

**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)
_____)

Rulemaking No. 11-10-023
(Filed October 27, 2011)

REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U-902-E)

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Pursuant to the *Administrative Law Judge's Ruling Seeking Comment* issued March 23, 2012, San Diego Gas & Electric Company ("SDG&E") files its Reply Comments responding to the various comments submitted by the parties on or about April 11, 2012.

In its Opening Comments, SDG&E stressed the need to "take first things first" and address a structural deficiency, or more precisely, "gap" between the Commission's resource-adequacy program and long-term procurement plan rulemakings. Essentially, the procurement activities of load-serving entities in the resource-adequacy program address capacity needs and system security on a year-ahead basis, while the long-term procurement plan rulemakings focus on the need for new resources across a longer term planning horizon. As was revealed in the Commission's recent Resolution E-4471,¹ March 29, 2012, issued *sua sponte*, and the request filed by the California Independent System Operator ("California ISO" or "ISO") with the Federal Energy Regulatory Commission seeking a waiver of certain tariff revisions related to resources at risk of retirement,² the Commission's resource-adequacy and long-term procurement programs, even in combination, do not assure that those certain generation resources needed in the foreseeable future by the California ISO to maintain operational reliability will be available to address the ISO's needs. In responding to (a) Commission Resolution E-4471 in draft, (b) the ISO's tariff-waiver filing, (c) the Energy Division Report on the Resource Adequacy Workshops held on January 26 and 27, 2012,

¹ As described in the Resolution at p.1, "This Resolution orders Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) to enter negotiations with the Calpine Corporation to offer a contract with the Sutter Energy Center (Sutter). The purpose of this order is to keep the Sutter plant online in 2012, enabling further analysis of the impacts of current and proposed dynamic transfer tariff changes at the CAISO."

² See *California Independent System Operator*, Docket No. ER12-897-000, *Petition for Waiver of Tariff Provisions and Request for Confidential Treatment*, January 25, 2012.

and (d) the newly opened long-term procurement plan rulemaking,³ SDG&E has consistently recommended the Commission immediately address the structural gap between the Commission's two regulatory processes in this, the resource-adequacy, docket in order to minimize the potential the California ISO will act on its own to procure resources sufficient to meet its self-determined needs and, thereafter, allocate the costs of these procurements to California ratepayers. SDG&E has proposed these ends can be accomplished by extending the current year-ahead compliance period into a multi-year period, and modifying resource-adequacy procurement obligations in a manner consistent with (a) an appropriate period longer than the current year-ahead tenor and (b) the California ISO's forecasted need for resources with those "flexibility" attributes the ISO described in this proceeding's prior workshops.⁴

In reviewing the Opening Comments by various parties to this matter, SDG&E consistently found the parties' attention largely drawn to the proposals of the Energy Division and the California ISO, both of which would require a resource's specific operational characteristics be taken into account in determining whether a load-serving entity had complied with its resource-adequacy compliance obligations. The Energy Division categorized resources based primarily on a "dispatchability" attribute while the California ISO distinguishes between resources based on a resource's ability to provide certain "flexibility" attributes in the context of ISO operations. A fair summary of the parties' comments regarding both of these proposals is that both are controversial and open to similar criticisms, e.g.: they are premature since neither is necessary to meet California ISO reliability requirements during 2013;⁵ they are incomplete and need further refinement and work; and/or, as some parties at the extreme contend, they are poorly considered proposals the Commission should reject altogether or table indefinitely.⁶

SDG&E submits a considerable amount of time and resources could be invested in this proceeding testing, debating and/or improving one or both of these proposals and, if this investment were properly managed and leveraged, the Commission could ultimately adopt a reasonable form of either proposal to meet the ISO's near-term operational requirements through new "dispatchability" or "flexibility"

³ See *Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plan*, Docket No. R.12-03-14, March 22, 2012.

⁴ See *California Independent System Operator Corporation Submission of Supplemental Information to Proposal*, R.11-10-023, March 2, 2012, "2013 Flexible Capacity Procurement Requirement".

⁵ Indeed, the California ISO does not cite the need to address operational exigencies in support of adopting its flexibility requirements for 2013. Rather, the California ISO describes the disadvantages of delay as "lost opportunity", "lost flexibility", and "delayed learning curve". See *California Independent System Operator Corporation Submission of Supplemental Information to Proposal*, R.11-10-023, March 2, 2012, at p.15.

⁶ One party liked neither proposal and provided a comprehensive list of the most serious substantive and procedural flaws in both proposals. See *Southern California Edison Company's Post-Workshop Comments*, R.11-10-023, April 11, 2012, at pp.3 to 10. SDG&E joins in the concerns raised in these comments.

requirements. But even if the Commission accomplished these ends, and *even if the Commission simply were to adopt the California ISO proposal as submitted*, the California ISO could still resort to out-year procurements of resources to meet its self-determined need for flexible capacity in the 2017 to 2020 time frame.⁷ This should clearly signal to the Commission that the issues addressed directly and indirectly through its Resolution E-4471 have not in fact been systematically resolved and California electricity consumers would remain liable for *ad hoc* capacity costs incurred by the ISO which their load-serving entities cannot mitigate or avoid.⁸ It is this outcome that causes SDG&E to continue to believe the energies of this proceeding should be focused on developing a multi-year resource-adequacy procurement obligation. The concept of multi-year capacity obligations is not new to the parties assembled in this docket, and SDG&E fully expects a range of reasonable options could be brought to the Commission in a relatively short time despite the complexities associated with this admittedly significant change to the existing resource-adequacy program.

In reiterating the position expressed in its Opening Comments, SDG&E notes the substantial agreement of many of the parties with SDG&E's position. Putting aside the tugging and pulling parties exert on the Energy Division and California ISO proposals, SDG&E found many of the parties to this proceeding are in agreement that a multi-year resource-adequacy requirement would be the sensible next step by which to address emerging reliability stresses more related to operational perturbations than peak demand. See, e.g., *Post-Workshop Comments of Pacific Gas & Electric Company*, R.11-10-023, April 11, 2012, at p.1, 3 to 5; *Comments of the Division of Ratepayer Advocates On Phase 1 Workshop Issues*, R.11-10-023, April 11, 2012, at p.6 (although the Division believes consideration of multi-year resource-adequacy obligations should only be performed upon direction from the ongoing long-term procurement plan rulemaking); *Comments of Calpine Corporation on Energy Division Resource Adequacy Workshop Report*, R.11-10-023, April 11, 2012, at pp.1 to 2, 4 to 5; *Southern California Edison Company's Post-Workshop Comments*, R.11-10-023, April 11, 2012, at pp.12 to 13; *Comments of the Independent Energy*

⁷ See *California Independent System Operator Corporation Comments on Phase 1 Workshop Issues*, R.11-10-023, April 11, 2012, "2013 Flexible Capacity Procurement Requirement", at pp.8 to 10.

⁸ As the Commission is no doubt aware, the California ISO will soon implement new tariff revisions authorizing the ISO to intervene in daily energy markets to assure the availability of a sufficient margin of flexible resources. See "*Flexible Ramping Constraint Compensation*", at California ISO Tariff Sections 11.25 and 27.10; also, *Order Accepting and Suspending Proposed Tariff Changes and Establishing Hearing and Settlement Judge Procedures*, 137 FERC ¶61,191 (December 12, 2011), FERC Docket No. ER12-50-000. See also, *Comments of the Center for Energy Efficiency and Renewable Technologies on Energy Division Workshop Report*, R. 11-10-023, April 11, 2012, at pp.2 to 3, noting that the California ISO's tariffs permitting flexible-ramping interventions and emergency capacity procurements may result in the possibility California consumers could end up paying "twice" for attributes their load-serving entities had provided via resources procured in order to meet resource-adequacy capacity obligations. SDG&E shares this concern.

Producers Association on Resource Adequacy Workshop Issues and Proposals, R.11-10-023, at pp.3 to 6; *Comments of GenOn Energy, Inc. Pursuant to Administrative Law Judge's Ruling Seeking Comment*, R.11-10-023, April 11, 2012, at pp.3 to 4; and, *Comments of Brookfield Renewable Energy Partners LP on March 23, 2012, Administrative Law Judge's Ruling Seeking Comments*, R.11-10-023, April 11, 2012, at pp.5-6. In summary, SDG&E submits the Commission should proceed to address the weighty issues raised by these parties in lieu of commencing a hearty, but ultimately misdirected, debate over the merits of adding the terms of "dispatchability" versus "flexibility" to the regulatory lexicon.⁹

In summary, SDG&E's primary recommendation is that the Commission should immediately create a separate track in this resource-adequacy proceeding to craft a comprehensive reform of the existing resource-adequacy program or, in the alternative, commence an entirely separate proceeding to address such reforms. SDG&E strongly believes the concepts of multi-year resource-adequacy requirements and satisfying the operational attributes required of the California resource fleet by the California ISO are topics better discussed together rather than in isolation.

Respectfully submitted,

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⁹ If the Commission rejects the position of the aforementioned parties and chooses to consider the adoption of either the Energy Division's proposal or the California ISO's proposal, SDG&E strongly recommends those two parties be pressured to collaborate on merging their proposals into a single integrated and coordinated regulatory protocol. As was discussed at the most recent workshop, the California ISO agreed the Energy Division's proposal addressed their operational needs "to a considerable extent, but not completely". Given this hint the Energy Division's "bucket" approach could be reshaped to bring the Division's resource-adequacy concepts into greater, if not complete, synonymy with the California ISO approach, SDG&E submits the next step in this proceeding, if the Commission foregoes pursuing a market structure based upon multi-year resource-adequacy obligations, should be focused on adopting a short-term annual approach that, at the very least, mitigates the potential that the California ISO will enter the market to procure flexible resources in order to cure deficiencies the ISO operators might experience from the Commission's resource-adequacy program.