise noted.
[3/] Track II Scoping Memo, p. 1.

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Commission-approved bundled plans.[4/] The Commission also noted its intent to ensure that "the IOUs' plans can be more easily compared to each other and to maintain consistency across utilities *to the extent possible*."[5/] Thus, the Commission acknowledged the need to balance its desire for increased standardization against the need for a timely decision regarding the IOUs' procurement authority.

In accordance with the Commission's direction, SDG&E developed its 2012 bundled plan by updating its current Commission-approved bundled plan. Consistent with Public Utilities Code § 454.5(b) SDG&E's current approved bundled plan establishes: (i) the products and procurement processes SDG&E uses to meet bundled customer need and manage risk; (ii) the ratepayer protections built into its procurement strategy, including the proposed hedging strategy to manage portfolio risk; and (iii) the method SDG&E will use on an ongoing basis to determine the need for resource. Updates to SDG&E's bundled plan include, *inter alia*, removal of obsolete data, clarification of the sources of data and processes used by SDG&E and an updated "description of how SDG&E's planning process will result in a resource plan that follows the preferred loading order and meets other State and Commission policies."[6/] SDG&E's 2012 bundled plan also incorporates the standardized planning assumptions included in the December Scoping Memo.

While SDG&E adhered to the Commission's direction to include the standardized planning assumptions in its 2012 bundled plan, it highlighted several inaccuracies in the assumptions and noted the near impossibility of accurately predicting bundled plan resource needs, which are "constantly . . . changing based on new information regarding loads, resources

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4/ *Id.*

5/ *Assigned Commissioner and Administrative Law Judge's Joint Scoping Memo and Ruling*, issued December 3, 2010 (the "December Scoping Memo"), p. 40.

6/ SDG&E/Anderson, Exh. 301-E, p. RBA-2.

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and costs."[7/] Given this difficulty, SDG&E explained that its bundled plan is intended to set forth necessary guidelines and upfront standards for procurement, but is not designed to establish fixed targets for procurement.[8/] The PD proposal greatly mischaracterizes the import of SDG&E's statements (and similar statements by PG&E), asserting that "SDG&E and PG&E are saying that it does not matter what comes out of this proceeding – they will procure whatever they want, in whatever quantity they think best."[9/] This misperception forms the basis of the PD's proposal to cap procurement costs at a 10% system average rate increase over a rolling 18-month period.

The PD's mischaracterization of SDG&E's procurement approach is erroneous and leads to a flawed outcome in the PD. As a threshold matter, SDG&E notes that the PD agrees with SDG&E's conclusion regarding the difficulty inherent in forecasting bundled need. The PD observes that the standardized planning assumptions "necessarily contain numerous forecast elements, and any forecast, no matter how carefully made, will end up being at least somewhat off the mark," and further that, "the utilities' actual procurement is likely to vary from that assumed in the standardized planning assumptions."[10/] It points out the obligation of the IOUs to "procure the amount of electricity that is actually needed for the reliable operation of the grid, regardless of the level of need that was forecast in this proceeding."[11/] This is precisely the point made by SDG&E in its testimony regarding the 2012 bundled plan – *i.e.*, that as a practical matter, bundled need changes over time, and that SDG&E must procure in response to its actual bundled need, and further that "given the high probability that actual need will differ from what

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[7/] *Id.* at p. RBA-11.
[8/] *Id.*
[9/] PD, p. 10.
[10/] *Id.* at p. 6.
[11/] *Id.*

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is projected in the Bundled Plan, the outcome contemplated in the Bundled Plan should not be considered SDG&E's preferred resources or be relied upon to establish procurement targets."[12/]

As noted above, rather than including set position limits and ratable rates in a manner similar to the approach taken by SCE, which results in a need for frequent plan revisions in order to incorporate updated forecast data, SDG&E includes a description of the exact processes and data sources it will use to determine the need for resources, its process for updating need to account for the latest data regarding the California Energy Commission ("CEC") load forecast, existing and committed resources, EE and DR, renewable power and combined heat and power ("CHP") resources.[13/] This approach was approved in SDG&E's previous bundled plans (a similar approach was approved in PG&E's prior bundled plans) and the record contains no evidence establishing that this approach, which has been in place for nearly a decade, has resulted in over- or under-procurement, or unreasonable cost to ratepayers. This fact, and the fact that the IOUs bundled plans have consistently reflected differing approaches to establishing resource need, belies the suggestion that SDG&E's plan (or that of PG&E) is inconsistent with the Public Utilities Code,[14/] or that the differences in the plans "makes it difficult, if not impossible, for the Commission to ensure that its pre-approval of utility procurement plans complies with the requirements of Section 454.5(d)."[15/]

In the scoping memos relevant to Track II, the Commission neither expressed a preference for SCE's approach nor instructed SDG&E (or PG&E) to modify its bundled plan to incorporate a procurement approach that ties authorized procurement to fixed position limits and ratable rates. The cost cap proposal, the purported solution to the absence of specific numeric

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[12/] SDG&E/Anderson, Exh. 301-E, p. RBA-11.
[13/] SDG&E 2012 Long-Term Procurement Plan, Exh. 304, Chapters III and IV.
[14/] *See* PD, p. 12.
[15/] *Id.*

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procurement targets in SDG&E's bundled plan, appeared for the first time in the PD and is not addressed in SDG&E's or any other party's Track II testimony. SDG&E submits that the cost cap proposal is a solution in search of a problem. As noted above, SDG&E includes a description of the exact processes and data sources it will use to determine the need for resources – an approach to determining need that has proven effective for nearly a decade. Moreover, SDG&E's bundled procurement process involves checks and procedures intended to ensure ratepayer protection, fairness and adherence to Commission rules.

As SDG&E has explained, the Requests for Offers ("RFOs") process, which is the primary vehicle for long-term resource procurement, includes several ratepayer protection measures.[16/] RFOs may be submitted for Commission review and approval (in the case of renewables procurement) and are reviewed by both the Independent Evaluator ("IE") and SDG&E's Procurement Review Group ("PRG"). Upon receipt of RFO bids, the IE engages in an independent analysis of the bids and is involved in the development of bid shortlist, which is presented to the PRG for feedback prior to being finalized. During the contract negotiation stage, the IE monitors the status of negotiations and is provided copies of all draft agreements. At the conclusion of the negotiation process, the IE prepares and files an independent report reflecting his/her opinion of the fairness of the RFO and negotiations, an analysis of the final contract and an opinion as to whether the contract merits approval by the Commission. During the negotiation process, SDG&E regularly updates its PRG on the status of ongoing negotiations and the material terms of proposed contracts.

Procurement on a bilateral basis follows the same rigorous analytical and review processes described above and must be found competitive with the offers from SDG&E's most

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[16/] SDG&E's bundled plan also includes ratepayer protection measures for short-term procurement, most notably the least-cost dispatch provisions and CRT metric for hedging.

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recent RFO. Most executed procurement contracts (whether from RFOs or bilaterals) are submitted to the Commission for review and approval, including review for consistency with SDG&E's bundled plan and/or renewables procurement plan. Specifically, the application process is used for conventional resources with a contract period of 5 years or more; the Tier 3 advice letter process is used for renewables contracts. These processes provide full opportunity for stakeholder comment and, in the case of conventional procurement, may involve evidentiary hearings. Once the contract is submitted for Commission approval, the Commission considers the benefit conferred by the proposed agreement and the corresponding cost, and reaches a determination regarding whether the contract is in the public interest and thus eligible for rate recovery. Clearly, despite the fact, as noted above, that SDG&E has not included set position limits or ratable rates its procurement plan, the Commission role has not been rendered "meaningless" – the Commission has demonstrated that it is capable of determining that rates resulting from SDG&E's procurement are just and reasonable.

Inasmuch as the problem the PD purports to solve with the cost cap (*i.e*, the need to prevent SDG&E and PG&E from procuring "whatever they want"[17/]) does not in fact exist, there is no justification for adoption of the cost cap. There is no evidence in the record of this proceeding to justify implementation of a system average rate cap for procurement functions and there is certainly no evidence to support the claim that 10% is the proper percentage to apply. The PD cites no precedent for imposing the proposed procurement cost cap, and the record includes no analysis of the potential negative impact (which could be significant, as discussed below) of setting a procurement cap based on cost rather than MW of need. Moreover, even assuming, *arguendo*, that such a need did exist, a cost cap is not an effective means of guiding utility procurement – put simply, it is the wrong metric to use for this purpose. As discussed

[17/] PD, p. 10.

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below, in order to allow SDG&E to meet procurement mandates and reliability requirements, SDG&E's approved bundled plan must allow for procurement on the basis of megawatt need-based criteria, rather than an artificial cost cap.

In addition to being unsupported by the record, the cost cap proposed in the PD is ill-defined and omits critical implementation details. The proposed approach is rife with potential problems and could significantly undermine SDG&E's ability to meet various procurement-related mandates. First, the PD fails to address how the proposed cost cap would be applied. It provides no details, for example, regarding the date upon which the system average rate is to be established or which procurement costs will be measured. For instance, will the cap be applied to all procurement activities, including long-term renewables procurement, the Renewable Auction Mechanism ("RAM") procurement, and combined heat and power ("CHP") procurement, as well as conventional and resource adequacy ("RA")? It is also unclear whether the proposed cap would apply (i) only to contracts executed after the Track II decision is approved by the Commission; (ii) to contracts previously executed, but not yet approved by the Commission; (iii) to Commission-approved, but not yet operational projects; and/or (iv) only to contracts once they become operational? This latter point is key since, as explained further below, SDG&E may execute contracts above target levels in certain instances, for example in the case of renewables, which has a higher than average failure rate.

In addition, the PD fails to make clear how costs are to be applied under the cost cap proposal. Will the entire nominal cost of the contract be applied to towards the cap, a present value cost, or only the costs for the months of the contract that fall within the 18-month rolling window? Further, does the Commission intend to apply the same 10% system average rate procurement cap to hedging costs or are hedging costs intended to be under a separate cap? The

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PD's failure to provide even the barest level of detail regarding operation of the cost cap makes near-term implementation unworkable. The issues noted above are but a few of the myriad elements that would need to be addressed in order to implement the proposed cost cap.

Adoption of a cost cap will almost certainly result in harmful unintended consequences that will undermine SDG&E's ability to procure sufficient resources. As noted above, SDG&E is subject to certain mandatory renewable energy procurement goals. Given that renewables have a high rate of failure, in order to ensure satisfaction of these goals, SDG&E may be required to execute contracts for volumes in excess of identified percentage targets in order to reach the prescribed annual percentage generation and volumetric targets. SDG&E also has mandated procurement goals for EE, DR, CHP and RAM, and must procure sufficient RA to meet reliability and reserve margins. Imposition of the proposed cost cap may force SDG&E to discontinue procurement of one or more of these products well short of mandated targets, in the event SDG&E's overall cost exceed the 10% system average rate cost cap, rather than face the prospect of after-the-fact disallowance. Imposition of a cost cap is not workable nor is it consistent with overall Commission goals related to procurement of preferred resources. SDG&E's approved bundled plan must allow for procurement based upon need, rather than artificial cost caps, in order to allow SDG&E to meet the above procurement mandates and reliability requirements.

Finally, the proposed cost cap violates § 454.5(d)(2), which expressly requires that the procurement plan approved by the Commission "[e]liminate the need for after-the-fact reasonableness review." By proposing an ill-conceived, poorly-defined, untested cost cap on the basis of no record evidence, the PD creates the potential for the cost cap to be exceeded, but makes no provision for that event other than an after-the-fact reasonableness review. This is

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directly contrary to, and a clear violation of, the Commission's statutory responsibility. Had the Commission proposed the cost cap at an earlier point and invited testimony concerning this significant modification to SDG&E's bundled plan, a solution other than default to a reasonableness review might have been identified. SDG&E had no prior opportunity, however, to address this proposed change to its procurement plan. It clearly does not serve the public interest to impose a flawed and unworkable requirement that unfairly exposes SDG&E to disallowance risk.

For these reasons, SDG&E submits that the proposed cost cap is not in the public interest and should not be adopted. Because the Commission did not instruct SDG&E to modify its bundled plan to incorporate a fixed position limit approach similar to SCE's, directing instead that SDG&E file an "update" to its existing Commission-approved bundled plan, SDG&E's proposed 2012 bundled plan does not include position limits. Nevertheless, to the extent the Commission agrees with the PD's conclusion regarding a need on the part of SDG&E (and PG&E) to adopt a procurement approach similar to that taken by SCE, SDG&E is willing to modify its 2012 bundled plan in order to establish capacity position limits similar to those of SCE.

Specifically, the portion of SCE's methodology that SDG&E is willing to adopt is contained in Section 3 ("Procurement Limits and Ratable Rates") of SCE's proposed 2012 bundled plan.[18/] SDG&E proposes to follow the methodology set forth in subsection (b) of Section 3, which applies to bundled system capacity procurement, and subsection (f), which applies to transaction compliance accounting and limit updates. SDG&E proposes to adopt these aspects of SCE's bundled plan and apply them to SDG&E's bundled procurement in the same

[18/] *See* SCE, Exh. 201, pp. 49-56.

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manner as detailed in SCE's bundled plan. For example, SDG&E would adhere to the following guidelines in its bundled procurement:

1) Annual procurement limits in delivery years two through ten equal to the difference between: (1) SDG&E's 1-in-2 year peak annual hour load forecast at a 17% planning reserve margin target and (2) the forecast Net Qualifying Capacity ("NQC") of SDG&E's committed resources and planned for preferred resources.[19/]

2) SDG&E's procurement of electrical capacity as measured by the NQC of the resource, exclusive of preferred resources, cannot exceed the applicable annual position limit.[20/]

3) Ratable rates equal to the annual position limit divided by the number of years between the delivery year and transaction year.[21/] The ratable rates accumulate year-to-year, producing cumulative ratable rate limits for each delivery year.

4) The allowance of procurement of two times the ratable rate for delivery years 2 through 5 if the prompt 12-month forward on-peak implied market heat rate is less than the two standard deviation historical high value. Otherwise, one-times the ratable rate is used.

5) Annual (or more frequent, if necessary) filing of update to position limits and ratable rate limits in the form of a Tier I advice letter during years in which SDG&E does not file an updated conformed bundled procurement plan.

In accordance with the direction set forth in the PD, SDG&E will file a conformed bundled procurement plan via a Tier 3 advice letter.[22/] If ordered to include capacity position limits, SDG&E will include with the other modifications adopted in the final decision a limit table similar to that set forth in Appendix J of SCE's bundled plan based on the standardized planning assumptions, along with the position limit methodology discussed above.

Finally, SDG&E notes that it need not adopt subsections (a), (c) and (d) of SCE's methodology since SDG&E's current LTPP has sufficient processes and protections in place for

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[19/] For purposes of calculating SDG&E's annual electrical capacity limits and compliance with such limits, preferred resources are EE programs, DR programs, Renewable Sources, and Distributed Generation including CHP resources.

[20/] SD&E has no limits on its ability to meet its RA capacity requirements for the current calendar year and prompt calendar year (*i.e.*, the calendar delivery year immediately following the current year).

[21/] For example, the ratable rate for contract deliveries in Year 4 would be one-third of the annual position limit for Year 4.

[22/] *See* PD, Ordering Paragraph 23.

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contract terms and to ensure that energy and natural gas fuel procurement are limited.[23/] It is SDG&E's understanding that position limits in SCE's bundled plan are established for four products: capacity, on-peak energy, off-peak energy and natural gas, and that for procurement of these products to fall under the position limits, the portfolio must be hedged. Appendix B of SDG&E's proposed LTPP sets forth SDG&E's overall hedging strategy, which includes specified percentage targets for hedging over a five-year period. The hedge targets represent minimum and maximum limits on fixed energy and natural gas and thus represent the type of position limits established under SCE's bundled plan.

In addition to the specified hedge targets, SDG&E also includes a liquidity limit and, as noted above, the Commission has proposed a 10% of system average rate cap on the CRT value.[24/] SDG&E's hedging strategy incorporates both natural gas and electric energy products. Thus, with regard to establishing position limits, Appendix B of SDG&E's proposed bundled plan covers the on-peak and off-peak energy and natural gas products. As a result, only the capacity product requires position limits and SCE's methodology need not be applied to SDG&E's on and off-peak energy and natural gas procurement.

B. The PD Should be Revised to Clarify the Requirement to Procure EE and DR on an Ongoing Basis

The loading order adopted as part of the State's Energy Action Plan ("EAP") requires that "the state, in meeting its energy needs, . . . invest *first* in energy efficiency and demand-side resources, *followed by* renewable resources, and *only then* in clean conventional electricity supply."[25/] While the EAP appears to contemplate a sequential procurement process, with

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[23/] Subsection (e) addresses SO2 Allowance Sales Position Limits, which is not applicable to SDG&E since it has no utility-owned coal-fired generation.

[24/] To clarify, the CRT value is derived by multiplying the 10% system average rate value by the forecasted sales for the rolling 12 month period. This resulting CRT value is then compared to the VaR-to-Expiration (VtE) value at a 95% confidence interval. Thus, the risk metric calculation is CRT – VtE (95%), as proposed in the Proposed Decision.

[25/] 2008 Energy Action Plan Update, p.1 (emphasis added).

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Commission-defined EE and demand response DR targets being met first, followed by Renewable Portfolio Standard ("RPS") targets, and then conventional procurement, the PD concludes that "[u]tility procurement must comply on an ongoing basis with the Commission's loading order."[26/] The PD requires, in other words, that the IOUs continue to procure feasible and cost-effective additional EE and DR resources after pre-set Commission-targets have been achieved.

SDG&E notes as a threshold matter that its current approach to EE and DR is consistent with the mandate set forth in the PD; SDG&E does not cease procurement of cost-effective EE and DR once the target amounts determined in the dedicated EE/DR proceedings have been reached. SDG&E is committed to fulfilling its residual energy requirements in a manner consistent with the loading order and has a staff dedicated to EE and DR that works continuously to maximize the amount of feasible and cost-effective EE and DR that SDG&E procures. Procurement of fossil resources occurs only after the actual EE/DR procurement results (which may exceed target amounts) are incorporated into the need. While SDG&E, therefore, does not disagree with the general policy regarding adherence to the loading order set forth in the PD, it submits that the PD must be modified to address the practical details regarding the mandate to engage in ongoing procurement of EE and DR.

As the Commission is aware, there are currently-active Commission proceedings dedicated to EE (R.09-11-014) and DR (R.07-01-041). SDG&E submits that the PD should be revised to clarify that the continuing EE/DR procurement obligation contemplated in the PD should be carried out within the construct established in the relevant dedicated proceeding, in accordance with the cost-effectiveness metrics determined in the program cycles of those proceedings. SDG&E notes that absent this clarification, the PD could be interpreted as

[26/] PD, Ordering Paragraph 5.

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establishing a requirement that the IOUs pursue additional (or different) EE and DR outside of the Commission proceedings dedicated to these resources.

A requirement that the IOUs undertake separate EE/DR procurement outside of the dedicated EE/DR proceedings would create practical challenges. If the IOUs are required to procure EE and DR products through non-EE/DR-specific solicitations, such as the IOUs' respective all-source RFOs, there exists a risk that the IOUs would be required to select products attempting to deliver non-existent EE and DR, which would undermine the IOUs' ability to ensure the availability of adequate, reliable and reasonably-priced electrical power supplies. Accordingly, the logical course is to require that ongoing procurement of EE and DR be undertaken in the dedicated EE and DR proceedings. If the Commission, instead, orders the IOUs to procure EE and DR products outside of the dedicated EE/DR proceedings, it will be necessary to develop (potentially complex) new protocols. Specifically, before any EE and DR bids are conducted outside of the program portfolio cycles, it would be necessary to develop procedures that would include, but not be limited to, the following:

- **Establish "Feasibility" Criteria**: Feasibility criteria are necessary to guide the IOU's determination of what is feasible and the available potential identified in each service territory. An EE study is in progress in R.09-11-014; similarly, the proposed decision currently being considered by the Commission in A.11-03-001, *et al.* would approve a DR potential study intended to "inform Commission policies on DR programs."[27/] The EE/DR potential identified in these studies, minus the achievements or approved EE/DR targets, would represent the residual EE/DR that could be procured in a non-EE/DR-solicitation to meet residual energy requirements.

- **Ensure Consistency with Existing EE/DR Core Portfolio Policies**: If EE/DR providers are permitted to bid into solicitations held outside the context of EE/DR proceedings, it will be necessary to ensure that the EE/DR policies established in the dedicated proceedings are carried through into the non-EE/DR-specific solicitations in order to prevent forum shopping. It will be critical to establish bid criteria/procedures for these resources that do not disadvantage the resources that compete through solicitations that are required within the utility's core portfolio – *e.g.*, Third Party EE

[27/] Proposed *Decision Adopting Demand Response Activities and Budgets for 2012 through 2014*, issued on October 28, 2011 in proceeding A.11-03-001, *et al.*, p. 163.

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solicitations that make up a minimum of 20% of portfolio program budget. For example, the Commission should require the IOUs to accept only those EE and DR resource that are deemed cost-effective under the metric established in the dedicated EE/DR proceedings. These resources should also be subject to prevailing savings assumptions (*e.g.*, "Database for Energy Efficient Resources" or "DEER" values) evaluation, measurement and verification requirements (*e.g.*, custom project process evaluations) to validate their savings delivery.

- ***All* EE Savings Should Count Toward Energy Savings Goals**: A process must be developed to ensure that EE products procured through a non-EE-specific solicitation count toward goals established in the dedicated EE proceeding.

It is likely that processes in addition to those set forth above would be also be required in order to undertake procurement of EE/DR products outside of the dedicated EE/DR proceedings. SDG&E submits that a more administratively simple approach would be to require ongoing procurement of EE and DR products to occur within the construct established through the dedicated EE/DR proceedings, which have established cost effectiveness methodologies and processes that are well-known to EE and DR providers, as well as the IOUs.

III.
CONCLUSION

For the reasons set forth above, the Commission should approve the PD with the modifications described herein and set forth in Attachment A hereto.

Respectfully submitted this 30th day of November, 2011.

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ATTACHMENT A

Proposed Findings of Fact, Conclusions of Law and Ordering Paragraphs

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Proposed Findings of Fact:

6. ~~PG&E and SDG&E largely disregard the standardized planning assumptions~~.

Proposed Conclusions of Law:

3. The structure of the proposed bundled procurement plans of PG&E and SDG&E are ~~in~~adequate to ensure just and reasonable rates under section 454.5.

4. ~~It would be reasonable to impose an upper boundary on the procurement costs of PG&E and SDG&E to ensure compliance with state law~~.

PROPOSED ORDERING PARAGRAPHS:

2. ~~Approval of Pacific Gas and Electric Company's and San Diego Gas & Electric Company's bundled procurement plans includes a cap set at 10% of each utility's system average rate over a rolling 18-month period~~.

3. ~~Utility rate recovery of costs above the 10% cap is not consistent with a pre-approved procurement plan, and is subject to reasonableness review~~.

If the Commission elects to order SDG&E to adopt the procurement methodology set forth in subsections (b) and (f) of Section 3 ("Procurement Limits and Ratable Rates") of SCE's proposed 2012 bundled procurement plan:

2. **Approval of San Diego Gas & Electric Company's bundled procurement plan includes conformance with the procurement limits and ratable rates methodology set forth in SCE's 2012 bundled procurement plan, Section 3, subsections and (b) and (f)**.

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