

**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)

**OPENING COMMENTS OF SAN DIEGO GAS &
ELECTRIC COMPANY (U 902 E) ON PHASE 1
WORKSHOP PROPOSALS AND PRESENTATIONS**

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In accordance with the December 27, 2011, *Phase 1 Scoping Memo*, and the March 23, 2012, *Ruling Seeking Comment and Modifying the Scoping Memo and Procedural Schedule* in the above-captioned proceeding, San Diego Gas & Electric Company (“SDG&E”) hereby submits these Opening Comments on issues addressed in proposals presented during the January 26-27, and March 30, 2012, workshops. SDG&E’s opening comments focus on two issues:

- The need to scope a separate track in this proceeding, or open a new, separate rulemaking, to develop and implement a comprehensive market redesign of the Commission’s existing resource adequacy (“RA”) program within a time frame consistent with minimizing the potential that the California Independent System Operator (“CAISO”) will need to procure resources it deems to be “at risk of retirement”; and,
 - The tabling of further consideration of either the CAISO or Energy Division proposals on attribute-based capacity procurement. SDG&E recommends these proposals be considered, if at all, in the context of the comprehensive market redesign process discussed above.
- 1. To Minimize the Potential for Future *Ad Hoc* Procurement by the CAISO, the Commission Should Commence a Separate Track in the Resource Adequacy (“RA”) Proceeding, or Open a New, Separate Rulemaking, to Develop and Implement a Comprehensive Redesign of the RA Program.**

SDG&E believes Calpine Sutter’s recent notice of retirement, and the Commission’s and CAISO’s extraordinary reactions to prevent that retirement, exposed structural deficiencies in the

existing RA procurement framework. As California integrates increasing levels of intermittent generation and assimilates the pending retirements of once-through cooling (“OTC”) plants, the CAISO argues the current one-year RA requirement does not give it adequate certainty that existing resources with certain attributes related to operational flexibility will remain in service to address future reliability needs. The Sutter retirement notice exacerbated that concern by vividly demonstrating existing resources may exit the market prematurely for the lack of longer-term revenue certainty and sufficiency. The potential for unplanned, premature retirements stems from the overall *structure* of the existing RA program, which is by its nature short-term in its focus. Therefore, the relatively minor “tweaks” to the existing one-year requirement generally reviewed and adopted in the annual RA proceeding cannot by their nature allay the CAISO’s long-term resource certainty concerns. A comprehensive, structural reform of the existing RA program, specifically, one that takes a longer view of system reliability and resource adequacy, is required if the Commission hopes to minimize the potential for future, *ad hoc* procurements by the CAISO.

The CAISO is currently developing a reliability-based procurement authority to prevent resource retirements; that authority is aimed at addressing reliability and operational requirements on a five-year forward basis. If the CAISO obtains this authority, load-serving entities (“LSEs”) could fully meet the one-year-forward Local and System RA obligations imposed under Commission rules and regulations, but nevertheless face additional unknown and unknowable procurement costs where the CAISO procures and compensates resources to prevent retirements and address reliability needs over an extended five-year time horizon. These competing procurement frameworks create the potential for significant, unavoidable costs for LSEs, with no opportunity to mitigate those costs. Importantly, unlike competitive, bilateral

LSE contracting, CAISO backstop capacity is currently procured at administratively predetermined prices and for specified minimum durations. The CAISO's administrative prices currently exceed comparable bilateral market prices for capacity – this price disparity creates incentives for resources to prefer CAISO procurement over LSE procurement. At a minimum, the price disparity has the potential to motivate the filing of retirement notices by resource owners, a reaction that could significantly disrupt the existing bilateral procurement market.

The Commission recently acknowledged the structural deficiencies inherent in the existing RA program. In approving the Resolution ordering the investor owned utilities to negotiate a capacity commitment with and for Calpine Sutter,¹ Commissioner Simon expressed “concerns that under the current structure independent producers will have difficulty surviving” in California.² In dissenting from the Resolution, Commissioner Ferron summarized the problem more bluntly, noting that “the problem facing the Sutter plant is system wide: it appears we may have a ‘hole’ in our market and planning structures whereby there are insufficient economic incentives for generating plants” to remain in operation.³

While the Commission has acknowledged the structural problems with its existing procurement programs, its response to date has been vague at best. Beyond a very loose commitment to addressing “multi-year flexible capacity rules” in the 2012 Long-Term Procurement Plan proceeding,⁴ the Commission has nowhere firmly scoped procedures pursuant to which a structural fix to the increasing risks of competing CAISO and CPUC procurement

¹ Resolution E-4471, March 22, 2012.

² *Id.*, Concurring Opinion of Commissioner Simon.

³ *Id.*, Dissenting Opinion of Commissioner Ferron.

⁴ See R.12-03-014 Preliminary Scoping Memorandum. Well short of capturing the need to quickly initiate a comprehensive fix, the Commission noted that “[w]e *may* consider adoption of new rules for forward procurement of flexible resources to support grid reliability, for either local reliability reasons and/or grid integration of renewable resources. In conjunction, we *may* review our policy and consider refinements to our existing rules concerning long-term contract solicitations.” (Emphases added).

frameworks would be addressed and resolved. Indeed, the notion of overhauling the existing RA requirement to prevent future Sutter-type procurements is not even scoped in the current RA proceeding. A deeper commitment on the part of the Commission to creating a long-term, comprehensive solution is required.

SDG&E recommends the Commission act to remedy the structural deficiencies in the RA program by leading a discussion designed to overhaul the existing RA procurement framework comprehensively. SDG&E further recommends this work be undertaken and completed in a manner minimizing the potential the CAISO will exercise any future authorities it might hold to procure resources at risk of retirement. The comprehensive redesign of the CPUC resource adequacy program should strive to: 1) minimize *ad hoc* procurement of all varieties, including that ordered by the Commission; 2) generate sufficient long-term (*i.e.*, multi-year) resource certainty for the CAISO, including the procurement of resources with “flexible” operating attributes; 3) resolve lingering generation compensation issues in California, and 4) accomplish all of the above under a framework that is durable, efficient, and minimizes ratepayer procurement costs.

SDG&E strongly believes a separate track in this proceeding is the most logical procedural vehicle by which to develop and implement a structural reform of the RA program. Alternatively, the Commission could open an entirely new rulemaking. What is most important from a procedural standpoint is not where the dialogue begins, but that the Commission clearly indicate forward progress is forthcoming, and that the development of appropriate new rules will not be constrained by competing deliverables or slowed down by consideration of important, but less urgent, issues.

SDG&E believes that merely waiting to open Phase 2 of the instant proceeding is insufficient. Phase 2 will not open until late this fall, and this delay concedes valuable time that could otherwise be spent productively working towards a solution that minimizes *ad hoc* procurement. In addition, while Phase 2 will not begin until late fall, it must end by mid-June 2013 to ensure local procurement obligations are established with sufficient time for 2014 RA contracting. SDG&E submits that this traditional seven- to eight-month RA proceeding window is insufficient to vet and establish a comprehensive replacement framework fully. Finally, at issue is a fundamental reform of the Commission's procurement framework, a task that requires the focus and attention of stakeholders and this Commission. Merely tacking this issue on to Phase 2 significantly understates its importance, and could impede meaningful, timely progress as valuable time will be spent addressing the lesser issues already scoped for consideration in Phase 2.⁵

Whether addressed in a separate track or via a new Rulemaking, the Commission must act clearly and immediately to remedy the deficiencies in the RA program that engendered the Commission's and CAISO's extraordinary responses to Sutter's notice of retirement. Until a comprehensive structural solution is identified and implemented, California faces the threat of both an increased federal presence in the procurement sphere, and an increased likelihood of additional, disruptive Sutter-type procurements. A dedicated track in the instant proceeding or a new proceeding dedicated to the issues described in SDG&E's Opening Comments is necessary to resolve these risks systemically.

⁵ For these same reasons, SDG&E believes the LTPP proceeding is an improper forum to consider a comprehensive overhaul of the current RA procurement framework. *See* Opening Comments of San Diego Gas and Electric on Preliminary Scoping Memo (April 6, 2012). Dropping the complex issues SDG&E raises in these Opening Comments into the LTPP proceeding, which has its own complex issues and priorities, raises the spectre that issues related to short- and mid-term resource adequacy and system security could be "lost in the noise".

2. The Commission Need Not Adopt Flexible, Attribute-Based Requirements or Modify the Maximum Cumulative Capacity Buckets in 2013.

The CAISO and Energy Division put forth separate proposals designed to address operational challenges associated with integrating increasing levels of intermittent resources and addressing the concurrent retirement of OTC units. Briefly, the CAISO proposes to weave non-generic or “flexible” capacity requirements into the existing RA program by requiring LSEs to contract with resources that can provide defined quantities of maximum continuous ramping, load following, and regulation service capabilities. In meeting the defined requirements for each of these flexible attributes, the CAISO would be assured, at least on a year-ahead basis, that the resource fleet available to it would meet system operational and reliability requirements. The Energy Division, on the other hand, takes a different tack to address the same goals addressed in the CAISO proposal. The Energy Division proposes to limit the quantity of non-dispatchable resources (*i.e.*, resources that provide limited or no operational flexibility) in each LSE’s portfolio. Limiting the amount of inflexible resources ostensibly provides the CAISO with a surplus of flexible resources and thus, in large part, could ensure the same, sufficient operational capability to CAISO operations on a year-ahead basis.

SDG&E appreciates the thought and level of detail underlying each proposal and, at a high level, agrees the RA program will need to evolve to address the increased operational complexities associated with renewable integration. However, while both proposals have potential, SDG&E notes that, during the workshops, both the CAISO and the Energy Division conceded there would be no immediate benefit to adopting either approach in 2013, since the resource fleet the RA program is expected to provide to the CAISO will meet the CAISO’s forecasted flexibility requirements in the coming year. Under these circumstances, SDG&E proposes operational flexibility issues and requirements be addressed as part of the

comprehensive program reforms outlined above. SDG&E maintains this position for two reasons.

First, adopting flexibility requirements in 2013 provides no immediate reliability benefit, as both the CAISO and Energy Division concede the proposed revisions would not alter the course of procurement in 2013. In short, both agree that 2013 “flexibility requirements” will be satisfied through traditional Local and System RA procurement. Importantly, because neither proposal would alter the course of natural procurement in 2013, neither will prevent or mitigate potential resource retirements and associated *ad hoc* procurement. Thus, in the near-term, neither proposal is worthy of urgent attention and can be tabled for the moment without consequence to system reliability. Accordingly, SDG&E recommends the Commission refrain from adopting requirements to address needs that will not materialize in 2013.

Second, SDG&E believes adopting either proposal – indeed, even simply agreeing to adopt the categories and metrics for implementation at a future date – prematurely forecloses the opportunity to identify alternate solutions that are easier to implement. To that end, SDG&E agrees with other workshop commenters that there is significant potential difficulty in contracting around the three capacity attributes defining “flexibility” in the CAISO proposal. Inherent in that reaction is the cost uncertainty associated with the proposal as the generating community and LSEs attempt to price the various flexibility attributes going forward. A solution that provides the CAISO the operating flexibility and certainty it needs, yet avoids the contracting difficulty and cost uncertainty is obviously preferred.⁶ However, adopting a particular framework here forecloses the opportunity to find a more implementable, cogent and

⁶ It is SDG&E’s current position that a forward capacity market provides the long-term resource certainty the CAISO seeks, and simultaneously removes the difficulty and price concerns associated with bilaterally contracting around multiple flavors of RA capacity (Local, System and “Flexible”). SDG&E is prepared to present a proposal for an organized forward capacity market in the event the Commission adopts the SDG&E recommendation to open a new track in this proceeding or a new rulemaking aimed at reforming the current RA program.

consensus-based solution. Importantly, acknowledging or adopting a particular framework here detracts from and perhaps complicates achieving what should be our primary objective: crafting a comprehensive revision to the overall RA program framework.

Because there is admittedly no operational benefit to adopting either proposal in 2013, it logically follows that the Commission need not adopt either proposal in 2013. Instead, defining operational flexibility, and how best to achieve it, is more meaningfully addressed in coordination with the other program revisions under review in the yet-scoped, but wholly necessary comprehensive market redesign outlined above.

Respectfully submitted,

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