

**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)

**COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY
(U-902-E) ON ALJ QUESTIONS FROM PRE-HEARING
CONFERENCE HELD SEPTEMBER 4, 2013**

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**I.
INTRODUCTION**

Pursuant to the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”) and the *Assigned Commissioner and Administrative Law Judge’s Ruling Regarding Track 2 and Track 4 Schedules* (“Ruling”) issued September 16, 2013, in the above-captioned long-term procurement plan (“LTPP”) proceeding, San Diego Gas & Electric Company (“SDG&E”) provides these comments in response to questions posed by Administrative Law Judge (“ALJ”) David M. Gamson at the pre-hearing conference held in the proceeding on September 4, 2013 (the “PHC”).

The questions articulated by ALJ Gamson relate to Track 4 of the LTPP proceeding, which will consider the local reliability impacts of retirement of the San Onofre Nuclear Generating Station (“SONGS”). ALJ Gamson noted at the PHC that parties are not required to address every issue.^{1/} Accordingly, SDG&E provides responses below to those questions that relate directly to its proposals in Track 4. The section numbering below reflects the numbering assigned by ALJ Gamson at the PHC.

^{1/} PHC Tr. Vol. 4, p. 316.

II. RESPONSES TO ALJ QUESTIONS

2. Should anything in the Energy Storage proceeding be considered with regard to Track 4 procurement?

RESPONSE: In its opening testimony submitted in Track 4 of the instant proceeding, SDG&E requested authority to issue a Request for Offers (“RFO”) for supply-side resources, including, *inter alia*, energy storage (“ES”) resources.^{2/} Since the time SDG&E submitted its opening testimony, the Commission has issued a proposed decision (“PD”) in the ES proceeding, Rulemaking (“R.”) 10-12-007. The PD proposes adoption of an Energy Storage Framework and Design Program and establishes ES procurement targets. Given the Commission’s action in R.10-12-007, SDG&E submits that procurement of ES resources should occur through the separate process contemplated in the ES PD rather than through the supply-side RFO proposed in SDG&E’s Track 4 testimony.^{3/}

To the extent ES procurement meets local capacity need (*e.g.*, the PD includes targets for ES connected at the transmission level, which could potentially be ES that will meet local need) such procurement should count towards the ES procurement goals established in the final decision in R.10-12-007. There are many remaining issues related to ES procurement that require resolution; the Commission should address these issues in the context of the dedicated ES proceeding rather than in the LTPP proceeding.

^{2/} LTPP Track 4 Prepared Direct Testimony of Robert B. Anderson, p. 5.

^{3/} SDG&E will reflect this change in its proposal by striking the words “energy storage” at page 5, line 3 and page 6, line 12 of the Track 4 Prepared Direct Testimony of Robert B. Anderson.

3. Are there any other updates to assumptions which should be considered (*i.e.*, in addition to the results of the California Independent System Operator’s Transmission Planning Process)?

RESPONSE: SDG&E submits that there is little to be gained by continued updating of Track 4 forecasts and assumptions. As a practical matter, resource planning requires that determinations be based upon forecasts and assumptions that do not remain static. It is not possible to perfectly predict demand and resource availability, and insistence on defining precise assumptions jeopardizes the efficiency of the process, particularly given that such assumptions will continue to change. As noted in the Track 4 testimony of Robert Anderson, there are a number of different paths that may be taken to arrive at the same approximate need determination. SDG&E/Southern California Edison Company (“SCE”) and the California Independent System Operator (“CAISO”) arrived at the same approximate need determination for Southern California despite the fact that the planning studies performed by the CAISO and jointly by SDG&E/SCE incorporated slightly different assumptions regarding future demand and availability of supply-side resources.

Thus, SDG&E believes it is most productive to move forward with the understanding that LCR need falls within a specified range based on current forecasts and assumptions. The Commission should move ahead expeditiously to authorize a level of procurement that will be needed in any case. Updated assumptions can be considered at the same time the Commission considers the results of the CAISO’s transmission planning process (“TPP”).

4. What is the appropriate timeline for new resource procurement which may be authorized in Track 4? In other words, do some resources have to come online earlier than others?

RESPONSE: Although the planning studies performed jointly by SDG&E and SCE did not examine local area need in 2018, the studies performed by the CAISO did include this analysis. The CAISO studied both the interim (2018) and long-term (2022) local reliability needs in the

Los Angeles Basin local area and San Diego sub-area resulting from an extended SONGS outage and showed a substantial need in SDG&E's area in 2018. Although transmission upgrades may be part of the solution for meeting LCR need in the long run – indeed, the CAISO will continue to study the effectiveness of transmission upgrades to reduce local need through its TPP – it is clear that procurement of new resources to meet LCR need will also be necessary given the magnitude of the need in 2018 and 2022.

Consistent with the State's Loading Order, SDG&E proposes to continue to aggressively pursue cost-effective Energy Efficiency ("EE"), as well as Demand Response ("DR") programs that can meet local reliability needs. Procurement of these resources is best undertaken in the context of the Commission's dedicated EE and DR proceedings, R.09-11-014 (and its successor) and R.13-09-011, respectively. In the case of DR, this will involve working with the CAISO to develop DR programs with operational characteristics that address local reliability needs. The cost-effectiveness of EE and DR programs should be compared against the cost of new resources being added in the San Diego local area. As discussed above in response to Question 2, ES should be pursued in a manner consistent with the Proposed Decision issued in R.10-12-007.

In addition, SDG&E submits that supply-side resources will be necessary to meet need in 2018 and 2022. Accordingly, SDG&E has proposed that the Commission authorize it to move ahead with some procurement in order to meet a portion of LCR need – *i.e.*, 500-550 MW of the estimated need – while leaving a portion of LCR need open for refinement as additional study results become available and as the effectiveness of preferred resources is determined. Given the lead time involved in construction of new resources, this portion of the procurement must be undertaken as soon as is feasible.^{4/} Procurement of supply-side resources could occur through a RFO process, as SDG&E has proposed, or through bilateral contracting, as was authorized for

^{4/} See D.13-02-015, *mimeo*, p. 63.

SCE in D.13-02-015. Moving forward on an expedited basis with a bilateral contract to address a portion of LCR need would support the policy goals of the State related to timely retirement of once-through cooling (“OTC”) facilities and would promote system reliability – the sooner new local resources are added to the portfolio, the lower the reliability risk.

Ultimately, the determination regarding the appropriate timeline for new resource procurement will involve a balancing of the State’s policies regarding OTC retirement, competitive procurement and preferred resources, as well as system reliability considerations. The Commission has emphasized the need to take proactive steps to prevent development of a reliability crisis in which there exists insufficient time to engage in additional procurement.^{5/} The preemptive approach of authorizing procurement to meet a conservative quantity of LCR need and directing SDG&E to undertake such procurement through an RFO or bilateral negotiations will ensure that the State is not caught flat-footed and will help to prevent a future reliability crisis.

5. Should there be any contingency plans in case expected levels of certain resources do not materialize in a timely manner?

RESPONSE: Sensible resource planning requires planning for contingent resources. It is critical that the resource planning process account for the possibility that available preferred resources will fall short of forecasted availability, local area transmission upgrades will be delayed, projects will fail to come online as expected and/or unanticipated higher load growth or change in other assumptions will occur. Given the long lead-time involved in construction of new generation and transmission, contingency planning must occur at an early enough stage that contingency plans may be applied effectively in the circumstances described above.

^{5/} D.09-01-008, *mimeo*, p. 18.

6. Should the Commission consider methods to address potential market power in the SONGS area for gas-fired resources? If so, what methods?

RESPONSE: The Commission has established several mechanisms that protect ratepayers from market manipulation and potential abuse of market power. First, the involvement of Independent Evaluators (“IEs”) in the procurement process “ensure[s] a fair, competitive procurement process free of real or perceived conflicts of interest.”^{6/} Similarly, the IOUs’ respective Procurement Review Groups (“PRGs”) take an active role in “review[ing] and assess[ing] the details of the IOUs’ overall procurement strategy, RFOs, specific proposed procurement contracts and other procurement processes prior to submitting filings to the Commission . . . ,” and PRG members raise any concerns they may have regarding ratepayer impact of procurement activities.^{7/} In addition, the Commission’s confidentiality rules adopted in D.06-06-066, *et seq.*, operate to “protect consumers from market manipulation and other harm that can arise if market sensitive information is released across the board.”^{8/}

As a final fail-safe measure, the requirement that long-term procurement contracts be approved through an application process ensures close scrutiny of contract terms and conditions by the Commission and stakeholders. While SDG&E believes that every contract it submits for Commission approval provides an overall benefit to ratepayers, the application process ensures that contract terms that unfairly disadvantage ratepayers will be brought to light, and that the contract will ultimately be rejected if, on balance, the benefit to ratepayers does not outweigh the cost burden. SDG&E does not believe that imposition of additional specific measure, such as

^{6/} 07-12-052, *mimeo*, p. 140.

^{7/} *Id.* at p. 119.

^{8/} D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 19.

requiring cost-based contracting, would be effective to protect ratepayers in this instance.

Rather, existing structural protections, accompanied by a clear message regarding continued adherence to ratepayer protection principles, will help to ensure that market power concerns do not arise.

7. For parties recommending preferred resources or energy storage to fill any need, please indicate how the attributes of such resources will meet local capacity requirement (“LCR”) need.

RESPONSE: Historically, most resources used to meet LCR need were either loaded at relatively constant levels, or could be dispatched as needed to meet load regardless of time of year or time of day. As the State increases its reliance on preferred resources, however, it must contend with resources whose output varies substantially by time of year and time of day. Thus, the CAISO is currently studying how the attributes of preferred resources will meet LCR need, and its determinations will be critical is resolving the question of the availability of preferred resources to meet local capacity need. It is also important to note that LCR need is defined over a 12-month period, whereas the availability of a particular preferred resource to meet LCR need may vary throughout the year. DR programs, for example, may provide reductions during the summer months, but not during the winter months. Thus, the capacity value provided by DR will vary throughout the year. If all load serving entities (“LSEs”) must continue to meet the same LCR need in all 12 months of the year, then other resources will be necessary to fill in when DR is not available. This 12-month requirement must be reflected in any solution using preferred resources.

SDG&E notes further that the Commission’s Energy Division (“ED”) is currently evaluating a proposed Effective Load Carrying Capacity (“ELCC”) methodology. It is not clear at this point how the ED’s work on this issue will impact the determination of the net qualifying

capacity (“NQC”) value assigned to each resource type. If the ED’s effort will ultimately define the NQC value, it is important that this undertaking occur in a more transparent environment and that it proceed expeditiously.

Dated this 30th of September, 2013 in San Diego, California.

Respectfully submitted,

/s/ Aimee M. Smith

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