

**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.

R. 12-03-014  
(Filed March 22, 2012)

**OPENING COMMENTS OF THE SOUTH SAN JOAQUIN IRRIGATION  
DISTRICT CONCERNING TRACK III RULES ISSUES**

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April 26, 2013

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Pursuant to the Administrative Law Judge's ("ALJ's") March 21, 2013 ruling,<sup>1</sup> the South San Joaquin Irrigation District ("SSJID") respectfully submits these opening comments on Track III procurement rules and questions for parties.

SSJID is a special district formed in May 1909 pursuant to the Wright-Bridgford Act, the predecessor of the California Water Code, for the purpose of providing a reliable, economic source of irrigation water for the cities of Escalon, Ripon, and Manteca, and portions of unincorporated San Joaquin County. SSJID is currently an electric customer of Pacific Gas & Electric ("PG&E") and the Modesto Irrigation District, and its service territory includes approximately 38,000 PG&E accounts.

SSJID is pursuing plans to expand the services it provides within its existing service area to include retail electric service. When SSJID's municipalization plan is implemented, former-PG&E customers taking service from SSJID will be considered municipal departing load customers. SSJID's comments pertain to investor-owned utility ("IOU") procurement activities on behalf of these and other municipal departing load customers.

**I. MAXIMUM AND MINIMUM LIMITS ON IOU FORWARD PURCHASING OF ENERGY, CAPACITY, FUEL, AND HEDGES (QUESTION 1)**

In response to the ALJ's question 1(b) regarding how the Commission should best address issues related to departing load in future IOU procurement requirements, SSJID contends

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<sup>1</sup> On March 28, 2013, ALJ Gamson granted via email ruling the Division of Ratepayer Advocates' request to extend the date for filing comments on Track III Rules issues from April 12 to April 26, 2013.

that the IOUs should use reasonable (i.e., not worst-case) forecasts in forecasting departing load and that PG&E should not procure additional future capacity on behalf of customers that SSJID is preparing to serve. The reasoning behind these recommendations is discussed below.

**A. The IOUs should use reasonable (not worst-case) forecasts in forecasting departing load**

The Commission requires IOUs to use reasonable assessments of future conditions, rather than the most conservative assessments, when faced with load and supply uncertainty in their procurement forecasts. The Commission confirmed this principle in its recent decision denying SDG&E’s application for authority to enter into power-purchase tolling agreements (“PPTAs”) with Pio Pico Energy Center and Quail Brush Power.<sup>2</sup> In particular, the Commission considered whether it is appropriate to include uncertain amounts of uncommitted energy efficiency and demand response in SDG&E’s load forecast. The Commission determined that it is its “statutory responsibility to ensure just and reasonable rates by, among other things, limiting unnecessary ratepayer costs,” and that it is therefore “appropriate to take into account reasonable forecasts of uncommitted energy efficiency and demand response, as well as incremental demand-side CHP, in determining whether to authorize the procurement of additional generation resources.”<sup>3</sup> This approach, of relying on reasonable forecasts of uncertain future conditions, balances the risk of reliability shortfalls that might arise from under-procurement with the cost to ratepayers from over-procurement.

In contrast, an alternate approach designed to meet procurement needs to a very high degree of certainty would require the utilities to account for worst-case hydro conditions, extensive nuclear plant outages, aggressive load growth without offsetting energy efficiency and self-generation, and transmission outages. This sort of approach would dramatically increase the

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<sup>2</sup> See Decision 13-03-029.

<sup>3</sup> *Id.*, mimeo at 9. (*Emphasis added.*)

utilities' perceived need for power, and would result in significant over-procurement under most circumstances. Such an approach would be extremely costly to ratepayers, which is why Commission policy requires the IOUs to consider reasonably probable scenarios when forecasting procurement need, despite the fact that this approach runs some risk of reliability shortfalls should unlikely scenarios unfold.

This same standard should apply when the IOUs develop departing load forecasts. The IOUs should be required to include in their forecasts any departing load that is reasonably likely to occur, even if neither the departure nor its timing can be predicted with certainty. Requiring an extremely high level of certainty in departing load forecasts would result in the procurement of power for customers that are unlikely to be on the IOUs' systems, thereby unnecessarily increasing costs to ratepayers. The IOUs are well equipped to handle the risks of procurement shortfalls associated with delayed or cancelled departing load, just as the IOUs regularly manage risks associated with other uncertainties that have far more significant effects on customer demand, system supply, and IOU procurement requirements, including variable hydro output and uncertain load growth.

**B. PG&E should not procure capacity on behalf of SSJID**

As stated above, SSJID is in the process of undertaking to provide retail electric service within its existing service area. PG&E is well aware of SSJID's plans in this regard. State law requires PG&E to forecast municipal departing load in its departing load forecasts.<sup>4</sup> It would therefore be unreasonable for PG&E to not account for SSJID's municipalization when forecasting its future procurement needs.

While there is uncertainty as to precisely when SSJID will start providing retail electric service, the potential cost to PG&E ratepayers of including SSJID load in PG&E's departing

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<sup>4</sup> See Pub. Res. Code § 25302.5(a).

load forecasts is much smaller than the potential cost of failing to do so. The reason for this is that if PG&E does not account for SSJID's load in its departing load forecast and instead procures power on behalf of future SSJID customers, this procured power will be unnecessary after customers within SSJID's service area depart to take electric service from SSJID, and ratepayers will be saddled with the additional excessive costs for the unneeded power PG&E has procured. If, on the other hand, PG&E includes SSJID's load in its departing load forecast and does not procure power on behalf of these customers, even were SSJID's plan to be delayed and PG&E were to serve customers within SSJID's service territory far longer than anticipated, PG&E ratepayers would not likely be impacted in any adverse material respect. As explained more fully below, this is because (1) customers within SSJID's service area currently served by PG&E make up less than 1% of PG&E's load;<sup>5</sup> (2) the effect of this load on PG&E's system procurement requirements is diminutive in comparison to other variables that PG&E must manage on a regular and ongoing basis; and (3) there is sufficient generation capacity in the SSJID region to meet any potential local PG&E capacity shortfall.

PG&E has previously argued that it should not account for SSJID's municipalization plans in its load forecasts since these plans have failed before and there is a possibility that they may not come to fruition. However, as discussed above, PG&E's standard for whether or not to account for departing load in its forecasts should not require absolute certainty. SSJID has taken many concrete steps to implement its plan, including completing public review drafts of the key studies required: the Environmental Impact Report and the Municipal Services Review. In addition, the Commission has already ruled that SSJID's proposed municipalization would not

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<sup>5</sup> 606,550 MWh projected SSJID 2014 load/74,795,076 MWh PG&E projected 2013 bundled load = 0.8%. (Projected SSJID 2014 load is used because a projection of SSJID 2013 load is not available.) SSJID projected load from Aspen Environmental Group. See *South San Joaquin Irrigation District Plan to Provide Retail Electric Service: Draft Subsequent Environmental Impact Report*, ("SSJID Draft Subsequent Environmental Impact Report") State Clearinghouse No. 2005102018, at 3.13-2, 3.13-3 (November 2011). A copy is available at <http://www.co.san-joaquin.ca.us/lafco/SSJID/DEIR%20CD/index.htm>. See PG&E Advice Letter 4096-E-A (December 31, 2012). PG&E load at Attachment 3, Table 4.

substantially impair PG&E's ability to provide service at reasonable rates,<sup>6</sup> and SSJID is in the final stages of pursuing approval for its plan from the San Joaquin Local Agency Formation Commission. These milestones indicate a strong commitment by SSJID to pursue municipalization and a reasonable likelihood that its plan will be met with success. This reasonable expectation of load departure should be sufficient for incorporating SSJID's load in PG&E's departing load forecast.

Moreover, the reliability risk to other PG&E ratepayers if SSJID's municipalization plans are delayed is quite small. As Figure 1 on the following page illustrates, the magnitude of the risk associated with any uncertainty related to SSJID's plan pales in comparison to other PG&E procurement risks. For example, PG&E's hydroelectric projects generated 8,092 gigawatt-hours ("GWh") of power in 2008 and 12,008 GWh in 2011.<sup>7</sup> This swing of nearly 4,000 GWh is nearly seven times SSJID's projected 2014 load of 607 GWh. The risk associated with uncertain hydroelectric generation therefore plainly overshadows the risk associated with SSJID's projected load.<sup>8</sup> Similarly, a short-term outage of just three weeks at PG&E's Diablo Canyon nuclear facility would result in a loss of nearly 1,100 GWh of generation,<sup>9</sup> which is almost double SSJID's projected 2014 load.

PG&E also faces additional sources of load uncertainty that are significantly greater than that associated with SSJID's load, including uncertain levels of load growth, energy efficiency, and distributed generation among its customers. For example, the difference between the Energy Commission's 2012 high and low consumption forecasts for PG&E for 2014 is approximately 5,700 GWh,<sup>10</sup> more than nine times the uncertainty associated with the loss of SSJID's load.

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<sup>6</sup> Resolution E-4301.

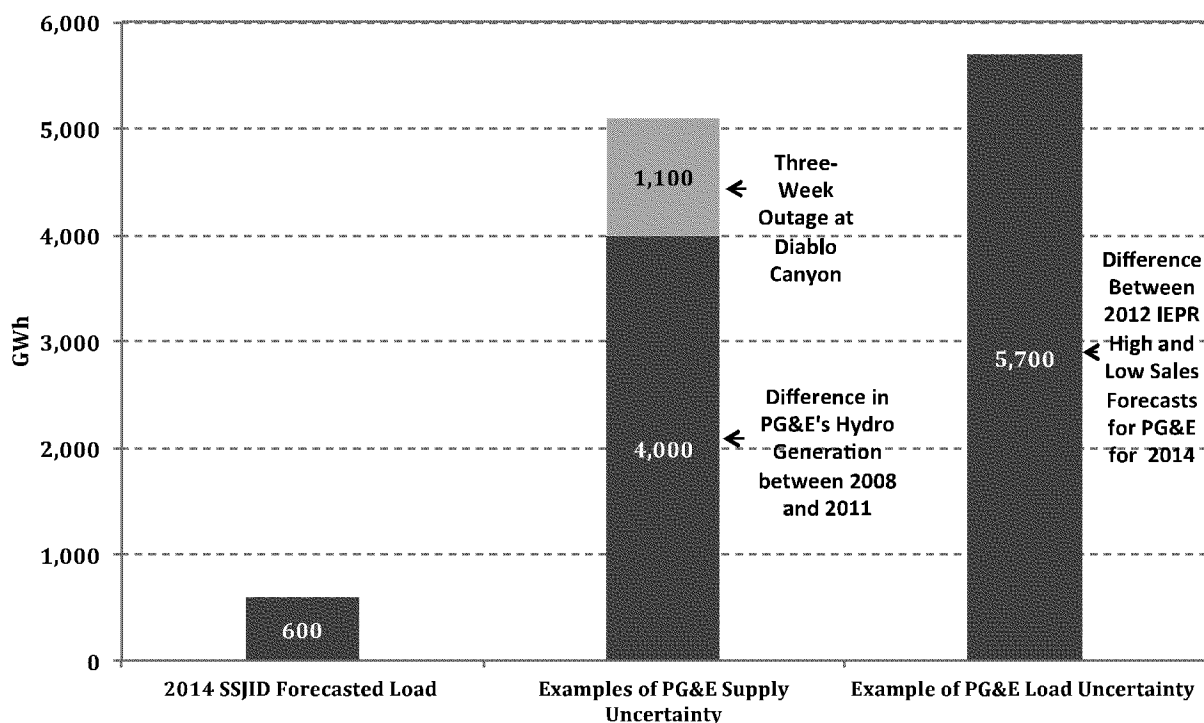
<sup>7</sup> PG&E Opening Testimony in A.12-11-009, PG&E-6 at 2-45.

<sup>8</sup> See SSJID Draft Subsequent Environmental Impact Report at 3.12-17.

<sup>9</sup> 1,112 GWh = (((2,200 MW Nameplate Capacity\*8,760 hours)/52 weeks)\*3)/1,000.

<sup>10</sup> California Energy Commission, *2012 Integrated Energy Policy Report Update*, Demand Forecast Form 1.1. (September 2012).

**Figure 1: SSJID Load in Relation to a Sample of Other PG&E Procurement Uncertainties**



PG&E must consider each of these types of supply and load uncertainties and many others when it develops its procurement plans. Therefore, there is no reason that PG&E cannot and should not be required to plan in its load forecasts for the relatively small uncertainties and risks associated with SSJID’s plan to provide retail electric service, despite the fact that it does not know with complete certainty when or even whether SSJID will be successful in implementing its plan. Indeed, it would be unreasonable and imprudent for PG&E not to account for SSJID’s planned municipalization in its departing load forecasts.

**C. Ample local capacity is available in the SSJID area**

Furthermore, should SSJID’s municipalization be delayed and should additional energy or capacity be required, PG&E would have sufficient opportunity to procure its full requirements. In recent years, SSJID and publicly owned utilities (“POUs”) in the SSJID resource area have developed significant new capacity that is interconnected with the California

Independent System Operator's ("CAISO") grid, including Lodi Electric Utility's 290 MW gas-fired Lodi Energy Center ("LEC") and SSJID's 1.4 MW Robert O. Schulz Solar Farm. Even if SSJID's municipalization plans were to be deferred, it is unlikely that there would be any capacity shortage in the SSJID service area given this significant new capacity. There is therefore no justification for PG&E to procure new capacity on behalf of SSJID's customers at this time.

## **II. CHANGES TO THE COMMISSION'S ADOPTED COST ALLOCATION MECHANISM (CAM) (QUESTION 5) TO EXEMPT MUNICIPAL DEPARTING LOAD**

Question 5(d) concerns criteria to govern CAM allocation decisions. SSJID contends that municipal departing load should be exempt from all CAM allocations because POU's develop and procure resources to meet the requirements of their own customers, and such resources provided by POU's have system-wide benefits equivalent to IOU-developed and procured resources. Despite this, however, there is no means available under the current CAM or any other existing mechanism to fairly and equitably allocate the system-wide benefits of CAISO-interconnected generation capacity developed by POU's. In order to uphold the Commission's well-established indifference principle,<sup>11</sup> a threshold question to determine if it may be appropriate to allocate IOU capacity costs to municipal departing load should be whether there is a mechanism for POU's to allocate POU capacity costs to bundled IOU customers. Absent a mechanism for compensating POU's for the local reliability benefits that POU generation investments provide to IOU's, IOU's and their customers receive these benefits for free.

Charging municipal departing load for IOU capacity costs without charging IOU customers for capacity developed by the municipal departing load's POU service provider is

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<sup>11</sup> Decision 02-04-067, mimeo at 4-5, and 21-22 (Ordering Paragraph 1).



contrary to the Commission's indifference principle because it results in bundled customers benefiting from municipal departing load and ensuing POU capacity development. This asymmetry also inequitably requires POUs and their customers to bear a disproportionate amount of the system cost for local reliability. The present CAM would additionally have anticompetitive effects by shifting procurement costs with system-wide benefits disproportionately from IOUs to POUs without any sound technical, policy or legal justification.<sup>12</sup>

### III. CONCLUSION

For the reasons set forth in these comments, SSJID recommends that the Commission require the IOUs to include in their departing load forecasts any planned load departures that are reasonably likely to occur, including SSJID's planned municipalization. In addition, SSJID recommends that the Commission exempt all POU customers, including municipal departing load, from CAM charges, at least until such time as a methodology is established that fairly and equitably allocates both IOU and POU reliability-related procurement costs among all customers that benefit from such procurement.

Respectfully submitted,

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Dated: April 26, 2013

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<sup>12</sup> The Commission is required to consider the economic impacts of its decisions and their effect upon competition. *United States Steel Corp. v. Agency v. Pub. Util. Comm'n* (1981) 29 Cal.3d 603; *Northern California Power Agency v. Pub. Util. Comm'n* (1971) 5 Cal.3d 370.