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December 18, 2012

ADVICE LETTER 2437-E
(San Diego Gas & Electric Company ID U 902-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SUBJECT: SAN DIEGO GAS & ELECTRIC COMPANY'S REQUEST TO MODIFY THE RENEWABLE AUCTION MECHANISM ("RAM") PROGRAM REQUIREMENTS.

I. PURPOSE OF THE ADVICE LETTER

In compliance with California Public Utilities Commission's ("CPUC" or "Commission") Decision ("D.") 10-12-048, San Diego Gas & Electric Company ("SDG&E") respectfully submits this advice letter to request a modification to the RAM program requirements.[1]

II. BACKGROUND

On December 18, 2010, the CPUC approved the RAM program in Decision 10-12-048 (the "RAM Decision"). Through the RAM Decision and subsequent Commission decisions and resolutions, the Commission has established various RAM program requirements, including the requirement that projects must be located within the service territories of California's three Investor Owned Utilities ("IOUs"), SDG&E, Pacific Gas & Electric ("PG&E") and Southern California Edison ("SCE"). Having successfully completed two of the four required RAM solicitations, SDG&E submits on the basis of its experience with these solicitations that the RAM program would benefit from a modification to this locational requirement.

III. THE CPUC SHOULD EXPAND THE RAM PROGRAM TO INCLUDE PROJECTS LOCATED IN THE SERVICE TERRITORY OF THE IMPERIAL IRRIGATION DISTRICT ("IID")

The CPUC should modify the current RAM project location requirement in order to permit projects located in IID's service territory and interconnecting to the California System Operator ("CAISO") directly or delivering to the CAISO via pseudo-tie to participate in the RAM program. Doing so would accomplish the following: (1) better align the RAM program with the realities of SDG&E's service territory; (2) help remove potential obstacles to the success of IID projects; and (3) increase competition for inexpensive RAM projects.

A. *Including IID Projects in the RAM will Better Align the Program with the Limitations of Distributed Generation Projects within SDG&E's Service Territory*

The RAM Decision sets forth two reasons for restricting the location of facilities eligible for the RAM to the service territories of the three IOUs, both of which are problematic for

[1] D.10-12-048, *mimeo*, Appendix A, § 7 ("The Commission may modify any element of the program at any time through a Commission resolution.")

SDG&E. First, the RAM Decision indicates that the locational restriction adds value to customers because it will result in small distributed generation projects that do not incur the costs associated with projects located further from load.[2] After two rounds of RAM solicitations, SDG&E has found that this is not the case for projects intending to develop within SDG&E's service territory. The results of SDG&E's first two RAM solicitations have shown that many winning RAM projects are sized near the 20 MW threshold. 20 MW projects are typically too large to interconnect to SDG&E's distribution system. Because of the lower voltage levels of SDG&E's distribution system, RAM projects of this size that intend to build in SDG&E's service territory would have to interconnect at the transmission level.

SDG&E has also learned from potential RAM developers over the past year that it is difficult to find suitable project sites near load within SDG&E's service territory. Since many RAM projects require large blocks of land, potentially over 100 acres for some 20 MW solar photovoltaic projects, it is unlikely that such projects will be located near SDG&E load centers. Instead, developers seeking to build RAM projects in SDG&E's service territory must build projects in SDG&E's eastern territory where population (load) is scarce and open land is available. Therefore, despite the RAM Decision's goal of encouraging distributed generation, the typical RAM project located in SDG&E's service territory would interconnect at the transmission level and be sited far from load.

The second rationale articulated in the RAM Decision for limiting RAM projects to the service territories of the three IOUs is maintaining the simplicity of the RAM's "price only" evaluation process.[3] The RAM Decision explains that if RAM included projects located outside IOU service territories, IOUs may have to add transmission or firming and shaping adders to the bid evaluation process.[4] As a practical matter, however, a project located *within* the territories of the IOUs might also require transmission upgrades. Thus, the location of the project – within or outside of the IOU's service territory – does not determine whether transmission upgrades are necessary. Furthermore, the Commission later modified the RAM program to allow IOUs to include the cost of transmission upgrades in its evaluation processes. Resolution E-4414 states that "[n]etwork upgrade costs are direct costs that ratepayers incur and should be taken into account since the bid price does not reflect this cost." This modification acknowledges the fact that RAM projects may be located in areas where transmission upgrades are required to serve load and that such costs should in fact be included in the RAM's evaluation process.

In light of the fact that the CPUC has recognized that RAM projects may incur transmission costs and has already modified the RAM program to accommodate them, SDG&E believes that it is appropriate to revisit the project location restriction. Given that it is generally not possible for many RAM projects to interconnect at the distribution level in SDG&E's service territory, limiting the RAM program to projects within the boundaries of its service territory no longer fits the original intent of the program and does not add value to customers. For example, a RAM project located in Borrego Springs, CA is not necessarily more likely to avoid transmission level upgrades than a project located approximately 15 miles further east in IID's service territory.

B. *Including Projects Located in IID's Service Territory Will Help to Ensure Continued Development of Imperial Valley Renewable Resources*

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[2] *Id.* at p. 47.
[3] *Id.*
[4] *Id.*

Projects located in IID's service territory are important to the success of California's Renewable Portfolio Standard ("RPS") program. The Imperial Valley region is widely recognized for its renewable energy potential with high levels of solar, wind and geothermal resources. SDG&E is committed to bringing these resources to the San Diego region via the Sunrise Powerlink transmission line. To illustrate this commitment, SDG&E currently has over 3,000 GWhs under contract from projects in the Imperial Valley region that will benefit from the Sunrise Powerlink. The CPUC has acknowledged the importance of the Imperial Valley region and the Sunrise Powerlink by committing to monitor procurement activities in the area. For example, in its decision approving construction of the Sunrise Powerlink, the CPUC ordered SDG&E to maintain a portfolio of at least 2,253 GWhs per year from Imperial Valley region projects that will benefit from the new power line.[5] This decision also suggested that remedial measures to ensure procurement of Imperial Valley projects, like automatic shortlisting, special evaluation methods, may be appropriate under certain circumstances.[6] Most recently in its decision approving 2012 RPS plans, the CPUC indicated that while such remedial measures are not currently necessary, continued monitoring of procurement activity is still required.[7] This decision also required that the three IOUs assume a maximum import capability of no less than 1,400 MW for imports from IID in order to avoid any perception of IID projects receiving unfair treatment in the bid evaluation process.[8] Although procurement has been robust in recent years, in large part because of SDG&E's Sunrise commitment, excluding this region from the RAM program is counterproductive. Projects located in IID's service territory further the goals of the RAM program to the same degree as projects located in SDG&E's eastern territory and should be allowed the opportunity to bring their valuable resources into the RAM program.

C. *Including IID Projects in the RAM Will Increase Competition for Inexpensive RAM Projects*

Projects located in IID offer the potential to drive down prices in RAM solicitations. The RAM has already proven to produce competitively priced projects. Expanding the program to include an additional pool of projects from a resource-rich area will only serve to benefit customers statewide by increasing competition, which ultimately offers the best value to ratepayers.

IV. INCLUDING IID PROJECTS WITH CAISO PSEUDO-TIES IN THE RAM WOULD REQUIRE AMENDMENT OF THE RAM PPA

In order to accommodate projects located in IID's service territory that interconnect with the CAISO via pseudo-tie, the CPUC would have to approve amendments to the form RAM power purchase agreement ("PPA"). The RAM program requires that RAM contract terms and conditions be non-negotiable.[9] The RAM decision allows IOUs to propose contract terms and conditions for Commission approval through an advice letter.[10] If the request to include IID projects interconnecting via pseudo-tie is approved,

[5] D. 08.12.058, p. 265.
[6] *Id.* at p. 267.
[7] D. 12.11.016, pp. 17 – 20.
[8] *Id.* at pp. 13 – 17.
[9] D. 10.12.048, p. 48.
[10] *Id.* at p. 49.

SDG&E's form RAM PPA would need to be adjusted. Required changes would include the following:

Optionality as to Scheduling Provisions and Imbalance Energy:

A. To the extent a project located in IID with a CAISO pseudo-tie is eligible for the Participating Intermittent Resource Program ("PIRP"), the current RAM PPA form would not change (e.g., Buyer is the scheduling coordinator, Buyer is responsible for CAISO costs and revenues, etc.)

B. To the extent a project located in IID with a pseudo-tie to CAISO is not PIRP eligible, Seller will be the scheduling coordinator for the project. Seller as scheduling coordinator for the project would then be responsible for CAISO costs and revenues associated with energy from the project. Specifically, Seller would be at risk for any imbalance energy payments to CAISO as a result of the project under generating. SDG&E recognizes that IOUs serve as the scheduling coordinator for RAM projects in most cases. SDG&E believes that it is in the best interest of ratepayers for Sellers to serve as the scheduling coordinator for RAM projects located in IID with pseudo-ties to CAISO if such projects are not PIRP eligible. PIRP allows for monthly netting of imbalances, and if unavailable, the imbalance risks associated with intermittent resources could potentially be high. Compound this with the fact that these resources are located outside of SDG&E's service territory and interconnect via pseudo-tie, it is in the best interest of ratepayers to be shielded from potential imbalance risks and to have Sellers manage it. Indeed, Sellers are in the best position to manage the scheduling of their project and the pseudo-tie interconnection necessary to interconnect an IID project to the CAISO. Allowing the Seller to be the scheduling coordinator in this case also aligns with the Commission allowing IOUs to decline scheduling coordinator responsibilities for projects located outside of its service area.[11]

Optionality as to Delivery Point:

A. The definition of Delivery Point will need to be adjusted to accommodate the pseudo-tie interconnection. The delivery point would become the CAISO intertie with the IID (i.e., the Imperial Valley Substation), and Seller would be responsible for obtaining firm transmission rights from the project's point of interconnection to the CAISO delivery point.

Interconnection and Network Upgrades

A. The description and usage of the point of interconnection would need to be modified to reflect that the project's first point of interconnection would be a point on the IID system and not on the CAISO. Conforming changes would need to be put in place regarding interconnection process and facilities, curtailment, and the rules that govern the IID's operation of its transmission system.

[11] *Id.* at p. 64 ("[t]he IOU can decline scheduling coordinator responsibilities…if unable to perform scheduling coordinator duties (e.g., for a project located out of its service area)."

B. Changes would need to be made to language regarding network upgrades to ensure that no direct cost responsibility for IID upgrades falls on SDG&E or CAISO ratepayers, and to differentiate among reliability and network upgrades to the transmission and distribution systems of IID as the interconnecting transmission provider, SDG&E as the participating transmission owner in the CAISO, and CAISO as the balancing authority for the project and the operator of the CAISO grid.

Pricing and Settlement

A. With the Seller serving as scheduling coordinator and assuming imbalance risk, the PPA should be modified so that, in each hour, the price paid to the Seller is the contract price minus the real-time price paid to generators by the CAISO in each settlement interval. In addition, Seller should be paid for each hour based on actual generation, and not scheduled. These modifications give the Seller incentive to minimize imbalances and ensure that ratepayers do not pay for energy that does not include the green attributes from the project.

Resource Adequacy

A. Given projects will interconnect via pseudo-tie, to the extent a project has achieved resource adequacy eligibility, the amount of resource adequacy available to Buyer will be subject to Buyer's import allocation rights and capability. Accordingly, the PPA will have language that accommodates the import aspects of resource adequacy.

V. EFFECTIVE DATE

This filing is classified as Tier 3 pursuant to D.10-12-048. SDG&E respectfully requests that this filing become effective on April 30, 2013.

VI. PROTEST

Anyone may protest this advice letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received by January 7, 2013 which is 20 days of the date this advice letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Copies should also be sent via e-mail to the Energy Division at EDTariffUnit@cpuc.ca.gov. It is also requested that a copy of the protest be sent via electronic mail and facsimile to SDG&E on the same date it is mailed or delivered to the Commission (at the addresses shown below).

Attn: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
Facsimile No. 858-654-1879
E-Mail: MCaulson@semprautilities.com

VII. NOTICE

In accordance with General Order No. 96-B, a copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties in A.08-07-017 and R.11-05-005, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

Address changes should be directed to SDG&E Tariffs by facsimile at (858) 654-1879 or by e-mail to SDG&ETariffs@semprautilities.com.

CLAY FABER
Director – Regulatory Affairs

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC (U 902)**

Utility type:	Contact Person: Joff Morales
☒ ELC ☐ GAS	Phone #: (858) 650-4098
☐ PLC ☐ HEAT ☐ WATER	E-mail: jmorales@semprautilities.com

EXPLANATION OF UTILITY TYPE	(Date Filed/ Received Stamp by CPUC)
ELC = Electric GAS = Gas	
PLC = Pipeline HEAT = Heat WATER = Water	

Advice Letter (AL) #: 2437-E

Subject of AL: San Diego Gas & Electric's Request to Modify the Renewable Auction Mechanism ("RAM")

Program Requirements

Keywords (choose from CPUC listing): Procurement, Power Purchase Agreement

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☒ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

N/A

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: None

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: N/A

Does AL request confidential treatment? If so, provide explanation: None

Resolution Required? ☒ Yes ☐ No Tier Designation: ☐ 1 ☐ 2 ☒ 3

Requested effective date: 4/30/2013 No. of tariff sheets: 0

Estimated system annual revenue effect: (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: None

Service affected and changes proposed[1]: None

Pending advice letters that revise the same tariff sheets: None

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division	**San Diego Gas & Electric**
Attention: Tariff Unit	**Attention: Megan Caulson**
505 Van Ness Ave.,	**8330 Century Park Ct, Room 32C**
San Francisco, CA 94102	**San Diego, CA 92123**
EDTariffUnit@cpuc.ca.gov	**mcaulson@semprautilities.com**

[1] Discuss in AL if more space is needed.

General Order No. 96-B
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission
DRA
Y. Schmidt
W. Scott
Energy Division
P. Clanon
S. Gallagher
H. Gatchalian
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APS Energy Services
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BP Energy Company
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School Project for Utility Rate Reduction
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TURN
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Western Manufactured Housing Communities Association
S. Dey
White & Case LLP
L. Cottle
Interested Parties
R.11-05-005
A.08-07-017