

**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 BRIEF OF SAN DIEGO GAS & ELECTRIC COMPANY
(U 902 E) IN TRACK 4 OF THE LONG-TERM
PROCUREMENT PLAN PROCEEDING**

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SUMMARY OF RECOMMENDATIONS

SDG&E respectfully recommends that:

1. The Commission should take proactive steps to prevent development of a reliability crisis and approve SDG&E's request for authorization to procure bilaterally (given the existence of a 2018 need in the SDG&E sub-area) or through a request for offers ("RFO") 500-550 MW of new supply-side resources to meet local capacity requirement ("LCR") need.
2. The Commission should reject arguments in favor of delaying SDG&E's procurement authorization request and should move ahead expeditiously with the understanding that local capacity need falls within a specified range based on current forecasts and assumptions, and authorize a conservative level of "no regrets" procurement in the San Diego sub area.
3. The Commission should reject the suggestion that any procurement authorization issued in this proceeding is subject to potential reduction or "claw-back" in this or any subsequent Commission proceeding.
4. Since under its current LCR procurement strategy, SDG&E plans to procure approximately one-half of the resources necessary to meet its future local need from preferred resources, the Commission should authorize procurement of 500-550 MW of new supply-side resources, including conventional generation, to meet LCR need
5. If the Commission requires that an RFO be conducted to procure new resources, the recommendation to hold an all-source RFO should not be adopted. Instead, the Commission should direct that procurement of preferred resources occur through resource-specific RFOs conducted in the context of the relevant dedicated Commission proceedings.
6. The Commission should find that the energy storage ("ES") targets adopted in Decision ("D.") 13-10-040 cannot be assumed to count toward LCR need on a megawatt-for-megawatt basis.
7. The Commission should find that ES and demand response ("DR") will be relied upon to meet local need *only* to the extent these resources satisfy the characteristics set by the California Independent System Operator ("CAISO") to provide local capacity.

8. The Commission should find that SDG&E's Track 4 procurement is required in order to meet local area reliability needs for the benefit of all customers in the SDG&E's distribution service territory, and that the net capacity costs of such procurement will be allocated in accordance with the § 365.1(c) cost allocation mechanism ("CAM").
9. The Commission should expressly acknowledge the harm potentially caused to the public by an extended blackout in the densely-populated north coastal area of San Diego, and should reject the suggestion that it withhold approval for interim procurement of new resources and, in effect, overrule the CAISO's determination that reliance on load shed to mitigate the N-1-1 at issue in the instant case should not be permitted for long-term system planning.
10. The Commission should reject in their entirety the claims made by the Protect Our Communities Foundation ("POC") concerning improper application of North American Electric Reliability Corporation ("NERC")/Western Electricity Coordinating Council ("WECC")/CAISO reliability criteria, as well as its suggestion that SDG&E should appeal to the WECC to have the N-1-1 contingency re-categorized as a Category D contingency.

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**I.
INTRODUCTION**

Pursuant to the November 1, 2013 ruling of Administrative Law Judge (“ALJ”) David Gamson and Rule 13 of the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), San Diego Gas & Electric Company (“SDG&E”) submits this Reply Brief in Track 4 of the long-term procurement plan (“LTPP”) proceeding.

In its May 21, 2013 Scoping Memo, the Commission established Track 4 for the narrow purpose of considering the local reliability impacts of closure of the San Onofre Nuclear Power Generating Station (“SONGS”).^{1/} In its Ruling issued September 16, 2013 (“Ruling”), the Commission declared that it would also consider in Track 4 the need for interim procurement of new resources in Southern California, in advance of issuance of the results of the California Independent System Operator’s (“CAISO’s”) Transmission Planning Process (“TPP”).^{2/}

^{1/} *Revised Scoping Ruling and Memo of the Assigned Commissioner and Administrative Law Judge*, issued May 21, 2013 in R.12-03-014 (“May 21 Scoping Memo”), p. 4.

^{2/} *Assigned Commissioner and Administrative Law Judge’s Ruling Regarding Track 2 and Track 4 Schedules* issued September 16, 2013 in R.12-03-014, pp. 2-3.

In its Opening Brief, SDG&E urged the Commission to move forward with authorization of interim procurement of new local resources required in SDG&E's service territory. It explained that, based upon technical studies performed jointly with Southern California Edison Company ("SCE"), there is a need for at least 1028 MW of new local resources in the San Diego sub-area between now and 2022. Its base case analysis assumed 408 MW of load reduction and an increase above current levels in supply from incremental preferred resources such as energy efficiency ("EE"), Combined Heat and Power ("CHP"), rooftop solar and local supply-side renewables.^{3/} Hence, in addition to the need to aggressively procure the 408 MW of incremental preferred resources assumed in its modeling, SDG&E identified in its Track 4 studies a remaining minimum local need in the San Diego sub-area of between 620 MW and 1,470 MW of dependable capacity in 2022.^{4/}

SDG&E proposes to fill 500-550 MW of this 620 MW-1,470 MW of residual need through procurement of supply-side resources (conventional or renewable generation) procured bilaterally or through a Request for Offers ("RFO") process. In addition, SDG&E explained that because such resources are required to meet local area reliability needs, the cost of new resources authorized in this Track must be allocated to all benefitting customers in SDG&E's service territory pursuant to the Cost Allocation Mechanism ("CAM") established under Public Utilities Code § 365.1(c)(2)(A)-(B).^{5/}

^{3/} SDG&E/Anderson, Exh. SDG&E-1, p. 9; *see also*, p. 7, Table 1, p. 9, Table 2. SDG&E's base case also assumes Commission approval of SDG&E's application ("A.") 13-06-015, which seeks authority to enter into a power purchase and tolling agreement ("PPTA") with Pio Pico Energy Center ("Pio Pico") for 300 MW of conventional generation. SDG&E/Jontry, Exh. SDG&E-3, p. 2. If A.13-0-015 is denied, an incremental 300 MW would be added to the minimum need calculation.

^{4/} SDG&E/Jontry, Exh. SDG&E-3, p. 2.

^{5/} All statutory references herein are to the Public Utilities Code unless otherwise noted.

Parties' Opening Briefs reflect a diversity of views on these requests. SDG&E responds herein to arguments offered by parties including the Office of Ratepayer Advocates ("ORA"), Natural Resources Defense Council ("NRDC") and Sierra Club California ("SCC") regarding its procurement authorization request. In addition, SDG&E responds to the claims of the Direct Access Customer Coalition and Alliance for Retail Energy Markets ("DACC/AReM") and the Marin Energy Authority ("MEA") regarding applicability of the § 365.1(c) CAM. Finally, SDG&E responds to arguments by ORA and the Protect Our Communities Foundation ("POC") regarding relevant system reliability criteria.

II. DISCUSSION

A. Expedient Action by the Commission is Required to Ensure the Availability of Resources to Meet Local Need

Various parties urge the Commission in their Opening Briefs to delay the Track 4 need determination in order to allow for incorporation of new assumptions and the results of the California Independent Operator's ("CAISO's") 2013/2014 Transmission Planning Process ("TPP").^{6/} Other parties note the existence of updated planning assumptions and argue that the Commission must rely upon certain of these updated assumptions as the basis for its decision in this Track.^{7/} Finally, certain parties support grant of interim

^{6/} See, e.g., ORA Opening Brief, pp. 11-12; NRDC Opening Brief, p. 14; Center for Energy Efficiency and Renewable Technologies ("CEERT") Opening Brief, pp. 43-45.

^{7/} See, e.g., SCC Opening Brief, pp. 5-17; California Environmental Justice Alliance ("CEJA") Opening Brief, pp. 17-26.

procurement authority to SDG&E, but recommend that such authorization be subject to after-the-fact revision based upon results of the TPP and/or consideration of additional planning assumptions.^{8/} These suggestions would cause unreasonable delay in procuring necessary local capacity resources, and should therefore be rejected.

According to the CAISO, new local capacity resources will be required in the San Diego sub area as early as 2018.^{9/} Given the seven to nine year lead time associated with building new generation resources, construction of such resources must begin almost immediately, or at least in the very near term, in order to ensure that such resources are available when they are needed for local reliability.^{10/} As a practical matter, the window of time available to commence construction of new generation resources in order to ensure their availability by 2018 or 2022 will soon shut. If the Commission declines to take necessary action now to authorize construction of new generation resources, the result could be a major local reliability crisis in Southern California.

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.^{11/} The practical effect of deferring the Track 4 need determination and consideration of SDG&E's procurement authorization request to a subsequent phase of Track 4 or the next cycle of the LTPP would be to render superfluous the analysis produced in this Track 4, and to introduce significant delay in development of resources necessary to meet local capacity need. While the assessment of

^{8/} See, e.g., EnerNOC Opening Brief, pp. iv, 14-15.

^{9/} SDG&E/SCE did not study need in 2018, however the CAISO's analysis determined a local need of 920 MW in 2018. CAISO/Sparks Exh. ISO-1, p. 19, Table 9. It should be noted that SDG&E's Pio Pico Application would meet 300 MW of this need.

^{10/} See D.13-02-015, *mimeo*, p. 63.

^{11/} D.09-01-008, *mimeo*, p. 18.

local capacity need in Southern California will continue to evolve based upon the results of the CAISO's TPP and/or changes in planning assumptions, this fact does not justify delay in a Commission decision regarding interim procurement. As Mr. Woodruff, witness for The Utility Reform Network ("TURN") correctly pointed out, "[t]here are no 'silver bullets' or 'grand plans'; the Commission must instead take repeated, incremental measures in coming years to address South Coast local reliability challenges."^{12/}

Recognizing that its local need determination may be revised based upon the results of the TPP, SDG&E has presented a conservative proposal for "no regrets" procurement that is lower than its minimum need finding, but still looks to address a 2018 need. Specifically, it requests procurement authorization of 500-550 MW in this proceeding, compared with its minimum need finding of 620 MW (or 1028 MW when 408 MW of preferred resources yet to be available/procured are included). This incremental approach reflects the view articulated by Mr. Woodruff that "[t]he Commission and other decision-makers should expect to resolve local reliability issues in the LA Basin and San Diego LRAs by taking incremental actions over time in various venues to authorize the development of resources that can be expected to contribute to meeting such need," and further that "[i]n this Track 4, the Commission should start this long process by authorizing some initial resource procurement that can reasonably be expected to meet local reliability needs."^{13/}

In order to move forward effectively to ensure the availability of necessary local capacity resources, the Commission must avoid the "paralysis by analysis" that can result from the effort to constantly update relevant planning assumptions. As SDG&E witness,

^{12/} TURN/Woodruff, Exh. TURN-1, p. 4.

^{13/} *Id.* at p. 9.

Robert Anderson, explained there are a number of different paths that may be taken to arrive at the same approximate need determination.^{14/} To wit, SDG&E and the CAISO arrived at the same approximate need determination for the San Diego area despite the fact that the planning studies performed by SDG&E and the CAISO incorporated different assumptions regarding future demand and availability of supply-side resources. While demand or other assumptions may increase; others will likely decrease, and in any event, as the Independent Energy Producers Association (“IEP”) correctly observes, “[t]he only certainty about forecasts of demand for 2018 and 2022 is that they will be wrong.”^{15/}

The proposals and analysis offered in parties’ Opening Briefs related to revised planning assumptions, particularly those that are not presently in the record of this proceeding, should be disregarded. In issuing its interim procurement authorization in this Track, the Commission should act on the basis of the study results presented by SDG&E and the CAISO. As SDG&E has pointed out, 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. Accordingly, the Commission should move ahead expeditiously with the understanding that local capacity need falls within a specified range based on current forecasts and assumptions, and authorize a conservative level of “no regrets” procurement in the San Diego sub area.

^{14/} SDG&E/Anderson, Exh. SDG&E-1, p. 3.

^{15/} IEP Opening Brief, p. 20.

Finally, the Commission should reject the suggestion that any procurement authorization issued in this proceeding is subject to potential reduction or “claw-back” in this or any subsequent Commission proceeding. The Commission made clear in its September 16 Ruling that “[i]f new procurement is authorized, we expect the Proposed Decision to include language that any authorization will not be subject to further review based on additional evidence in this proceeding (such as the new TPP).”^{16/} It is critical that the final decision issued in this Track 4 include this language, otherwise the lack of regulatory certainty will hamper efforts to move forward with procurement of new resources required to meet local capacity need.

If uncertainty exists as to whether SDG&E has authority to procure resources, project developers will be reluctant to move forward with contracts. As several parties have pointed out, the notion that SDG&E would issue an RFO or seek to enter into bilateral negotiations without knowing what it is actually authorized to procure is commercially impractical; project developers will be unwilling to invest the substantial financial resources required in the absence of a firm procurement authorization issued by the Commission.^{17/} Accordingly, the decision in this proceeding should make clear that any procurement need authorization issued will not be subject to further review or reduction based on additional evidence, including but not limited to the results of the CAISO’s TPP.

^{16/} Ruling, *supra*, note 2, pp. 3-4.

^{17/} *See, e.g.*, WPTF Opening Brief, pp 9-10 (citing comments of IEP and NRG Energy, Inc.).

B. SDG&E's Procurement Strategy Already Contemplates Significant Procurement of Preferred Resources

In its Opening Brief, SCC asserts that to the extent the Commission authorizes procurement of new resources in Track 4, it should direct SDG&E to limit such procurement to preferred resources.^{18/} ORA similarly proposes that any authorization of new resources should consist predominantly, although not exclusively, of preferred resources.^{19/} These proposals ignore the fact that under its current local capacity requirement (“LCR”) procurement strategy, SDG&E will procure more than half of the resources necessary to meet its future local need from preferred resources.

As SDG&E explained in its Opening Brief, its technical studies establish a minimum generation need of between 620 MW and 1470 MW of Net Qualifying Capacity (“NQC”) in the San Diego LCR sub-area in 2022, based upon an analysis that included aggressive assumptions regarding growth in EE, CHP, rooftop solar and local renewable resource availability.^{20/} Specifically, a total of 408 MW of these preferred resources was included in the model as incremental load reductions/resource additions, which reduced the need found in the modeling.^{21/} Since the incremental 408 MW of preferred resources assumed in the base case is future procurement, SDG&E’s effective minimum need 1028 MW (620 MW + 408 MW).^{22/} SDG&E’s interim procurement proposal includes the following mix of resources to meet local capacity need:

^{18/} SCC Opening Brief, pp. 26-27; *see also* NRDC Opening Brief, pp. 18-19; Environmental Defense Fund (“EDF”) Opening Brief, p. 5.

^{19/} ORA Opening Brief, pp. 13-14; *see also* California Energy Storage Alliance (“CESA”) Opening Brief, pp. 8-9.

^{20/} SDG&E/Anderson, Exh. SDG&E-1, p. 9; *see also*, p. 7, Table 1, p. 9, Table 2.

^{21/} *Id.*; *see also, id.*, Tables 1 and 2.

^{22/} If A.13-0-015 is denied, an incremental 300 MW would be added to the minimum need calculation.

- **Assumed Preferred Resources**: This element of SDG&E’s procurement strategy reflects the need to aggressively pursue the **408 MW** of incremental preferred resources assumed in the base case.^{23/} SDG&E will pursue cost-effective EE in the context of the Commission’s dedicated EE proceeding (338 MW), as well as CHP (20 MW), rooftop solar (30 MW) and dependable peak reduction associated with local renewable generation (20 MW).^{24/}
- **Demand Response/Energy Storage (or other preferred resources)**: SDG&E’s procurement strategy holds **70-120 MW** open to be filled with DR and/or ES resources (or other preferred resources)^{25/} in the Commission proceedings dedicated to each such resource, provided that these resources satisfy requirements established by the CAISO for operational characteristics that address local reliability needs.
- **Supply-Side Procurement**: SDG&E requests authorization through a decision in this proceeding to issue an RFO or to contract bilaterally to procure between **500-550 MW** of long lead-time supply-side resources, such as conventional generation and/or renewable resources. Opportunities to upgrade and increase capacity at existing resources should also be considered.

Since SDG&E’s actual minimum LCR need is 1028 MW, its proposal to procure 478-528 MW of local capacity from preferred resources and 500-550 MW from supply-side resources, including conventional generation resources, achieves an approximately 50/50 split between preferred and conventional resources (assuming that conventional

^{23/} SDG&E/Anderson, Exh. SDG&E-1, p. 9.

^{24/} SDG&E/Anderson, Exh. SDG&E-1, p. 4, p. 7, Table 1, p. 9, Table 2; p. 10.

^{25/} SDG&E/Anderson, Tr. Vol. 12, 1793:12-14. Mr. Anderson corrected his testimony from the stand to clarify that the 70-120 MW could be filled with other preferred resources, if it is not filled with DR.

resources are used to fill the 500-550 MW procurement authorization requested in this Track). This clearly represents a significant level of preferred resources procurement. SDG&E's approach strikes a reasonable balance between the twin goals of the State and the Commission: ensuring reliability and promoting the development of preferred resources within the State.

If the Commission declines to take necessary action now to authorize procurement of new generation resources – and instead relies on optimistic predictions regarding dramatic increases in availability of preferred resources over the next 8-10 years in order to fill all or most of SDG&E's LCR need – a major reliability crisis could result. While SDG&E strongly supports inclusion of preferred resources in its portfolio to serve bundled load, and intends to participate actively in the effort to define the characteristics necessary for preferred resources to provide local capacity, it does not perceive that a capacity procurement approach heavily skewed toward reliance on preferred resources is reasonable at this time, while there is still great uncertainty as to the ability of preferred resources to meet local capacity need. In short, placing all of SDG&E's eggs in the single basket of preferred resources is an imprudent planning approach, which exposes ratepayers to unreasonable risk.

Given the seven to nine year lead time associated with building new generation resources, discussed above, and the fact that new local capacity resources will be required in the San Diego sub area as early as 2018, procurement of new generation resources must begin as soon as possible in order to ensure that such resources are available when they are needed for local reliability. It is not feasible to wait to see whether envisioned preferred resources will develop (and, even if they do, to determine if they have the

characteristics required to provide local capacity). As discussed above, the window of time available to commence procurement of new generation resources in order to ensure their availability by 2018 or 2022 will soon shut. Accordingly, the Commission should authorize SDG&E in this proceeding to procure 500-550 MW of long lead-time generation resources.

C. Procurement of Preferred Resources Should be Undertaken in the Relevant Dedicated Commission Proceedings

Several parties recommend that SDG&E be directed to hold an all-source RFO, and in particular to solicit ES resources, if the Commission authorizes procurement of new resources in this Track 4.^{26/} The recommendation to hold an all-source RFO should not be adopted. As SDG&E has explained, procurement of preferred resources through resource-specific RFOs conducted in the context of the relevant dedicated Commission proceedings, rather than through all-source RFOs conducted outside of such proceedings, protects ratepayers by better ensuring the cost-effectiveness of such resources, as well as preventing double-counting of resources and undermining of existing programs.

During the evidentiary hearing held in the proceeding, Mr. Anderson provided examples of the risks inherent in soliciting preferred resources through both dedicated and all-source RFOs.^{27/} He explained the potential for double-counting and cannibalization of existing programs that arises when procurement of preferred resources

^{26/} See, e.g., ORA Opening Brief, pp. 13-14; CESA Opening Brief, pp. 8-9; California Wind Energy Association (“CalWEA”) Opening Brief, pp. 6-7.

^{27/} SDG&E/Anderson, Tr. Vol. 12, 1814:26-28.

occurs along two parallel paths.^{28/} This risk applies equally to DR, ES and EE. The approach of procuring preferred resources through the relevant dedicated proceedings does not limit new EE or DR proposals, it simply allows for them all to be assessed at the same time, in the same place.

Moreover, myriad operational and policy issues impacting procurement of specific preferred resources are addressed within the context of resource-specific proceedings – for example, the ability of a particular resource to meet local capacity requirements, establishing rules for counting of such resources to meet overall procurement targets (separate from LCR need) and developing mechanisms for recovery of costs from all benefitting customers. These are important issues requiring stakeholders input that are best addressed in the dedicated proceeding. Procuring preferred resources through the relevant dedicated proceeding helps to ensure that determinations made regarding these operational/policy issues are taken into account in procurement of such resources.

D. Mandated Targets for Preferred Resources Should Count Toward Local Capacity Only if the Procurement Is Capable of Proving Local Capacity

As noted above, SDG&E’s procurement strategy holds 70-120 MW open to be filled with DR and/or ES resources in the Commission proceedings dedicated to each such resource, provided that these resources satisfy requirements established by the CAISO for operational characteristics that address local reliability needs. Certain parties ignore the key requirement that preferred resources be found to satisfy these operational characteristics before they may be counted toward LCR need. Sierra Club California (“SCC”), for example, proposes in its Opening Brief that the Commission order SDG&E

^{28/} *Id.* at 1812:24 – 1813:28.

to apply the *entire* 165 MW ES procurement target assigned to SDG&E in the recent Energy Storage Decision, D.13-10-040, to meet SDG&E's LCR need.^{29/} As SDG&E witness, Mr. Anderson, pointed out, however, ES procurement undertaken in order to meet to targets adopted in the dedicated ES proceeding may or may not be procurement capable of meeting LCR need.^{30/} In short, while it is likely that some degree of reliance on preferred resources such as ES and DR to meet LCR need will be possible, it may not be the case that *all* ES and DR resources satisfy the characteristics required to provide local capacity.

In the case of ES resources, Mr. Anderson noted that while ES could play a role in meeting some of SDG&E's identified LCR need, ES procured by SDG&E might not be located in the local capacity area and/or might not meet duration requirements established by the CAISO.^{31/} He also noted that a portion of the ES procurement target assigned to SDG&E would be used for customer applications, and that customers might use this ES to increase participation in DR programs. In that case, assuming that growth in DR would meet LCR need while separately counting on customer-side ES to meet LCR need would essentially double-count the same ES capacity."^{32/} Accordingly, the ES targets adopted in D.13-10-040 cannot be assumed to count toward LCR need on a megawatt-for-megawatt basis. However, SDG&E will specifically request proposals in the context of the dedicated ES RFO that meet the local needs and will evaluate them accordingly.

^{29/} SCC Opening Brief, p. 13.

^{30/} SDG&E/Anderson, Exh. SDG&E-2, p. 2.

^{31/} *Id.*

^{32/} *Id.* at pp. 2-3.

Similarly, NRDC’s proposal that the Commission count 187 MW of DR in the San Diego local area highlights the extent to which parties overstate and prematurely advocate reliance on preferred resources to meet local need.^{33/} As Mr. Anderson explained during the evidentiary hearing, of the DR potentially available in the San Diego sub area, approximately 20 MW (not 187 MW) might meet the operational characteristics for DR that are expected to eventually be set by the CAISO.^{34/} However, the CAISO has not yet defined those operational characteristics or approved reliance on even these 20 MW of DR to meet SDG&E’s LCR need. Thus, while it SDG&E anticipates that some degree of reliance on preferred resources such as ES and DR to meet LCR need will be possible, it is important that such resources be relied upon to meet local need *only* to the extent they satisfy the characteristics set by the CAISO to provide local capacity.

E. The Cost of Resources Authorized in this Proceeding Should be Subject to the § 365.1(c) Cost Allocation Mechanism

Under the § 365.1(c) CAM, each IOU must procure the new generation resources necessary to meet reliability needs in its service territory, with the net capacity costs of such resources being shared by all “benefitting parties” located in that IOU’s service territory. As the Commission made clear in D.11-05-005, application of the CAM is mandatory where the statutory conditions are met.^{35/} Specifically, if the Commission

^{33/} NRDC Opening Brief, p. 9.

^{34/} SDG&E/Anderson, Tr. Vol. 12, 1857:3-6; *see also* Tr. Vol. 12, 1800:24 – 1801:4.

^{35/} D.11-05-005, *mimeo*, p. 6.

makes a determination that the generation resources in question “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 costs of procuring such resources *must* be allocated through the CAM.^{36/}

In their jointly-filed Opening Brief, DACC/AReM challenge the conclusion that the CAM should apply to procurement authorized in Track 4. A significant portion of DACC/AReM’s brief is devoted to an analysis of the adequacy of the showings made by SDG&E and SCE regarding the benefit conferred on customers by the proposed Track 4 procurement.^{37/} DACC/AReM’s claims regarding the alleged paucity of SDG&E’s showing are inapposite. The suggestion that a voluminous showing is required in the instant case to establish the benefit to all customers in SDG&E service territory of additional local capacity resources is misguided.

The Commission made clear in its May 21, 2013 Scoping Memo that the primary purpose of Track 4 is consideration of the *local reliability impacts* of the closure of SONGS.^{38/} It specifically noted that “[t]he Track 4 inquiry can help inform the magnitude of *local capacity requirements* with and without SONGS.”^{39/} The Commission acknowledged in D.13-02-015 the inherent benefit conferred on all customers by IOU procurement to meet system or local reliability need.^{40/} Accordingly, to the extent the Commission finds in Track 4 that additional resources are required to meet a local reliability need, and authorizes procurement to meet that need, such procurement benefits all customers in SDG&E’s service territory and the net capacity

^{36/} *Id.* at pp. 6-7.

^{37/} DACC/AReM Opening Brief, pp. 4-11.

^{38/} May 21 Scoping Memo, *supra*, note 1, p. 4 (emphasis added).

^{39/} *Id.* (emphasis added).

^{40/} D.13-02-015, *mimeo*, pp. 106, 107.

cost of procuring such resources must be allocated through the CAM. SDG&E and the CAISO submitted a comprehensive and detailed showing regarding the existence of local capacity need in the San Diego sub area and the associated reliability benefits – it is this showing that is relevant to the question of the benefit conferred on customers in SDG&E service area.

Moreover, to the extent AREM/DACC does address the question of the benefit conferred by Track 4 procurement, its analysis is misguided, and conflates and confuses SDG&E’s obligation as a load-serving entity (“LSE”) to procure energy and capacity to serve its bundled customers with its obligation as a regulated utility to ensure that new resources are built in order to meet long-term grid reliability needs. In its role as an LSE procuring energy and capacity to serve its bundled customers, SDG&E’s procurement activity provides a benefit only to its bundled customers; in its role as a regulated IOU procuring new resources to ensure grid reliability, however, SDG&E’s procurement activity provides a benefit to *all* customers in SDG&E’s service area. The record of this proceeding establishes that the need for new resources to replace the capacity provided by retiring OTC facilities and SONGS is driven by system reliability concerns rather than a need for energy and capacity to serve SDG&E’s bundled customers.^{41/} Thus, it is procurement that is “needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation’s distribution service territory,” and therefore must be subject to the CAM.^{42/}

^{41/} See, e.g., SDG&E/Anderson, Exh. SDG&E-2, p. 4.

^{42/} See D.11-05-005, *mimeo*, pp. 6-7.

The arguments presented by DACC/AREM in this Track 4 are a recycled version of arguments rejected by the Commission in Track I. In Track I, for example, DACC/AREM made the following argument:

. . . AREM states that per its obligation under § 454.5, the Commission should ensure that CAM procurement is needed to meet a specified reliability need as defined by § 365.1(c)(2)(B). AREM contends that this means that the reliability need must be incremental to the needs associated with LSEs. **For example, AREM argues that if a generation plant that “primarily” served bundled load retired or shut down and the IOU filed for approval for CAM procurement to replace the unit, the Commission should reject this application. According to AREM, while “incidental reliability benefits [from the replacement unit] would likely accrue to ‘all’ customers, bundled customers would benefit disproportionately more, because the customers of other LSEs would subsidize their ‘unmet needs.’** Therefore, AREM reasons, CAM procurement should not be authorized.^{43/}

In the instant Track, DACC/AREM similarly argue that the reliability benefit of new local capacity resources would be “incidental” and that application of the CAM to new local resources would result in “shifting of bundled customer costs to non-bundled customers.”^{44/} As was the case in Track 1, DACC/AREM’s argument is based upon “cost causation” principles that they claim prevent application of CAM to the cost of new local capacity resources procured by the utilities.^{45/}

This argument assumes that while direct access (“DA”) and (“CCA”) customers have first right to and can meet their requirements exclusively from existing resources, the utility must meet its bundled customers’ energy and capacity needs through procurement from new resources, and therefore that utility ratepayers must absorb the costs of such resources. As SDG&E witness Anderson explained, this assumption is

^{43/} D.13-02-015, *mimeo*, p. 102 (emphasis added).

^{44/} DACC/AREM Opening Brief, 15-17.

^{45/} D.13-02-015, *mimeo*, pp. 103-104; DACC/AREM Opening Brief, p. 16.

incorrect. He noted that “SDG&E, as the LSE for its bundled customers, must replace the energy and capacity that it previously received from SONGS. However, SDG&E is free to procure that capacity and energy from any resource that meets its needs, **including existing resources.**”^{46/} In other words, in its role as the LSE for its bundled customers, SDG&E has no obligation to ensure that new resources are built to replace SONGS. If, however, the Commission orders SDG&E in its capacity as a regulated utility to procure new capacity in order to meet the long-term grid reliability needs, it is ordering the regulated utility to ensure that new resources are built for the benefit of all customers.^{47/} Under that circumstance, § 365.1(c) requires the Commission to allocate the net capacity costs of such resources to all benefiting customers.

In its Opening Brief, MEA presents arguments along the same lines as those offered by DACC/AREM and rebutted above, and, similarly fails to distinguish between SDG&E’s responsibility as an LSE to procure energy capacity for its bundled customers versus its responsibility as the regulated utility to ensure that new resources are built for the benefit of all customers.^{48/} MEA also misstates the Commission’s obligation regarding application of the CAM. It argues that even where a resource is found to be needed for local reliability and to benefit all customers in the service territory, the decision as to whether to subject the resources to the CAM is discretionary by the Commission.^{49/} This assertion is incorrect. As the Commission made clear in D.11-05-005, “[i]f the statutorily-specified conditions are met, then the CAM applies.”^{50/}

^{46/} SDG&E/Anderson, Exh. SDG&E-2, p. 4 (emphasis added).

^{47/} *Id.*

^{48/} *See, e.g.*, MEA Opening Brief, p. 19.

^{49/} *Id.* at pp. 32-33.

^{50/} D.11-05-005, *mimeo*, p. 6.

The remainder (and, indeed, the majority) of MEA’s Opening Brief presents policy arguments and proposals that are outside the scope of Track 4. As noted above, the scope of Track 4 is narrowly focused on issue of whether it is necessary to authorize procurement of local resources to preserve local reliability in Southern California. Thus, the only CAM-related issue that is within the scope of Track 4 is the question of whether the cost of new resources authorized in Track 4 should be subject to CAM treatment under the Commission’s *existing* CAM rules established in Decision (“D.”) 06-07-029, D.07-09-044, D.08-09-012, D.11-05-005 and 13-02-015. These rules expressly apply to CCAs.^{51/} Moreover, MEA sponsored no witness testimony in Track 4 and waited until the briefing stage to present its various proposals for new CAM rules. Accordingly, the Commission should disregard the out-of-scope policy arguments and proposals for new CAM rules improperly presented by MEA.

F. The Commission Should be Guided by Standard Principles of Prudent System Planning

Several parties’ Opening Briefs addressed the question of whether the public interest is served by a long-term system planning approach that relies on load shedding as a mitigation for the system contingency at issue in this proceeding – the overlapping outage (N-1-1) of the ECO-Miguel section of the Southwest Powerlink 500 kV line and the Ocotillo Express-Suncrest section of the Sunrise Powerlink 500 kV line.^{52/} SDG&E included a lengthy discussion of the issue in its Opening Brief, explaining that that while

^{51/} D.13-02-015, *mimeo*, p. 99, citing D.06-07-029, *mimeo*, p. 26. *See also* D.13-08-023, *mimeo*, Conclusions of Law 2 and 3 (noting that SB 790 does not (i) require the Commission to re-evaluate existing CAM rules; or (ii) find that existing mechanisms violate the requirement that cost allocation and fees remain fair and equitable to all customers).

^{52/} SDG&E/Jontry, Exh. SDG&E-3, p. 3. The term “N-1-1” refers to an “overlapping” or sequential outage in which one element is lost, there is time for the system to be readjusted (within 30 minutes), and then a second element is lost. CAISO/Sparks, Exh. ISO-2, p. 10.

reliance on load shedding to mitigate the N-1-1 contingency at issue in this proceeding may be unavoidable on a short-term basis, the long-term planning for the system should not assume or rely on load shed as mitigation for the relevant N-1-1.^{53/} Other parties such as ORA and SCC, however, support use of SDG&E’s load shed Special Protection Scheme (“SPS”) as a “bridge” until necessary transmission projects are completed and preferred resources are available.^{54/}

While describing load shedding as a “bridge” to a permanent mitigation solution presents the concept in a more favorable light, ORA/SCC fail to explain what permanent, dependable solution is envisioned at the far end of the bridge. While ORA points to completion of transmission projects and preferred resources availability, it is not at all clear what the timing of either would be, or if these solutions would be adequate to meet local capacity need. In this case, reliance on load shedding is more aptly described as a gangplank with no dock. In order to fairly characterize load shedding as a bridge, the long-term system plan must identify a permanent solution and the Commission must provide the authorization necessary to secure that solution.

As SDG&E’s technical studies make clear, reliance for long-term planning purposes on the stricter N-1-1 with no load shed criteria does *not* significantly increase the need for new local resources in the San Diego sub-area – prohibiting load shed in the N-1-1 contingency adds only 150-250 MW to the local need, but prevents load shed of

^{53/} TURN incorrectly suggests in its Opening Brief that SDG&E has changed its original position on the issue of load shedding. TURN Opening Brief, p. 16. Mr. Jontry clarified in his rebuttal testimony that while SDG&E recognizes that controlled load shed might be necessary as short-term mitigation or in specific, localized instances, it does not support reliance on a load shed SPS for purposes of long-term system planning. SDG&E/Jontry, Exh. SDG&E-4, pp. 5-6.

^{54/} ORA Opening Brief, pp. 3, 28-29; SCC Opening Brief, pp. 25-26.

500-1000 MW.^{55/} By contrast, reliance for long-term planning purposes on load shedding to mitigate the N-1-1 at issue in this case would cause significant disruption and harm customers, communities and the region's economy.^{56/} The harm potentially caused to the public by an extended blackout in the densely-populated north coastal area of San Diego is obvious.^{57/}

It is clear that reliance on the load shed SPS to mitigate the relevant N-1-1 event is a last resort option and certainly not one whose availability should be assumed for long-term planning purposes. Thus, the Commission should adhere to its mission of ensuring provision of safe, reliable and affordable electric service. It should reject the suggestion by parties to this proceeding that it withhold approval for interim procurement of new resources and, in effect, overrule the CAISO's determination that reliance on load shed to mitigate the N-1-1 at issue here should not be permitted for long-term system planning.

The Commission should also reject in their entirety the claims made by the Protect Our Communities Foundation ("POC") concerning improper application of North American Electric Reliability Corporation ("NERC")/Western Electricity Coordinating Council ("WECC")/CAISO reliability criteria. POC's argument that SDG&E and the CAISO incorrectly determined that N-1-1 was the limiting system contingency is based upon a fundamental misunderstanding of the applicability and operation of relevant system reliability criteria.^{58/} POC's suggestion that SDG&E should appeal to the WECC to have the N-1-1 contingency re-categorized as a Category D contingency is

^{55/} See discussion set forth at SDG&E Opening Brief, pp. 24-25.

^{56/} SDG&E/Jontry, Exh. SDG&E-4, p. 2.

^{57/} See, e.g., SDG&E/Jontry, Tr. Vol. 12, 1739:12 – 1740:23, 1757:4-8; CAISO/Sparks, Tr. Vol. 10, 1476:20 – 1477:1.

^{58/} See POC Opening Brief, pp. 3-17.

nonsensical.^{59/} Its assertion that the re-categorization effort “would almost certainly succeed,” is based entirely upon unfounded speculation and ignores testimony by CAISO witness Sparks to the effect that the WECC is moving away from making the type of probabilistic exception to a deterministic category that POC proposes.^{60/}

Moreover, categorization of system contingencies is a complex undertaking that requires system planning and engineering expertise, as well as an awareness of the reliability implications of a change in categorization of a particular contingency. POC presents no expert witness testimony or other evidence addressing this latter issue; nor does it provide any basis for its apparent belief that its judgment regarding system planning issues is superior to that of system planning experts within SDG&E’s transmission planning organization. POC’s arguments are inapposite and entirely lacking in merit, and should therefore be rejected.^{61/}

III. CONCLUSION

For the reasons set forth above and in SDG&E’s Opening Brief, the Commission should authorize SDG&E to procure through an RFO or bilaterally 500-550 MW of long lead-time generation resources. In addition, the Commission should direct that procurement of preferred resources that meet local capacity needs be undertaken in the

^{59/} See *id.* at pp. 11-17.

^{60/} CAISO/Sparks, Tr. Vol. 11, 1562:15 – 1563:10.

^{61/} POC also incorrectly alleges that SDG&E erroneously assumed the retirement of the Cabrillo II peaker plant and the Encina Generating Station. POC Opening Brief, p. 19. As SDG&E noted in its Opening Brief, a 1-2 year extension of the license agreement with the Cabrillo II units has been requested in Advice Letter 2533, however it is anticipated that the units will retire prior to 2022. SDG&E Opening Brief, p. 19, note 68. With regard to the Encina Generating Station, SDG&E’s assumption regarding its retirement is based on NRG Energy’s letter dated January 30, 2013 to the State Water Resources Board updating its OTC compliance plan. In addition, since the Encina facility is currently over 50 years old, it is reasonable to assume that the entire facility will be retired. POC/Peffer, Exh. POC-1, Attachment 18 (SDG&E Response # 3 to POC Data Request #1).

relevant dedicated Commission proceedings. Finally, the Commission should order the net capacity costs of any new local resources procured in accordance with Commission authorization issued in this Track 4 to be allocated to all bundled service, DA and CCA customers in SDG&E's service territory consistent with the CAM established pursuant to § 365.1(c).

Dated this 16th day of December, 2013 in San Diego, California.

Respectfully submitted,

/s/ Aimee M. Smith

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