

**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)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY
(U 902 E) ON PROPOSED DECISION AUTHORIZING LONG-TERM
PROCUREMENT FOR LOCAL CAPACITY REQUIREMENTS**

AIMEE M. SMITH

101 Ash Street, HQ-12
San Diego, California 92101
Telephone: (619) 699-5042
Facsimile: (619) 699-5027
amsmith@semprautilities.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

January 22, 2013

**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)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY
(U 902 E) ON PROPOSED DECISION AUTHORIZING LONG-TERM
PROCUREMENT FOR LOCAL CAPACITY REQUIREMENTS**

**I.
INTRODUCTION**

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), San Diego Gas & Electric Company (“SDG&E”) provides these reply comments regarding the proposed *Decision Authorizing Long-Term Procurement for Local Capacity Requirements* (the “PD”).

In its Opening Comments, SDG&E pointed out that the PD incorrectly characterizes the analysis performed by the California Independent System Operator (“CAISO”) regarding local capacity requirements (“LCR”) need.^{1/} SDG&E also proposed revisions to the PD intended to cure the improper omission of discussion of procurement to meet LCR need in the Ellis sub-area of the Los Angeles basin local area. SDG&E explained that procurement in the Ellis sub-area is necessary to ensure that the import capacity assumed in the CAISO study to the San Diego and Greater Imperial Valley-San Diego areas is maintained.^{2/} In its Opening Comments, the Alliance for Nuclear Responsibility (“A4NR”) echoes SDG&E’s concerns regarding the potential serious harm caused by lack of coordination in LCR procurement in the Ellis sub-area and the San Diego and Greater Imperial Valley-San Diego areas.^{3/}

^{1/} *Comments of San Diego Gas & Electric Company on Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements*, filed January 14, 2013 in R.12-03-014 (“SDG&E Opening Comments”), p. 2.

^{2/} *Id.* at pp. 3-4.

^{3/} *Alliance for Nuclear Responsibility’s Comments on ALJ Gamson’s Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements*, filed January 14, 2013 in R.12-03-014 (“A4NR Opening Comments”), pp. 8-12.

While A4NR’s comments are offered in the context of the potential unavailability of the San Onofre Nuclear Generating Station (“SONGS”) , it is important to note that the need to coordinate procurement of generation in the Ellis sub-area and the San Diego and Greater Imperial Valley-San Diego areas is critical and exists regardless of SONGS availability.

II. DISCUSSION

A. SDG&E Agrees that SCE’s Statewide Cost Allocation Proposal Should be Rejected

In its Opening Comments, Pacific Gas & Electric Company (“PG&E”) addresses the concept described by Southern California Edison Company (“SCE”) regarding possible statewide allocation of costs associated with procurement of a resource with incremental flexibility benefits.^{4/} This issue was comprehensively addressed by SDG&E in briefing. SDG&E explained in its Opening Brief that (i) SCE’s proposal is inconsistent with Public Utilities Code § 365.1(c), which permits a utility to procure generation to meet system or local area reliability need only on behalf of customers located in *its own* distribution service territory, and likewise to allocate the net capacity costs of such generation only to benefitting customers located in *its own* distribution service territory;^{5/} and (ii) is inequitable and should be rejected on policy grounds.^{6/}

^{4/} SCE witness Cushnie explained that if it is ordered by the Commission to procure a resource that offers flexibility benefits, SCE might elect to seek statewide allocation of the cost differential between a least-cost, non-flexible resource that would meet its LCR need, and the more expensive Commission-authorized resource that provides a flexibility benefit. See SCE/Cushnie, Exh. SCE-1, p. 26; SCE-2, pp. 5-6; Tr. Vol. 4, pp. 702-717.

^{5/} Pub. Util. Code § 365.1(c)(2)(A). The provision directs the Commission to:

Ensure that, in the event the commission authorizes, in the situation of a contract with a third party, or orders, in the situation of utility-owned generation, an electrical corporation to obtain generation resources that the commission determines are needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation’s distribution service territory, the net capacity costs of those generation resources are allocated on a fully nonbypassable basis consistent with departing load provisions as determined by the commission, to all of the following:

- (i) Bundled service customers of the electrical corporation.
- (ii) Customers that purchase electricity through a direct transaction with other providers.
- (iii) Customers of community choice aggregators.

^{6/} *Opening Brief of San Diego Gas & Electric Company on Track I Issues*, filed September 24, 2012 in R.12-03-014 (“SDG&E OB”), pp. 30-33.

PG&E opposes SCE’s statewide allocation proposal and recommends that if additional resources are necessary to meet “southern California’s” LCR requirement, such costs should be borne by customers “in southern California.”^{7/} To ensure this outcome, PG&E proposes adoption of the following Conclusion of Law in the final decision:

17a. Consistent with the cost allocation mechanism established in D.06-07-029 and refined in D.07-09-04, D.08-09-012 and D.11-05-005, the costs of any resources necessary to meet LCR needs in *southern California* should be allocated to utility customers in *southern California*.^{8/}

SDG&E understands PG&E’s proposal as a recommendation that the Commission make clear that it rejects SCE’s suggestion regarding possible statewide allocation of procurement costs. SDG&E’s agrees that even as a high-level concept, SCE’s statewide cost allocation proposal is deeply flawed and must be rejected. Accordingly, it supports PG&E’s proposed revision to the PD, but suggests that the wording of the proposed Conclusion of Law be modified to make clear that under § 365.1(c), procurement costs must be allocated to a specific utility:

17a. Consistent with the cost allocation mechanism established in D.06-07-029 and refined in D.07-09-04, D.08-09-012 and D.11-05-005, the costs of any resources necessary to meet LCR needs in the distribution service territory of a Commission-jurisdictional utility ~~southern California~~ should shall be allocated to utility customers in that Commission-jurisdictional utility’s distribution service territory.~~southern California~~

B. SDG&E Agrees that the PD Should be Revised to Delete the Requirement that the Energy Division Issue a Written Compliance Determination

The PD would require the Energy Division to issue a written determination that SCE has complied with the provisions of the Commission’s final decision before SCE is permitted to commence its public solicitation process.^{9/} The Division of Ratepayer Advocates (“DRA”) takes this proposal one step further, suggesting that the PD be revised to require SCE to formally file its procurement plan for

^{7/} *Comments of Pacific Gas & Electric Company on the Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements*, filed January 14, 2013 in R.12-03-014 (“PG&E Opening Comments”), p. 3.

^{8/} *Id.* Appendix §17a (emphasis added).

^{9/} PD, p. 85.

approval via a Tier 2 advice letter, allowing other parties to respond and comment.^{10/} The evidence contained in the record of the proceeding supports neither the Energy Division approval process outlined in the PD nor the more burdensome advice letter process proposed by DRA. Accordingly, SDG&E agrees with SCE that the PD should be revised to delete the requirement that the Energy Division issue a written compliance determination.^{11/}

In Decision (“D.”) 07-12-052, the Commission established a process whereby each utility works directly with its procurement review group (“PRG”) (which typically includes Energy Division staff), an independent evaluator (“IE”) and the Energy Division to develop its solicitation bid documents. The decision directs that “[d]raft RFO bid documents are to be developed under the oversight of an IE, vetted through the PRGs *and any differences resolved by ED staff in advance of the public issuance of the bid documents.*”^{12/} Thus, under the current process, which has been in place and successfully applied for a number of years, the Energy Division already has a central role in the review and development of solicitation documents.

SDG&E agrees with SCE that given the close and contemporaneous involvement of the IE, the PRG, and the Energy Division in each utility’s solicitation development process, there is no need for a separate and redundant Energy Division approval process. Indeed, as SCE correctly points out, “[t]he PD does not identify any record evidence to support the need for the prescriptive process identified in the PD when the IE, PRG, and Energy Division are available to offer SCE on-going advice and counsel.”^{13/} Adoption of the PD’s review proposal (or, even more detrimental, the DRA proposal) would inject unnecessary delay and administrative burden into the solicitation process. Accordingly, the PD should be revised to endorse the current review process and to eliminate the requirement that

^{10/} *The Division of Ratepayer Advocates’ Comments on Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements*, filed January 14, 2013 in R.12-03-014 (“DRA Opening Comments”), pp. 10-11.

^{11/} *See Southern California Edison Company’s Opening Comments on Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements*, filed January 14, 2013 in R.12-03-014 (“SCE Opening Comments”), pp. 9-10.

^{12/} D.07-12-052, *mimeo*, Ordering Paragraph 16 (emphasis added).

^{13/} SCE Opening Comments, p. 9.

the Energy Division issue a written compliance determination prior to commencement of SCE's solicitation.

**III.
CONCLUSION**

For the reasons set forth above, the PD should be revised in accordance with the recommendations described herein and in SDG&E's Opening Comments.

Dated this 22nd day of January, 2013 in San Diego, California.

Respectfully submitted,

/s/ Aimee M. Smith

AIMEE M. SMITH

101 Ash Street, HQ-12
San Diego, California 92101
Telephone: (619) 699-5042
Facsimile: (619) 699-5027
amsmith@semprautilities.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY