

**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 12-03-014
(Filed March 22, 2012)

**SAN DIEGO GAS AND ELECTRIC COMPANY
(U-902-E) COMMENTS ON WORKSHOP TOPICS**

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October 9, 2012

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**I.
INTRODUCTION**

In accordance with the direction provided in the *Administrative Law Judge's Ruling Seeking Comments on Workshop Topics*, issued September 14, 2012 in the above-captioned proceeding (the "ALJ Ruling"), and the ruling issued by Judge David M. Gamson on October 4, 2012 extending the filing deadline for comments, San Diego Gas and Electric Company ("SDG&E") provides these comments and responses to questions set forth in the ALJ Ruling related to topics covered in a joint workshop held on September 7, 2012 in Rulemaking ("R.") 12-03-014 (Long-Term Procurement Plans ["LTPP"]) and R.10-12-007 (Energy Storage).

**II.
DISCUSSION**

A. Potential Changes to the Request for Offers Process Should be Considered in the Context of the Existing Overall Procurement Framework

SDG&E appreciates the opportunity to provide the Commission with responses to questions posed in the ALJ Ruling. SDG&E submits, however, that any discussion of potential changes to Utility Request for Offers ("RFOs") – the focus of the questions in the ALJ Ruling – should not be undertaken in isolation, but should instead occur in the context of a comprehensive

examination of *all* the proceedings and processes the Commission employs to determine the cost-effective amount of generation resources.

The current procurement framework requires the IOUs to undertake separate, resource-specific RFOs to fill total resource needs. For example, the Commission conducts separate proceedings to determine the cost-effective level of energy efficiency (“EE”) and demand response (“DR”). The Commission also has a separate, approved process for conducting RFOs for renewable generation to meet Renewable Portfolio Standard (“RPS”) program requirements, as well as an additional, separate process for smaller renewable projects, the Renewable Auction Mechanism (“RAM”). In addition, the IOUs are conducting separate RFOs for combined heat and power (“CHP”) resources based on Commission-adopted policies. Added to this list are the various feed-in tariffs and other similar programs for small generation sources. The end result is that by the time the utilities issue an RFO to fill the residual need, in most cases they have already reduced the capacity need for all cost-effective levels of preferred resources.

Thus, requiring an all-source RFO to fill residual need (*i.e.*, the need that exists *after* preferred resources are taken into account) could be viewed as redundant and potentially counter-productive. If, for example, EE or DR failed the cost-effectiveness test in a dedicated proceeding, and the same EE or DR bid into an all-source RFO to fill residual need, selection of that EE or DR in the all-source RFO would represent a “back-door” means of selection that could undermine the existing EE/DR program. If the Commission intends to consider broadening the RFO process to include all sources, the Commission should simultaneously assess how this type of RFO will fit within its existing procurement framework and the dedicated processes described above. Issues the Commission would need to consider include, but are not limited to, whether all EE and DR would be required to bid into the all-source RFO or whether

the all-source RFO would just reassess any EE and DR that failed previous cost-effectiveness tests in the dedicated proceedings. Similarly, the Commission would need to consider how renewable projects bid into, but not selected in, an RPS-only RFO would be treated in an all-source RFO.

SDG&E submits that the Commission should consider whether changes in the existing dedicated procurement approach would be a more effective means of addressing any real or perceived concerns. Ratepayer and market participants would be better served by evaluation of the current strengths and weakness in the dedicated proceedings and whether the current procurement approach meets the Commission's objectives, than by an assumption that the current dedicated processes require no modification and that existing inefficiencies can be resolved by adopting an all-source RFO requirement. In other words, if viable resources are not being selected in dedicated proceedings, the answer is to assess the criteria used in the dedicated proceeding rather than to allow a process whereby resources are rejected in the dedicated proceeding, only to be selected later in an all-source RFO.

B. SDG&E's Experience with All-Source RFOs

SDG&E submits that while all-source RFOs may be useful as a procurement option in limited instances, regular all-source RFOs are not necessary and may actually cause harm to the extent they cause confusion in the market and cannibalize dedicated preferred resource RFOs. SDG&E's experience with the all-source RFOs it has held over the past 10-12 years has been less than successful for both ratepayers and market participants. In particular, all-source RFOs have not proven to be an optimal solution for obtaining cost effective and reliable incremental DR load reduction megawatts. SDG&E's recent experience with attempts to obtain incremental DR via an all-source RFO highlights this point.

In March, 2007, SDG&E issued an RFO for Supply Resources, which included solicitation for DR load reduction in addition to generation. As a result of this RFO as it pertained to DR products, SDG&E entered into a long term bilateral agreement for DR load reduction. After a year and half of monitoring the program performance and impacts, the contract was terminated. SDG&E detailed its concerns with negotiating DR contracts outside of the DR proceeding in its DR Application for 2012-2014.^{1/} Among the concerns SDG&E raised was the concern that contracts entered into outside of the DR proceeding do not have the intended effect of adding incremental DR megawatts, but instead cannibalize the current DR programs. In fact, as discussed in testimony submitted in support of SDG&E's DR Application for 2012-2014,^{2/} 63% of the enrolled load and 38% of the customers in the bilateral agreement program participated in SDG&E's Capacity Bidding Program ("CBP").

SDG&E's all-source RFO was also open to renewable resources. This caused confusion in the renewable development community – potential bidders were not sure whether it was necessary to resubmit into the all-source RFO project that had already been submitted into an RPS-only RFO, and there were concerns that any renewable project selected as part of the all-source RFO would displace projects bid into the RPS-only RFO. In addition, requesting that non-dispatchable renewable resources bid into an RFO that is intended to fill a need for fully dispatchable capacity is plainly a waste of bidders' time and resources.

SDG&E's experience with all-source RFOs in the current procurement framework, which includes dedicated proceedings with targeted RFOs, suggests that a more effective approach to ensuring that the benefits of preferred resources are realized would be to evaluate the existing selection criteria in the context of the relevant dedicated proceedings. To this end, SDG&E

^{1/} See Application of SDG&E for Approval of Demand Response Programs and Budgets for Years 2012-2014 (A.11-03-002), Chapter 1 Prepared Direct Testimony of Mark Gaines, p. MFG-9.

^{2/} *Id.*

recently filed comments with the Commission that suggested a number of improvements that could be made in the demand side cost-effectiveness to better evaluate these resources options, especially when addressing local capacity requirements.^{3/} In short, in order to achieve the state's policy goals, the Commission should evaluate existing processes within the context of the relevant dedicated proceedings rather than imposing an all-source RFO requirement.

Question

- 1. What changes should be made to the rules governing the Investor-owned Utilities (IOUs') procurement process that would allow all resources (natural gas combined cycle, combustion turbine, storage, demand response, combined heat and power, renewable, etc.) to compete fairly in meeting identified needs? Please provide specific proposals for structuring an all-source procurement process.**

Question

- 2. What amendments, if any, would be necessary to the most recent long-term Request for Offers issued by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric (SDG&E), and Southern California Edison (SCE) to ensure that all resources are eligible to compete in meeting future Request for Offers (RFO)? Are there any changes specific to meeting Local Capacity Requirements (LCR)?**

Response to Questions 1 & 2: All RFOs must continue to be structured around a well-defined description of the need, a clear description of the requirements that each resource must meet and a clearly agreed-upon evaluation process. While all resource types would be permitted to bid into an all-source RFO, not all resources will be able to meet all needs. Likewise, needs should not be manipulated and resource requirements should not be changed solely to favor one resource type or another. For instance, a run-of-river hydro project cannot fit a fully dispatchable need and a remote project cannot fulfill a need for local resource adequacy. SDG&E will endeavor to be as inclusive as possible when developing an all-source RFO so that ratepayers can benefit from the largest possible list of products to meet procurement needs. The

^{3/} See Comments filed on October 1, 2012 in R.09-11-014.

mere fact that a given resource type cannot meet a specific resource need does not signify that the RFO is flawed and must be changed. SDG&E will specifically identify the product(s) being sought so that prospective bidders will be able to determine whether or not their particular products would meet the stated qualifications.

It is also important that the bid evaluation process be established prior to the RFO and in advance of receiving any bids. SDG&E has historically taken this approach, developing its evaluation process in advance of receiving any bids and reviewing it with its Independent Evaluator (“IE”) and Procurement Review Group (“PRG”). The current evaluation process, the Least-Cost, Best-Fit (“LCBF”) evaluation, is designed to apply consistent criteria to determine what option(s) best match SDG&E’s portfolio requirements. Altering this process for one or more resource types in an all-source RFO would distort the outcome of the analysis, leading to inaccurate results and a potential for increased costs to ratepayers. Each bid submitted in an all-source RFO will be evaluated, without exception, pursuant to the agreed-upon (LCBF) analysis process.

Question

- 3. What specific characteristics or attributes must any resource -- including demand-side, energy storage, or distributed -- provide in order to meet future procurement needs? In the absence of a Net Qualifying Capacity, what methodology should be used to determine a proxy capacity value for resources lacking a Net Qualifying Capacity for use in LCR capacity accounting? How can these characteristics or criteria be turned into criteria to evaluate resources bid into a Request for Offers to meet LCR or other needs? How should those criteria be weighted?**

Response to Question 3: SDG&E does not believe that there is a set of characteristics that each and every resource should be required to meet. Future procurement needs will cover a wide range of requirements including RPS obligations, Greenhouse Gas Emission (“GHG”) reduction targets, Local Capacity Requirements (“LCR”), system Resource Adequacy (“RA”)

requirements, and flexible generation requirements. Given these requirements, it would be unwise to identify specific characteristics or attributes that all resources must have. The IOUs' capacity and energy supply are made up of a portfolio of resources – a portfolio where each resource has different operating characteristics, rather than a portfolio consisting of resources with matching characteristics. RFOs must be designed to allow the evaluation process to determine if a single resource with one set of characteristics or if a combination of resources, each with a different set of characteristics, can meet the need at the lowest possible cost. IOUs require the flexibility to make these sorts of trade-offs when deciding on the best mix of new generation resources.

SDG&E believes that it would be a mistake to assign specific weighting factors to specific attributes for purposes of selecting a portfolio of new resources among competing offers. SDG&E does support the development of values which can be used in economic analysis. The preferred method to obtain these values is the establishment of markets that can provide price signals. Finally, to the extent a resource does not have a current Net Qualifying Capacity (“NQC”) this can be established through actual testing or through engineering analysis. Some level of discounting may be appropriate where the technology is new or unproven or where testing indicates significant performance uncertainty.

Question

- 4. What are the pros and cons of the following procurement methods with regard to: 1) local procurement considered in Track 1 of LTPP, and 2) operational flexibility and general system procurement considered in Track 2 of LTPP?**

- A. Continuation of current practices for procurement with minor clarifications;**

Response to Question 4.A: SDG&E believes the Commission should give equal time and thought to what modification could be made to the existing processes and proceedings to refine

the evaluation and selection processes, and whether this might be more effective than attempting an all source RFO. At this time, it is not clear if changes to these various processes would be “minor clarifications” or substantial revisions to the evaluation process. The Commission should consider whether the values used for cost benefit analysis take into account the *correct* values. For example, should avoided capacity costs look at local system needs and not just overall system needs? Similarly, should triggers for DR programs be changed to allow for local needs as compared to system needs? SDG&E believes that these issues should be addressed in the dedicated DR proceeding rather than in an RFO. Failure to review the entire set of procurement processes and immediately requiring an all-source RFO in conjunction with the existing processes could lead to conflicting and unintended negative results.

B. A “portfolio approach” that allocates, based on strategic/portfolio considerations, the total quantity of new flexible resources among various eligible resources (for example, how could/should the allocations be adjusted periodically based on current or expected conditions?).

a. SCE provided two proposed alternatives to filling any LCR need at the September 7, 2012 workshop, one with flexibility for SCE in procuring resources via two separate tracks, and another approach using an all-source RFO. Is there some way to blend these approaches? If so, how, and should the Commission attempt to do so?

Response to Question 4.B: SDG&E does not support a process that attempts to allocate the quantities of flexible resources to specific eligible resources as part of the RFO design. The RFO should be designed to allow the most cost-effective solutions to come forward and not be hindered by arbitrary allocations.

SDG&E does not view SCE’s proposal as requiring an allocation of resources among various eligible resource types. Rather, SCE’s method involves each resource type being

assessed for its benefits and then selection of those resources that meet the total need in the lowest cost manner. This may result in no resources being selected from certain resource types.

C. Establishing a set of minimum criteria for operational flexibility characteristics for all acquired resources;

Response to Question 4.C: SDG&E does not support a portfolio development approach that would require that all new resources provide a minimum level of operational flexibility. Such an approach could lead to unreasonable increased cost by providing more operational flexibility than is actually needed. Moreover, it is not clear that establishing minimum operational flexibility requirements for every LSE is the most efficient way to meet a future operational flexibility requirement.

D. A “strong showing” requirement that the utility must demonstrate that its procurement process was substantially open to all resource types and appropriately considered all of the values discussed above and that the resulting portfolio of resources is an optimal solution.

Response to Question 4.D: As a regulated utility, SDG&E accepts its obligation to demonstrate that its procurement process is fair, designed to benefit SDG&E’s bundled customers, and implemented in a reasonable and prudent manner.

E. Adjusting existing procurement mechanisms, such as the Renewable Auction Mechanism, to focus on the physical locations with needs that can be met by that programmatic resource.

Response to Question 4.E: SDG&E supports valuing greater locational specificity in existing programs – this is an example of the type of process review and revision that SDG&E is advocating the Commission should undertake in dedicated procurement-related proceedings. For example, the Commission recently modified the RAM evaluation to recognize different resource adequacy values. This will allow SDG&E to evaluate whether projects located in its local capacity area that have slightly higher costs provide sufficient incremental value to make them a

more cost-effective resource than those that provide only system capacity. SDG&E notes, however, that it does not endorse a local mandate. A requirement that SDG&E select only local projects through a procurement program would not ensure that local capacity needs are being met on a cost-effective basis. If the incremental cost of a local versus a system resource is greater than another option for meeting local requirements, the utility should be free to select a system resource. SDG&E must have the ability to evaluate each local project to determine what, if any, locational value it provides. Rules that preclude such valuation are counterproductive.

Question

- 5. At the September 7th workshop, some parties discussed retrofits to existing generation assets as a potential source of incremental capacity. What, if any, changes would need to be made to the most recent long term RFO issued by PG&E, SDG&E, and SCE to allow for incremental capacity associated with retrofits to existing generation to compete to meet Local Capacity Requirements? Are there any differences in payment streams that should be given for existing capacity, as opposed to upgraded capacity?**

Response to Question 5: Resource procurement processes should consider such options on an equal basis with other offers, assuming that the seller can make such an offer in light of any existing agreements the seller may have for its plant. This would be a more complex bid on the seller's part since the payment for incremental capacity would only be for the incremental capacity and not for the existing capacity. Likewise, the Commission would need to recognize that in many cases the incremental capacity could not be operated independently of the existing capacity, and thus there could be limitations on the dispatch of such capacity that would need to be considered in the evaluation.

Question

- 6. At the September 7th workshop, both SCE and Enernoc raised concerns that it would be difficult to procure demand response resources that match the online dates (2017 to 2020) and duration (e.g., 20 years) of the conventional generation that is being contemplated as a source of LCR capacity. How could a demand side program**

be authorized through this LCR procurement process that delivers an on-line date and a duration that is comparable to conventional generation? What additional values are currently attributed to demand response resources in other markets that are currently not accounted for in California, and that might be taken into account as part of an LCR procurement process?

Response to Question 6: In SDG&E's experience, long-term DR programs, even those that start in the near term, cannot be relied upon for firm long-term supply. This fact calls into question whether DR programs scheduled to start a number of years in the future could be treated as a reliable resource. Since DR programs rely on individual customers' willingness and ability to perform, the question is whether it is prudent to make assumptions regarding what customers might be willing to do years from now when those customers themselves cannot predict with 100% accuracy what their own businesses will require.

Dated this 9th day of October, 2012 in San Diego, California.

Respectfully submitted,

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