

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Consider)	
Electric Procurement Policy Refinements)	Rulemaking 14-02-001
Pursuant to the Joint Reliability Plan.)	(Filed February 5, 2014)
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INITIAL COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)

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Pursuant to the terms of the *Order Instituting Rulemaking to Consider Electric Procurement Policy Refinements Pursuant to the Joint Reliability Plan* (“OIR”), issued February 5, 2014, San Diego Gas & Electric Company (“SDG&E”) submits these comments on preliminary matters pertaining to the scope, schedule, and administration of this proceeding.¹

SDG&E supports the preliminary determinations regarding evidentiary hearings, and the categorization of Track 1 as ratesetting subject to *ex parte* communication rules and Tracks 2 and 3 as quasi-legislative matters. SDG&E’s limited comments on the proposed scope and schedule for this proceeding are discussed in detail below.

I. The Joint Reliability Plan

This rulemaking originates from the Joint Reliability Plan (“*Reliability Plan*”) adopted in late 2013 by both Commission and the Board of Governors for the California Independent System Operator (“California ISO” or “ISO”). The *Reliability Plan* reflects the broad agreement between the Commission and the California ISO to revise the state’s forward-capacity procurement framework so as to better address reliability and economic issues arising from renewable integration and state regulations restricting the use of marine and estuarine waters for once-through cooling by power plants.

To accomplish the objectives of the *Reliability Plan*, this proceeding is divided into three separate tracks as follows:

- **Track 1 – Multi-year Forward Resource-Adequacy Requirements:** Track 1 will consider expanding the Commission’s current resource-adequacy program from a single year-ahead framework to a two- or three-year framework. In Track 1, the Commission will consider the need for proposed new policies, the costs and benefits of proposed new policies, the design of multi-year forward resource-adequacy requirements in light of the addition of preferred resources and resource characteristics; and forward resource-adequacy program requirements and rules. Track

¹ *Order Instituting Rulemaking to Consider Electric Procurement Policy Refinements Pursuant to the Joint Reliability*, Rulemaking 14-02-001, February 5, 2014.

1 will not revisit the Commission's prior decision to reject a mandatory, fully centralized, forward capacity market;

- **Track 2 – Unified Long-term Reliability Planning Assessment:** Track 2 will establish a methodology and process for conducting joint long-term (e.g., four- to ten-year) unified planning assessments in collaboration with the California ISO and California Energy Commission. This track will examine and seek stakeholder input on issues relevant to conducting a reliability planning assessment that looks out over a planning horizon of up to ten years into the future. The assessment will seek to compare expected resource needs against two views of supply: the installed fleet (including expected additions minus expected retirements) and the subset of that fleet consisting of resources owned by the utilities or under long-term contracts); and,
- **Track 3 – Policy Position on Revised Market-Based Backstop Procurement Mechanism:** Track 3 will consider issues necessary to determine the Commission's policies regarding the proposed replacement of the California ISO's existing Capacity Procurement Mechanism ("CPM"), which expires in 2016, with a market-based procurement framework (i.e., a limited capacity market). Track 3 will also consider adopting rules defining the extent to which Commission-jurisdictional load-serving entities are authorized to utilize the ISO-administered capacity market.

SDG&E believes the *Reliability Plan* in general, and the three tracks outlined above in particular, represent a significant opportunity to improve the state's current capacity-procurement paradigm. SDG&E therefore strongly supports the pursuit of the Commission's objectives in opening the instant rulemaking. SDG&E believes the framework contemplated in the *Reliability Plan* increases forward revenue certainty for existing resources, provides the California ISO with forward resource certainty, and mitigates the potential for uneconomic and premature retirements and associated *ad hoc* procurement by the California ISO or pursuant to orders of this Commission. Taken together, these benefits will help the state achieve its renewable integration goals. SDG&E commends the Commission and ISO staffs for taking this necessary first step to conform the State's procurement framework to evolving state energy policy objectives. SDG&E looks forward to participating in this proceeding actively.

II. Comments Related to Scope

SDG&E believes the detailed questions included in the Preliminary Scoping Memo provide an appropriate foundation for addressing the manner in which the Commission's current procurement framework should be expanded. With regard to prioritizing issues in Track 1, design issues such as setting the percentage of system, local and flexible resource-adequacy requirements that must be procured in Years Two and Three will be critical to assessing whether the proposed enhancements will improve the current framework, or extend and possibly exacerbate its shortcomings. Setting the requirements too high may lead to costly overprocurement and could foreclose the opportunity for uncommitted resources to enter

the market. Conversely, setting the requirements too low poses the risk that the forward revenue and resource certainty objectives that underlie the rulemaking will not be achieved. SDG&E is optimistic that stakeholders can reach consensus on the resource-adequacy requirements for Years Two and Three in a manner that appropriately balances these factors. SDG&E recommends that the forthcoming Scoping Memo for Track 1 prioritize this issue such that any studies or analysis on this issue can be completed in time to inform the positions of the parties prior to the planned January 2015 Proposed Decision.

With respect to Track 3, the Preliminary Scoping Memo notes the Commission will consider a policy position on the California ISO's proposed, but not yet-adopted, market-based backstop procurement auction. The Preliminary Scoping Memo also notes the Commission will "consider adopting rules relating to the extent to which CPUC-jurisdictional LSES are authorized to utilize the market-based mechanism to satisfy minimum resource adequacy procurement targets."² This suggests the process will be sequential, that is, the Commission will adopt a position on the backstop mechanism, *and then* decide whether and to what extent its jurisdictional load-serving entities can or should utilize the mechanism to satisfy some percentage of forward resource adequacy obligations. SDG&E believes that these issues should not be decided in isolation from one another and instead assessed in tandem.

The exposure to the California ISO's market-based backstop auction faced by load-serving entities is a critical market design element, particularly with regard to the proposed forward-looking procurement mechanism. SDG&E appreciates, and supports, the Commission's interest in limiting the exposure of jurisdictional load-serving entities to these costs. Nevertheless, the Commission should not be so prescriptive as to prevent the auction mechanism from meaningfully contributing to the liquidity of both supply and demand. Lack of demand in the auction could potentially distort the resulting forward price. If the Commission's procurement framework is relying on that forward price to create and sustain additional opportunities for demand response and storage resources in near-term capacity markets, a key principle of the *Reliability Plan*,³ then the framework must initially acknowledge the impact that overly prescriptive limits on exposure to this auction may have. In sum, SDG&E agrees that exposure to the auction should be controlled and appropriately limited at the Commission's direction, but that any such limit should not approach zero. Allowing some measure of jurisdictional load to participate in the forward, market-based clearing mechanism creates the potential to procure capacity at lower costs, and ensures the opportunities for preferred resources to participate are in fact meaningful.

² *Id.*, at pp.12-13.

³ *Id.*, Appendix A, at p.4.

III. Comments Related to Schedule

The Preliminary Scoping Memo envisions the issuance of a Commission decision on Track 1 in September 2014, an Assigned Commissioner Ruling or Commission Decision on Track 2 in November or December 2014, and a Commission Decision on Track 3 in February 2015. Given the important and timely issues this proceeding will address, SDG&E applauds this aggressive schedule, but believes it is overly ambitious. If successful, this proceeding will fundamentally overhaul the state's forward procurement framework, an endeavor that will no doubt prove contentious. So that controversies can be exposed, and perhaps resolved, at the earliest possible time, SDG&E recommends that the forthcoming Scoping Memo for Track 1 direct Staff to conduct multiple workshops early in each track in order to define and prioritize issues, and thereafter set a series of workshops to begin addressing them through the collaboration of the parties. SDG&E believes the issues under review here are complex, confusing, and, if inadequately resolved, potentially costly. Consequently, SDG&E does not believe a comprehensive resolution of the issues at hand is likely under the limited proposal, lone-workshop, comment, decision cycle used in previous iterations of the Commission's resource-adequacy proceedings and recommends a different, more intensive process providing multiple opportunities for the parties to convene and express and, hopefully, resolve their differences.

Respectfully submitted,

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