

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.)
_____)

Rulemaking 11-10-023
(Filed October 20, 2011)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U-902-E)
ON PHASE 2 RESOURCE ADEQUACY ISSUES**

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Pursuant to the *Administrative Law Judge’s Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference (“March 2013 ALJ Ruling”)* issued on or about March 11, 2013, San Diego Gas & Electric Company (“SDG&E”) files these comments in reply to certain opening comments submitted by various parties to this proceeding.

As described in greater detail below, SDG&E hereby clarifies and broadens its recommendations in two respects. First, SDG&E believes the comments of various parties to treat a 2014 flexible-capacity requirement as a “trial program” or “paper-only” requirement is to a large degree consistent with the *Joint Parties Proposal*¹ and SDG&E’s recommendation to amend the Commission’s resource-adequacy program to include a flexible-capacity requirement for Compliance Year 2014. Second, SDG&E generally agrees with those parties urging the Commission to make some immediate provision for the participation of preferred resources in the implementation of a flexible-resource requirement.

1. SDG&E’s Recommendation for the Adoption of a Flexible-Capacity Requirement in 2014 Is Consistent with the Notion of A “Paper-Only” Filing or “Trial” Program.

Several parties agreed with the Joint Parties that the Commission and market participants could benefit from the implementation of a flexible-capacity requirement for Compliance Year 2014. Those parties, however, limited their support of a 2014 requirement to what was variously

¹ See *Resource Adequacy and Flexible Capacity Procurement: Joint Parties’ Proposal*, Rulemaking 11-10-023, October 29, 2012 (“*Joint Parties’ Proposal*”); by California Independent System Operator (“California ISO” or “ISO”), Southern California Edison (“Edison”), and SDG&E. The *Joint Parties’ Proposal* was filed and served upon the service list to this proceeding both by the Joint Parties and as an attachment to the *Phase 2 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (“December 2012 Scoping Memo”)*, Rulemaking 11-10-023, December 6, 2012, Attachment A.

characterized as a “paper-only” or “trial” program.² SDG&E believes this characterization of the 2014 requirement is consistent with the *Joint Parties’ Proposal*.

As a general matter, SDG&E supports the adoption of the flexible-capacity requirement at the Commission’s earliest opportunity, *i.e.*, for Compliance Year 2014. As argued in SDG&E’s opening comments, early implementation would provide the Commission and market participants with an opportunity to test the degree to which their resource portfolios and compliance activities meet the California ISO’s operational needs with respect to flexible resources. Equally important, the early adoption of flexible-capacity requirements would provide the ISO with valuable data and experience which could be used in shaping the tariff revisions now under consideration in the companion ISO flexible-capacity stakeholder process. The California ISO would also be provided with an early opportunity to begin integrating changes to the manner in which it manages and approves planned maintenance outages with its shoulder-month and off-peak need for flexible resources.

The *Joint Parties’ Proposal* omits two fundamental elements from the 2014 implementation of a flexible-capacity requirement, deferring those elements to the post-2014 period when the flexible-capacity requirement would be fully in place. First, as the parties uniformly recognize, there will be additional performance obligations imposed upon those resources offering and committing to provide the flexible attributes needed by the California ISO. Those obligations and attributes will be identified in the California ISO’s flexible-resource must-offer obligations to be included as a part of future ISO tariffs. Because those new must-offer obligations are under development and in any event will not be enforced by the ISO during 2014, there is a “filing-only”, “trial-run” character to the *Joint Parties’ Proposal*. Second, the *Joint Parties’ Proposal* also omits the obverse imposition of penalties for any noncompliance on the part of the jurisdictional load-serving entities, *i.e.*, the “procurement” shortfalls described by the Division of Ratepayer Advocates. The *Joint Parties’ Proposal* contemplates load-serving

² See *Comments of the Division of Ratepayer Advocates on Flexible Capacity Procurement Workshop Issues*, Rulemaking 11-10-023, April 5, 2013, at pp.14 to 17 (proposing that the Commission adopt amended “filing” obligations but not “procurement” obligations); *Post-Workshop Comments of The Utility Reform Network on Flexible Capacity Proposals*, *id.*, April 5, 2013, at pp.9 to 10; *Comments of the Independent Energy Producers Association on Flexible Capacity Workshops and Proposals*, *id.*, April 5, 2013, at pp.2 to 4; *Comments of NRG Energy, Inc., on Phase 2 Issues*, *id.*, April 5, 2013, at pp.2 to 3; and, *Comments of the Western Power Trading Forum in Regard to Flexible Capacity Procurement Issues*, *id.*, April 5, 2013, at pp.3 to 5. See also, *Clean Coalition’s Comments on Energy Division Flexible Capacity Procurement Revised Proposal*, *id.*, April 5, 2013, at pp.6 to 7, where the concept of a contractual pricing penalty was suggested for resources not registering their eligible flexible capacity during 2014 – SDG&E does not believe this proposal is necessary to make a 2014 implementation meaningful and recommends the Commission disregard it as an undue, unenforceable and/or premature intervention in the market.

entities and resources will participate in the 2014 compliance period under a “best efforts” obligation and pursuant to a presumption that market participants and the regulatory agencies will participate in a concerted, structured and meaningful way so as to contribute to and gain the greatest benefit from the 2014 learning curve.³ To the extent the parties recommending a “paper-only” or “trial-run” implementation for 2014 are describing the same regulatory environment as contemplated by the *Joint Parties’ Proposal*, SDG&E agrees the Commission should proceed to adopt the *Joint Parties’ Proposal*, subject to a common understanding that the final must-offer obligations owed by eligible flexible resources and the noncompliance penalties to which load-serving entities will be subject are yet to be determined and would not be enforced in or for Compliance Year 2014.

2. The Commission Should Make Some Provision for the Participation of Preferred and Use-Limited Resources as Part of the 2014 Implementation of a Flexible-Resource Requirement.

In its opening comments, SDG&E recommended certain issues be deferred for further consideration and omitted from any flexible-resource requirement adopted for Compliance Year 2014. Among those issues was the consideration of eligibility criteria encouraging the provision of flexible capacity by and from energy-storage technologies and demand-response programs. After considering the comments of the parties regarding the role these resources might play in any long-term flexible-resource requirement, SDG&E now recommends the Commission allow for the meaningful participation of demand-response and energy-storage resources during a 2014 implementation period. This would, in turn, allow a test of the effectiveness of those resources in addressing the California ISO’s need for flexible resources as soon as possible and, equally important, facilitate the refinement of the standards and rules under which those resources might participate post-2014.

The *Joint Parties’ Proposal* reduces the California ISO’s need for flexible capacity to the essential eligibility standard that the resource must be capable of continuous ramping and sustaining energy output for a minimum of three consecutive hours during an operating day. As has been discussed in the workshops conducted by the Energy Division, there are various

³ To some extent, there would also be financial and reliability incentives for market participants to take the “trial” seriously. The California ISO currently possesses backstop procurement authorities which can be invoked to address any resource deficiencies threatening system reliability, including any deficiencies related to the ISO’s needs for flexible resources. In the event of any such resource deficiencies, although deemed by some parties to be unlikely at best, the ISO could be expected to exercise those authorities and allocate the costs of its intervention in the markets under the terms of its tariffs.

resources which are dispatchable in the sense that they are operationally capable of producing energy on demand on the one hand, but which cannot meet the strict terms of the eligibility requirements proposed under the *Joint Parties' Proposal* on the other hand. Many of the resources which fall betwixt and between the *Joint Parties' Proposal* and the ISO's operational requirements are those which are "preferred" under the State Energy Action Plan loading order. This prompted several parties to oppose the *Joint Parties' Proposal* on the grounds that the Joint Parties failed to make any provision for the immediate participation of those resources during the proposed Compliance Year 2014.⁴ Upon further consideration, SDG&E submits that, rather than reject a 2014 implementation of the *Joint Parties' Proposal*, the Commission should make some provision for the immediate participation of preferred and use-limited resources during Compliance Year 2014.

SDG&E's recommendation is borne of the successful collaboration regarding the accommodation of hydroelectric resources in the flexible-capacity program which was achieved through modifying the flexible-capacity eligibility requirements to reflect the operating characteristics and constraints associated with those resources. That is, Pacific Gas & Electric Company, joined by the Energy Division, proposed that a hydroelectric resource could be included in a load-serving entity's flexible-capacity demonstration where the resource was capable of providing ramping across a three-hour period, subject to a limitation on the number of hours during which the ISO could call upon the resource for the production of energy. SDG&E believes other resources capable of meeting the ISO's operational needs should be eligible to provide flexible capacity in Compliance Year 2014, even while the discussion of the final comprehensive eligibility requirements suited to encouraging the participation of those resources

⁴ See, e.g., *Comments of the Center for Energy Efficiency and Renewable Technologies on Resource Adequacy Flexible Capacity Procurement*, Rulemaking 11-10-023, April 5, 2013, at pp.6 to 8, and pp.13 to 16; *Comments of the Division of Ratepayer Advocates on Flexible Capacity Procurement Workshop Issues*, *supra*, at pp.9 to 10, discussing the eligibility of energy imports scheduled at fifteen-minute intervals; *Comments of the Independent Energy Producers Association on Flexible Capacity Workshops and Proposals*, *supra*, at pp.8 to 10, discussing the eligibility of use-limited resources; *Comments of the Western Power Trading Forum in Regard to Flexible Capacity Procurement Issues*, *supra*, at pp.8 to 9, discussing the eligibility of use-limited resources; *Comments of the California Energy Storage Alliance in Response to Administrative Law Judge's Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference*, *id.*, April 5, 2013, at pp.2 to 5, discussing the eligibility of energy-storage technologies; *Comments of Calpine Corporation*, *id.*, April 5, 2013, at pp.2 to 3, 7, discussing the eligibility of all use-limited resources, including hydroelectric generation, combustion turbines, storage and demand response; *Comments of Shell Energy North America (US), L.P., on Phase 2 Resource Adequacy Issues*, *id.*, April 5, 2013, at pp.7 to 8; *Comments of Ormat Technologies on January 23, 2013, Resource Adequacy Workshop and March 20, 2013, Workshop in Accordance with Phase 2, Scoping Memo and ALJ Ruling*, *id.*, April 5, 2013, at pp.2 to 4; and, *Clean Coalition's Comments on Energy Division Flexible Capacity Procurement Revised Proposal*, *supra*, at pp.5 to 8.

continues. While SDG&E believes developing the rules and standards by which preferred resources will involve certain complexities and require considerable further deliberations, SDG&E nevertheless recommends the Commission can and should, given the time constraints of the instant proceeding and for the limited purposes of launching the flexible-resource requirement in and for Compliance Year 2014, establish general eligibility requirements tailored to the attributes of preferred resources immediately. To this end, SDG&E recommends, for Compliance Year 2014 and only for Compliance Year 2014, the Commission permit a demand-response or energy-storage resource with a current net qualifying capacity rating to be included in a load-serving entity's monthly flexible-capacity demonstrations to the full extent of that resource's rating for the month relevant to any such demonstration.⁵ Providing for the eligibility of preferred resources and technologies in and for Compliance Year 2014 should help inform needed refinements of the eligibility criteria for post-2014 flexible-capacity requirements, as well as the development of the California ISO's flexible-capacity must-offer obligations in the ISO's stakeholder process.

For post-2014 compliance periods, the eligibility requirements and must-offer obligations applicable to demand-response and energy-storage resources will need to be more specifically defined and tailored to address the unique characteristics of discrete technologies or classes of potentially qualifying resources, along the lines of the adjustments proposed by Pacific Gas & Electric Company and the Energy Division for hydroelectric resources. As the Commission proceeds to consider and approve comprehensive and clearly defined eligibility criteria, SDG&E recommends adopting a set of principles and limitations to help guide the development of those criteria. First and foremost, the eligibility criteria adopted for specific types of resources must be designed so that the California ISO's operating needs are served – this would require that the eligibility criteria incorporate the essential characteristics of flexibility, namely, that the resource can be called upon to meet the ISO's ramping requirements and that the resource be capable of sustaining energy production for some minimum period of time.⁶ Second, the extent to which

⁵ This would be analogous to the treatment of certain thermal resources provided under the terms of the *Joint Parties' Proposal*. The Joint Parties propose that quick-start resources would be permitted to provide flexible capacity across the full range of and up to their net qualifying capacity. See *Joint Parties' Proposal*, October 29, 2012, Section 1.7.3.1, at pp.19 to 20.

⁶ As an example of the criteria which might be considered, the California Energy Storage Association proposes that energy-storage technologies capable of sustaining fifteen minutes of continuous energy delivery should qualify as flexible capacity. See *Comments of the California Energy Storage Alliance in Response to Administrative Law Judge's Ruling Resetting Schedule for Comments on Phase 2 Resource Adequacy Issues and Scheduling a Prehearing Conference, supra*, at pp.8 to 9.

any resource may be regarded as eligible to offer flexible capacity should be limited to an amount no greater than the resource's net qualifying capacity as determined under the other rules of the Commission's resource-adequacy requirements and the California ISO's tariffs. Third, the eligibility criteria must be clear, objective and enforceable by the ISO and the Commission. Pursuant to these three overarching principles, the Commission should entertain proposals specifying the eligibility criteria applicable to any preferred or use-limited resource and the manner in which the precise level of capacity any resource may offer as flexible capacity should be determined.

In summary, SDG&E supports a determination that load-serving entities may include demand-response and energy-storage resources in their Compliance Year 2014 resource-adequacy demonstrations as flexible capacity and for such resources to be eligible to provide flexible capacity to the full extent of their net qualifying capacity in a given month. SDG&E believes allowing these specific resources and technologies to qualify as flexible resources during the implementation year can inform the necessary further refinements of the eligibility criteria for the post-2014 period and assist in developing the ISO's flexible-capacity must-offer obligations. This comports with SDG&E's fundamental position that implementing the flexible-capacity requirement in and for Compliance Year 2014 will provide the Commission and the California ISO with valuable information regarding the appropriate manner in which to address state energy policies and grid-reliability requirements.

Respectfully submitted,

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