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June 1, 2012

Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94012
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Re: Pre-Workshop Comments of San Diego Gas & Electric Company Regarding Renewable Net Short Position Calculation

Dear Sir or Madam:

In accordance with the direction provided by the Energy Division of the California Public Utilities Commission ("Commission"), San Diego Gas & Electric Company ("SDG&E") provides these comments in advance of the June 12, 2012 workshop to be held for the purpose of developing a methodology, inputs and format, as needed, for reporting renewable portfolio standard ("RPS") portfolio needs and procurement net short. SDG&E provides responses below to questions regarding different investor-owned utility ("IOU") methodologies and assumptions posed by Energy Division Staff in its *Request for Pre-Workshop Comments on a Renewable Net Short Position Calculation* ("Request for Comments") issued on May 24, 2012 in R.11-05-005.

RESPONSES TO QUESTIONS

Q1: For equations (a) and (b), are all components of the net short calculation accounted for? What other components need to be considered in calculating the net short position?

RESPONSE: Minimum Margin of Procurement and Risk-adjusted Forecast Generation both assume a contract failure rate; to include both in the same equation (a) for net short would be duplicative and could lead to erroneous results.

Re-contracted generation and online but expiring generation should be excluded from the net short calculation. These quantities are highly speculative, and inclusion of these factors would likely create an incorrect perception of a utility's net short position. Online Generation should also be risk-adjusted due to uncertainty in as-available renewable deliveries from year to year.

Samples of net short calculations should be either:

> *(a) Annual RPS Risk-adjusted Net Short = (Bundled Retail Sales Forecast x RPS Compliance Target) – (Risk-adjusted Online Generation + Risk-adjusted Forecast Generation)*

OR

(a) Annual RPS Risk-adjusted Net Short = (Bundled Retail Sales Forecast x RPS Compliance Target)+ Minimum Margin of Procurement – (Online Generation + Forecast Generation)

In both cases above, the components are sufficient to determine a net short position provided that the components themselves are properly assessed.

Equation (b) should take into account a risk-adjusted bankable quantity, since banking itself is dependent upon the risk factors used to adjust forecast generation in most cases.

(b) Total RPS Risk-adjusted Net Short = $\sum_{\text{current year + 10 years}}$ Annual RPS Risk-adjusted Net Short – Risk-adjusted Bankable RPS Eligible Generation

Q2: Is there any reason why the minimum margin of procurement should not be used to calculate a utility's RPS net short position? Why?

RESPONSE: Minimum margin of procurement should only be used to calculate a utility's net short position if the net short position is based upon a nominal, non-risk-adjusted forecast of RPS generation under executed contracts. If a risk-adjusted generation forecast is used, the minimum margin of procurement should be excluded from the net short calculation. This is because both minimum margin of procurement and risk-adjusted generation forecasts should be measuring the same quantity; the amount of generation that will have to be used to replace forecasted generation that is likely to "drop out" of the utility's portfolio. Including both in the same calculation would be duplicative and lead to erroneous results.

Q3: Does enough industry knowledge and project history exist today which would allow the Commission to develop a probabilistic methodology that ranks projects based on achieving critical milestones as discussed above?

RESPONSE: No. Too many variables exist today to create a credible methodology.

Q4: If the answer to Q3 is yes, what milestones are important in achieving projects success and what weighting would you assign to each of the milestones?

RESPONSE: Please see response to Q3.

Q5: One investor-owned utility expressed concern that ordering a utility to make a projection on whether a project succeeds or fails based on the utility's own internal analysis puts the utility at risk of litigation because of the perception that the IOU is not supporting the PPA as it is contractually mandated, particularly if the project portfolio is used in a public forum. Is this a concern that the Commission should take into consideration? If so, present an alternative solution that would be adequate for both RPS and LTPP purposes.

RESPONSE: SDG&E believes that the practice of assigning a probability of success to a project is useful from a procurement strategy perspective and provides valuable information to the Commission. Public disclosure of this information would be cause for serious concern. However, project specific information is clearly market-sensitive information protected under

Public Utilities Code § 454.5, and is also confidential under the IOU Matrix adopted in D.06-06-066, *et seq*. (analysis of RPS projects is protected under IOU Matrix category VII.G). Thus, the IOUs' continued provision of project-specific analysis is not a concern, so long as the information is not publicly disclosed.

Q6: For generic pre-approved generation (*i.e.* RAM) is it reasonable to assume that all projects will be 100% successful? If not, propose an alternate solution.

RESPONSE: SDG&E applies the same risk analysis to generic pre-approved generation as with any other project. This risk analysis is based on the methodology outlined in SDG&E's 2012 RPS Plan.[1]

Q7: Should the Commission expand the definition of re-contracted generation to include online generation set to expire beyond the LTPP 10-year planning horizon?

RESPONSE: Please see response to Q8 below. It would be premature to make an assumption regarding any facility beyond the expiration of its initial contract term.

Q8: Is one utility's methodology preferable? Why?

RESPONSE: No. Each IOU has unique operational and business concerns, and should retain the flexibility to plan for future procurement as it sees fit.

It is SDG&E's view that for procurement planning purposes, it should be assumed that existing contracts will *not* automatically be renewed upon expiration. SDG&E presented a rationale for this approach in its 2012 RPS Plan,[2] which ties in with SDG&E's assumptions under Table 4 of the Request for Comments document. PG&E has also listed several very strong arguments to retain this methodology under Table 4 of the Request for Comments document. Building upon these comments, SDG&E notes that:

- Relying on 100% contract renewal weakens an IOU's ability to accurately predict its future need and is therefore a planning risk
  - No executed renewal contracts exist to substantiate this assumption
  - This approach does not consider the facilities' remaining useful lives, or lack thereof
  - This can lead to an overly optimistic forecast of future deliveries, and consequently a procurement shortfall

- Assuming 100% contract renewal also fails to consider what is best for ratepayers
  - Procurement is a competitive process and it should be expected the IOU's will make the most economic choices – it cannot be assumed that 100% renewal makes the most economic sense
  - Facilities should be measured against the pricing available in the market at the time of contract expiration

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1 *See SAN DIEGO GAS & ELECTRIC COMPANY 2012 DRAFT RENEWABLE PROCUREMENT PLAN*, filed May 23, 2012 in R.11-05-005, pp. 3-5.

2 *Id*. at p. 6.

Q9: Should the Commission also account for the retirement of facilities after their useful lives? If so, how should these assets be accounted for in the net short calculation and how should the useful life of a renewables facility be determined?[3]

RESPONSE: Please see response to Q8 above. It would be premature to make an assumption regarding any facility beyond the expiration of its initial contract term.

Q10: Given that each utility's portfolio needs are different is it possible to create a standardized methodology for determining a minimum margin or procurement? If so, explain your recommended methodology?

RESPONSE: No. Each IOU's 2012 RPS Plan proposes a unique method for calculating the minimum margin of procurement, and each is valid as it was tailored to the specific characteristics of that IOU. SDG&E agrees with SCE that the "Commission should avoid mandating a method for IOUs to calculate the minimum margin of procurement and should not attempt to impose a one-size-fits-all approach."[4] SCE points to the fact that a uniform minimum margin of procurement for each IOU would ignore portfolio composition on several levels – portion delivering, proportion of varying technologies, and to this SDG&E would add volume and timing of expiring contracts. Each IOU has an intimate knowledge of its own unique portfolio and the factors affecting it, and is therefore in the best position to manage its portfolio and make the most informed decision regarding margins to be used for planning purposes. For example, deliveries from SDG&E's portfolio of online projects are risk adjusted, a process that appears to be unique to SDG&E. This process is crucial to SDG&E's planning process due to the large volume of wind in the currently delivering portfolio. A bad wind year will have a greater impact on SDG&E's portfolio as it is currently heavily dependent on this resource, and SDG&E should be free to utilize this information to inform its procurement decisions. Procurement is a unique and dynamic process for each IOU. A one-size-fits-all approach could limit flexibility and lead to over-procurement and an unnecessary increase in cost for ratepayers. SDG&E agrees with SCE's observation that each "IOU should have the flexibility to calculate this margin based on its unique portfolio make-up and procurement needs…[and] have the ability to modify its methodology through the process already in place for updating its RPS procurement plan."[5]

Respectfully Submitted

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Cc: Service List R.11-05-005

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3 In its May 10, 2012 Straw Proposal on LTPP Planning Standards issued in R.12-03-014, the Energy Division recommended three possible retirement scenarios for renewables; 1) all units are repowered at end of life, 2) retire all facilities 25 years after COD, and 3) retire all facilities 20 years after COD.

4 *SOUTHERN CALIFORNIA EDISON COMPANY'S 2012 RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLAN*, filed May 23, 2012 in R.11-05-005, p. 18.

5 *Id*. at p. 19.