

**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.

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

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U-902-E) ON THE PROPOSED  
DECISION OF ADMINISTRATIVE LAW JUDGE GAMSON**

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June 18, 2012  
San Diego, California

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San Diego Gas and Electric (“SDG&E”) submits these Reply Comments addressing certain of the Opening Comments filed by the parties on the May 22, 2012, *Proposed Decision Adopting Local Procurement Obligations for 2013 and Further Refining the Resource Adequacy Program (“Proposed Decision”)*. SDG&E’s Reply Comments focus on two topics: 1) the newly identified San Diego Local Capacity Sub-Area; and 2) the proposed process for addressing future flexible capacity requirements.

**I. Treatment of the Newly Identified San Diego Sub-Area**

In its opening comments, NRG Energy, Inc. (“NRG”), argues that the Commission should revise the *Proposed Decision* so as to “enforce the San Diego sub-area Local Capacity Requirements” set forth in the California Independent System Operator’s (“California ISO’s”) 2013 Local Capacity Technical Analysis.<sup>1</sup> The Commission should reject NRG’s arguments and adopt the *Proposed Decision* as issued with respect to this matter.

In establishing “local” (as compared to “system”) resource-adequacy requirements, the Commission has consistently declined to enforce compliance obligations tied to “sub-areas” identified by the California ISO and nesting within local reliability areas. From the time the Commission initially adopted local resource-adequacy requirements, this Commission has held that sub-areas, for the purposes of defining the procurement obligations of load-serving entities, should be disregarded and that compliance with the local capacity requirements of the larger local reliability area (of which any sub-area was a part)

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<sup>1</sup> See *Opening Comments of NRG Energy, Inc., on Proposed Decision of Administrative Law Judge Gamson*, June 11, 2012, at p.2.

satisfied both reliability and regulatory requirements.<sup>2</sup> That is, rather than require load-serving entities to procure capacity to meet resource-adequacy requirements within each smaller sub-area, the Commission has repeatedly determined that, where a load-serving entity had addressed the aggregate resource-adequacy requirement allocated to it for an entire local reliability area, that load-serving entity would be deemed to have met its resource-adequacy requirements even if the specific resource requirements identified by the California ISO for any single sub-area had not been met. This policy has been consistently reaffirmed in each subsequent resource-adequacy proceeding.<sup>3</sup> The *Proposed Decision* observes these prior Commission precedents and policies and should be adopted.

Contrary to NRG's assertion that "[t]here is no meaningful distinction between whether [a local capacity requirement] applies to an 'area' or a 'sub-area'",<sup>4</sup> the Commission has previously indicated that there is in fact a meaningful distinction between planning (used by the Commission within the resource-adequacy program) and operational requirements (used by the California ISO for grid-operation purposes), noting that sub-area requirements provide important information for planning purposes but year-ahead operational requirements could continue to be based on the larger local area.<sup>5</sup> The Commission drew this distinction in order to "address supplier market power concerns" that might otherwise arise through the enforcement of sub-area requirements where the availability of effective local resources would be relatively low in relation to the requirement.<sup>6</sup> It is wholly proper for the Commission to structure the resource-adequacy program based on these considerations which NRG inappropriately characterizes as "meaningless".

Finally, SDG&E submits the record in this proceeding cannot justify the departure from prior practices advocated by NRG in its Opening Comments. In the comments of record addressing the California ISO's *2013 Local Capacity Technical Analysis: Final Report and Study Results*, SDG&E, joined

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<sup>2</sup> See *Opinion on Local Resource Adequacy Requirements*, Decision 06-06-064, in Rulemaking 05-12-013 (*Order Instituting Rulemaking to Consider Refinements to and Further Development of the Commission's Resource Adequacy Requirements Program*) (June 29, 2006), printed opinion at pp.35 to 37.

<sup>3</sup> See *Opinion on Phase 2 – Track 1 Issues*, Decision 07-06-029, in Rulemaking 05-12-013 (*id.*) (June 21, 2007), printed opinion at pp.34 to 35; accord, *Decision Adopting Local Procurement Obligations for 2009 and Refinements to the Resource Adequacy Program*, Decision 08-06-031, in Rulemaking 08-01-025 (*Order Instituting Rulemaking to Consider Annual Revisions to Local Procurement Obligations and Refinements to the Resource Adequacy Program*) (June 26, 2008), printed opinion at p.7. SDG&E points out that the California ISO did not contest the resolution of this issue or the Commission's previous policy determinations in the ISO's comments regarding the *Proposed Decision*.

<sup>4</sup> See *Opening Comments of NRG Energy, Inc., on Proposed Decision of Administrative Law Judge Gamson*, June 11, 2012, at p.7.

<sup>5</sup> See footnote 3, above.

<sup>6</sup> See footnote 3, above.

on separate grounds by The Utility Reform Network,<sup>7</sup> raised several issues related to enforcement of the specific capacity requirements associated with the newly identified San Diego sub-area. At best, NRG's assertions only add to the factual and policy controversies related to the implications of the ISO's study and the Commission should, if it is at all sympathetic to NRG's position, at the very least provide the parties interested in this matter with an opportunity to be heard before reversing well-established policies regarding the place of sub-areas within the larger structure of the state's resource-adequacy program.

## **II. Flexible Capacity Requirements for 2014**

To address concerns arising from variable resource integration and once-through cooling retirements, the *Proposed Decision* indicates this proceeding will turn the Commission's attention toward adopting "a framework ['to [fill] flexible capacity needs'] by or near the end of 2012, for implementation in the 2014 [resource-adequacy] compliance year."<sup>8</sup> Nearly all parties support the Commission's goal of addressing the California ISO's operational needs. SDG&E joins the chorus in this regard. In pursuing this important objective, a substantial majority of the parties filing comments also caution the Commission against implementing a mechanism that assigns flexibility requirements to load-serving entities before the conceptual and governing principles defining "flexibility" requirements have been fully and duly considered. SDG&E agrees with this practical observation. The primary objective of the upcoming proceedings should not be the imposition of flexible capacity requirements on Commission jurisdictional load-serving entities by a pre-established date certain. Rather, the primary objectives should be to reach some appropriate definition of flexibility and obtain relatively broad consensus on the metrics used to quantify the going-forward need for flexible resources and the manner in which load-serving entities may meet their allocable share of any such needs.

Much akin to the addition of local resource-adequacy requirements in 2006, incorporating expressly defined flexible-capacity requirements will fundamentally alter the resource-adequacy procurement landscape, both in the year ahead and multi-year forward timeframes. As such, this is one of those instances where accuracy and thorough contemplation of long-term objectives needs to precede implementation activities. SDG&E looks forward to working with the Commission, the California ISO and other stakeholders in pursuit of these important objectives.

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<sup>7</sup> See *Comments of the Utility Reform Network on the CAISO's 2013 Local Capacity Technical Analysis, Final Report and Study Results*, May 7, 2012, at pp.1 to 4.

<sup>8</sup> See *Proposed Decision of Administrative Law Judge Gamson (Decision Adopting Local Procurement Obligations for 2013 and Further Refining the Resource Adequacy Program)*, May 22, 2012, at p.20.

### III. Conclusion

For the foregoing reasons, the Commission should adopt the *Proposed Decision* as issued with respect to treatment of the newly identified San Diego Sub-Area, and should reject the recommendations of NRG Energy as contrary to longstanding Commission policy and without sufficient record support. Additionally, in scoping the upcoming proceedings to address flexible-capacity needs, the Commission should elevate substance over schedule by establishing a procedural framework based on substantive objectives rather than a calendar.

Respectfully submitted,

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