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) IN RESPONSE TO RULING SEEKING COMMENT ON TRACK III RULES ISSUES

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Pursuant to the Rules of Practice and Procedure of the California Public Utilities Commission (the "Commission"), the *Administrative Law Judge's Ruling Seeking Comments on Track III Rules Issues* issued in the above-captioned proceeding on March 21, 2013 (the "Ruling"), and the March 28, 2013 e-mail ruling of Administrative Law Judge ("ALJ") David M. Gamson extending the comment filing deadline, San Diego Gas & Electric Company ("SDG&E") provides these reply comments concerning issues relevant to Track III of the long term procurement plan ("LTPP") proceeding.

In its opening comments, SDG&E responded to several questions set forth in the Ruling regarding procurement rules and practices. SDG&E notes that the comments submitted by parties in Track III reflect a wide range of opinions, many of which have been previously offered by parties in similar form. To the extent that parties presented views in their opening comments that are not aligned with those of SDG&E, SDG&E submits that the arguments contained in its opening comments address such views and need not be repeated here. SDG&E's silence in these reply comments regarding arguments offered by parties in opening comments should not be interpreted as agreement; SDG&E reserves the right to provide comment on such arguments in the future.

In the Ruling, the Commission sought comment on whether existing power plants should be permitted to bid upgrades or repowers into new-generation requests-for-offers ("RFOs") and if so, how cost allocation issues should be addressed.[1/] In their jointly-filed opening comments, the Alliance for Retail Energy Markets and the Direct Access Customer Coalition ("AReM/DACC") acknowledge that upgraded/repowered facilities have in the past been permitted to bid into new-generation RFOs, but take the position that such procurement constitutes "replacement contracts" that are solely for the benefit of bundled customers and therefore should not be subject to the Cost Allocation Mechanism ("CAM") established pursuant to Public Utilities Code § 365.1(c)(2).[2/] Marin Energy Authority ("MEA") echoes this point, arguing that "[s]ince the facility is already existing and currently meeting a bundled procurement need, simply because it upgrades or repowers does not change its use in serving bundled customers. As a result, such a facility would not be CAM-eligible."[3/]

The logic applied by AReM/DACC and MEA is clearly flawed. AReM/DACC and MEA's categorical assumption that upgraded/repowered facilities bid into a new generation RFO would operate solely for the benefit of bundled customers is incorrect and prejudges the Commission's determination of "benefitting customers."[4/] If the Commission finds that an upgraded or repowered facility is needed in a particular instance to meet local or system area reliability needs for the benefit of all customers in the utility's service area, the total capacity cost of the repowered or upgraded resource must be allocated to all benefitting customers

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1/ Ruling, pp. 2-3 (Question 3.a.iv).

2/ *Track IIII Comments of the Alliance for Retail Energy Markets and the Direct Access Customer Coalition*, filed April 26 in R.12-03-014 ("AReM/DACC Comments"), pp. 9-10. All statutory references herein are to the Public Utilities Code unless otherwise noted.

3/ *Marin Energy Authority Comments on Track IIII Issues*, filed April 26 in R.12-03-014 ("MEA Comments"), pp. 9-10.

4/ *See* D.11-05-005, *mimeo*, pp. 7-8.

through the CAM.[5/] Thus, the driving consideration in determining CAM applicability is whether all customers in the utility's service area benefit from the resource proposed, and not whether the resource is an upgraded/repowered facility or newly constructed. Indeed, § 365.1(c)(2) includes no "newly-constructed facility" requirement and does not preclude application of CAM to upgraded/repowered facilities.

The Commission has noted that CAM "allows the costs and benefits of new generation to be shared by all benefitting customers in an IOU's service territory."[6/] The Commission has not, however, sought to limit the definition of "new generation" to newly-constructed resources and has permitted repowered resources to bid into new-generation RFOs.[7/] Logic dictates that if a resource is treated as "new generation" for RFO purposes, it should be treated as "new generation" for cost allocation purposes. Failure to follow this approach, and deeming upgraded/repowered facilities to be ineligible for CAM treatment, would result in upgraded/repowered resources being excluded from new-generation RFOs. This would undermine the Commission's policy of "encouraging the increased efficiency and repowering of existing facilities."[8/] Thus, if an upgraded/repowered resource is bid into a new-generation RFO and the Commission determines that the resource is needed to meet local or system area reliability needs for the benefit of all customers in the IOU's service area, the total capacity cost of the repowered or upgraded resource should be allocated to all benefitting customers through the CAM. AReM/DACC and MEA's arguments to the contrary lack merit and should be rejected.

5/ *See* § 365.1(c)(2).
6/ D.13-02-015, *mimeo*, p. 98.
7/ *See, e.g.,* D.13-03-029 (in which the Commission approved a contract between SDG&E and a repowered resource that bid into a new-generation RFO.)
8/ *See id.* at p. 19.

Dated this 10th day of May, 2013 in San Diego, California.

Respectfully submitted,

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