

**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)

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

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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 reply 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. The PD proposes, *inter alia*, to impose on SDG&E and Pacific Gas & Electric Company (“PG&E”) a new procurement cost cap that would require the procurement activities of SDG&E and PG&E to 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 purports to clarify the procurement requirements associated with the Commission’s established loading order.

In its comments on the PD, SDG&E explained the significant concerns that exist regarding the cost cap proposed in the PD.<sup>1/</sup> It explained that the proposed cost cap is ill-conceived, unsupported by the record and inconsistent with Public Utilities Code § 454.5,<sup>2/</sup> and that it may interfere with SDG&E’s ability to meet procurement mandates and reliability requirements. Other commenting parties also raised issues regarding the cost cap. Indeed, among the commenting parties that addressed the proposed cost cap, the response was almost universally negative.<sup>3/</sup>

Pacific Environment, for example, opposes the cap and argues that “the Commission has found that a determination of whether a rate is just and reasonable must consider need,” and further that “[t]he Commission’s proposed sole reliance on an evaluation of relative cost should be changed in the proposed decision to include consideration of need.”<sup>4/</sup> L. Jan Reid (“Reid”) notes that the proposed cost cap is confusing, insufficiently detailed and may not be implementable. Reid points out several questions that arise from the PD’s proposal to impose the cost cap, but remain unanswered in the PD, and asserts that “the Commission should not approve the rate cap suggested by the Proposed Decision.”<sup>5/</sup> Similar to SDG&E, PG&E and

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<sup>1/</sup> SDG&E Opening Comments, pp. 7-10.

<sup>2/</sup> All statutory references herein are to the Public Utilities Code unless otherwise noted.

<sup>3/</sup> See, e.g., PG&E Opening Comments, pp. 3-6; Opening Comments of Southern California Edison Company (“SCE”), pp. 8-9; Opening Comments Sierra Club California (“Sierra Club”), p. 5; Opening Comments of Cogeneration Association of California (“CAC”), p. 3; Opening Comments of Energy Producers and Users Coalition (“EPUC”), p. 3; Opening Comments of L. Jan Reid (“Reid”), pp. 9-10; Opening Comments of Pacific Environment, pp. 1-4.

<sup>4/</sup> Pacific Environment Opening Comments, p. 2.

<sup>5/</sup> Reid Opening Comments, p. 9.

Southern California Edison Company (“SCE”) point out the proposed cost cap, which expressly incorporates after-the fact reasonableness reviews, is inconsistent with the intent of § 454.5(d), which requires the Commission to adopt procurement plans that avoid the need for such reasonableness reviews.<sup>6/</sup>

For the reasons discussed in its opening comments, as well as those of other commenting parties, SDG&E strongly opposes adoption of the cost cap proposed in the PD. The proposed procurement cap based on cost rather than MW of need is ill-conceived and unlawful, and would likely cause harmful unintended consequences that would have a negative impact on utility bundled customers. SDG&E therefore recommends that the PD be revised to eliminate the cost cap in its entirety or, alternatively, that it be revised to replace the proposed cost cap with the procurement limits and ratable rates methodology set forth in Section 3, subsections (b) and (f) of SCE’s 2012 bundled plan.

With regard to the PD’s effort to clarify the loading order requirement, SDG&E notes that parties’ comments echo the concern identified in SDG&E’s opening comments that the PD does not address the practical details regarding its mandate to engage in ongoing procurement of preferred resources.<sup>7/</sup> DRA points out, for example, that it is not clear from the PD “how the utilities’ day-to-day procurement practices should be changed, or how the IOUs should determine what preferred resource alternatives are ‘feasible’ and/or ‘cost effective.’”<sup>8/</sup>

Similarly, the Independent Energy Producers Association (“IEP”) points out that “the PD’s statement could be read to mean that utilities are required to investigate the availability of additional [energy efficiency (“EE”)] and [Demand Response (“DR”)] resources and potentially to invest in additional uneconomic EE programs or purchase uneconomic preferred DR resources

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<sup>6/</sup> PG&E Opening Comments, p. 5; SCE Opening Comments, pp. 8-9.

<sup>7/</sup> See SDG&E Opening Comments, pp. 13-15.

<sup>8/</sup> Opening Comments of the Division of Ratepayer Advocates (“DRA”), p. 2.

as part of their effort to obtain the resources needed to meet the demand identified as the LTPP net short.”<sup>9/</sup> IEP notes further that the PD does not make clear “how the results of the EE and DR proceedings are to be coordinated with the LTPP proceeding and whether the loading order should be implemented to require utilities to procure additional EE and DR resources, beyond those authorized in the EE and DR proceedings or procured through an all-source competitive solicitation.”<sup>10/</sup>

As SDG&E pointed out in its opening comments, 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.<sup>11/</sup> Since the policy goal articulated in the PD – *i.e.*, ongoing procurement according to the loading order even after preferred resource procurement targets are met – is reflected in current procurement activity, SDG&E submits that the PD’s discussion of the loading order should be revised in order to eliminate the confusion caused by the PD’s “clarification” of the loading order requirement. Specifically, the PD should be revised to make clear that the PD does not require adoption of new procurement processes related to EE and DR, and that ongoing procurement according to the loading order should occur within the constructs and according to the rules established in the relevant dedicated Commission proceedings.

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<sup>9/</sup> Opening Comments of the Independent Energy Producers Association (“IEP”), pp. 3-4.

<sup>10/</sup> *See id.* at p. 4.

<sup>11/</sup> SDG&E Opening Comments, p. 13.

Finally, SDG&E notes that the proposal of Communities for a Better Environment (“CBE”) that the PD adopt the recommendation to “require each utility to commit that it will not contract for new fossil fuel generation to satisfy bundled plan needs,” should be rejected.<sup>12/</sup> The need for new conventional generation facilities is being addressed in Track I of the instant proceeding. The issue is plainly outside the scope of Track II and therefore should not be addressed in the final Track II decision.

For the reasons set forth in SDG&E’s opening comments and herein, the PD should be adopted with the modifications identified by SDG&E.

Respectfully submitted this 5<sup>th</sup> day of December, 2011.

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<sup>12/</sup> Opening Comments of Communities for a Better Environment (“CBE”), p. 4.