

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the )  
Resource Adequacy Program, Consider )  
Program Refinements, and Establish Annual )  
Local Procurement Obligations. )  
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Rulemaking 11-10-023  
(Filed October 27, 2011)

OPENING COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U-902-E)  
ON PHASE 3 RESOURCE ADEQUACY ISSUES

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**OPENING COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U-902-E)  
ON PHASE 3 RESOURCE ADEQUACY ISSUES**

Pursuant to the *Phase 3 Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge* issued in this proceeding on or about August 2, 2013, and the E-Mail Ruling issued by ALJ Gamson on February 4, 2014, San Diego Gas & Electric Company (“SDG&E”) files these opening comments on issues raised by the proposals presented by the Commission’s Energy Division Staff (“Staff”) during the workshop of January 27, 2014. SDG&E generally supports the Staff’s proposals, but provides its recommendations regarding the several matters enumerated below:

- Effective Load Carrying Capacity and Qualifying Capacity Calculation Methodologies for Wind and Solar Resources: SDG&E generally supports the framework, modelling inputs and calculation methodologies proposed by the Staff, but recommends that ELCC values should be updated with greater frequency than proposed;
- Qualifying Capacity and Effective Flexible Capacity Calculation Methodologies for Energy Storage and Supply-Side Demand Response Resources: SDG&E supports the methodologies proposed by the Staff, subject to certain clarifications;
- Eliminating Resource-Adequacy Benefits for CHP Resources Subject to the Cost Allocation Mechanism But Procured Outside of the Procuring Utilities’ Transmission Access Charge Areas: SDG&E opposes this proposal because it undermines the comprehensive settlement previously approved by the Commission related to CHP resources, is contrary to State policies supporting the development of CHP resources, and, if implemented, will likely increase SDG&E’s resource-adequacy compliance costs;
- Scheduled Outage Replacement Rule and Standard Capacity Product (SCP) Mechanisms for CAM Resources and CHP: SDG&E opposes this proposal on the grounds it incorrectly

assumes the utilities are the scheduling coordinator for CAM and CHP resources and thus improperly imposes burdens on the utilities that should be borne by other entities;

- Process for Allocating Committed Flexible Capacity Associated with CAM Resources: SDG&E agrees with the framework proposed by the Staff, but suggests the Staff's proposals be modified to recognize the distinct categories of flexibility (*i.e.*, Categories 1, 2 and 3) and the must-offer obligations associated with each of the categories under development by the California Independent System Operator; and,
- Aggregation of Local Area Requirements by Utility Service Area: SDG&E opposes this proposal and recommends it be deferred to the newly opened rulemaking where multi-year forward resource-adequacy requirements will be developed.

Each of these matters is discussed in greater detail below.

#### **I. Effective Load-Carrying Capacity (ELCC) and Qualifying Capacity (NQC) Calculation Methodology for Wind and Solar Resources**

In compliance with recent legislation,<sup>1</sup> Energy Division Staff ("Staff") proposed new methodologies for determining the effective load-carrying capacity and qualifying capacity for wind and solar resources.<sup>2</sup> SDG&E generally supports the framework, modelling inputs and methodologies for calculating these values as proposed in the *Staff Solar and Wind ELCC/QC Proposal*. At the January 27<sup>th</sup> workshop, however, Staff indicated it only intended to update ELCC values for wind and solar resources every two years. Biennial updates are, in SDG&E's opinion, too infrequent and would fail to reflect the effects of load growth and the installation of new wind and solar resources accurately, undermining the objectives of the resource-adequacy program. Rather than update ELCC values for wind and solar resources once every two years, the Commission should adopt a mechanism pursuant to which those values would be adjusted annually so as to reflect updated system conditions.

SDG&E proposes that the Staff determine, for each annual resource-adequacy compliance period, whether the ELCC values for wind and solar resources have changed from the prior year by a level predetermined to be "significant". For the sake of discussion, SDG&E suggests that "significant" would

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<sup>1</sup> See Senate Bill 2 (Simitian), 2011 Extraordinary Session, adding Section 399.26 to the Public Utilities Code.

<sup>2</sup> See *Effective Load Carrying Capacity and Qualifying Capacity Calculation for Wind and Solar Resources: Staff Proposal*, Rulemaking 11-10-023, January 16, 2014, incorporated into record of proceeding by E-Mail Ruling of ALJ Gamson on February 4, 2014 ("*Staff Solar and Wind ELCC/QC Proposal*").

represent a change of 2.5 percent, plus or minus,<sup>3</sup> in the monthly ELCC (or “derating”) values for wind and solar resources under the conventions proposed in the *Staff Solar and Wind ELCC/QC Proposal*. Thus, for each year, Staff would calculate the ELCC values for wind and solar resources using (a) the most recent data representing installed wind and solar resources and (b) updated monthly load forecasts available for the next compliance year. If the new monthly ELCC percentage values would change by 2.5 percent or more using this updated information, then the updated ELCC values would be used for compliance purposes and reflected in the resource-adequacy demonstrations submitted by load-serving entities. If the values did not change by 2.5 percent or more, the values from the prior year’s determination would continue to be used. In addition, Staff should, in its annual update to the ELCC values for wind and solar resources, identify that level of capacity, measured in megawatts, which, if installed and available to the California Independent System Operator (“California ISO” or “ISO”), would change the ELCC percentage values for wind and solar resources by 2.5 percent or more. If and when that level of capacity were reached, the updated values would be used for the next compliance period, resulting in an annual update to the applicable monthly ELCC values for solar and wind resources when circumstances warranted the change.

Without regard to whether the 2.5-percent threshold or some other threshold is determined to be more reasonable, SDG&E submits its proposal would first and foremost more accurately reflect system conditions than Staff’s proposed biennial updates and should be adopted. Additionally, SDG&E’s proposal would provide some forewarning as to the potential that, and degree to which, the ELCC values for wind and solar resources could change in the future. This would reduce the uncertainties and potential “surprises” the Staff’s biennial updates might produce for both resource owners and load-serving entities.

## **II. Qualifying Capacity and Effective Flexible Capacity Calculation Methodologies for Energy Storage and Supply-Side Demand Response Resources.**

At the conceptual level, SDG&E supports the Staff’s proposals for determining the Qualifying Capacity and Effective Flexible Capacity provided by energy-storage and demand-response resources.<sup>4</sup> SDG&E proposes relatively minor modifications to clarify certain elements of the Staff’s proposals.

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<sup>3</sup> SDG&E believes the 2.5-percent threshold is reasonable, but agrees other values could be adopted for the purposes of SDG&E’s recommendation.

<sup>4</sup> See *Qualifying Capacity and Effective Flexible Capacity Calculation Methodologies for Energy Storage and Supply-Side Demand Response Resources: Staff Proposal Outline*, Rulemaking 11-10-023, January 16, 2014, incorporated into record of proceeding by E-Mail Ruling of ALJ Gamson on February 4, 2014 (“*Staff QC/EFC Proposal*”).

First, Staff proposes that, where collocated with another resource eligible to provide resource-adequacy, a storage resource operated in conjunction with that other resource should not receive a separate qualifying capacity rating.<sup>5</sup> The operating characteristics of the storage resource could, however, be used to modify the rated qualifying capacity of the collocated resource. SDG&E supports the gist of the proposal because it provides a path by which the capacity value of storage resources can be recognized. Nevertheless, SDG&E recommends the proposal be clarified so as to limit the degree to which the qualifying-capacity rating of the underlying, collocated resource could be increased.

As the Staff indicates in its proposal, the storage resource “will be viewed as an independently operated resource and be separately evaluated” for its qualifying capacity and effective flexible capacity if the storage resource “is larger than” the collocated resource.<sup>6</sup> This aspect of the proposal appropriately recognizes that, at some point, the additional capacity value of the storage resource would be significant enough that a new deliverability assessment of the collocated facilities and/or site would be warranted. But the Staff’s limitation of the requirement for a new deliverability study to those instances where the storage resource is “larger than” the collocated resource fails to capture cases where the storage resource is not larger than the collocated resource *but might increase the qualifying capacity and effective flexible capacity ratings of the collocated resource to a level greater than the deliverability limits of the collocated resource and/or the site at which both resources are located*. So as to address this gap, SDG&E recommends the Staff proposal be modified to require new deliverability assessments whenever the potential modification to the deliverability assessment of the collocated resource would result in qualifying capacity or effective flexible resource ratings in excess of the deliverability rating of the collocated resource. SDG&E’s recommendation would essentially apply the Staff’s proposal to circumstances where its logic would be equally relevant and compelling.

Second, in determining the effective flexible capacity rating for storage resources, Staff suggests the Pmin-to-Pmax range relevant to the rating of any storage resource should reflect operational modes (e.g., charging and discharging periods for a battery resource) and, importantly, that the effective flexible capacity rating of a storage resource could be greater than its qualifying capacity for resource-adequacy purposes.<sup>7</sup> SDG&E supports the Staff’s proposals in both respects and fully agrees the measure of the effective flexible capacity offered by storage resources should consider both the ability of the resource to

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<sup>5</sup> Staff indicated that storage resources which are collocated with another resource, if operated independently of that other resource, should be separately evaluated for the resource-adequacy capacity it could provide. See *Staff QC/EFC Proposal*, at p.7.

<sup>6</sup> *Ibid.*

<sup>7</sup> See *Staff QC/EFC Proposal*, at pp.5-6.

meet ramping conditions by discharging and decrease ramping requirements through dispatchable charging during critical transition hours.

Third, at the January 27<sup>th</sup> workshop, Staff clarified that only *supply-side* demand-response and storage resources – that is, demand response or storage actively participating in the California ISO markets – are included in the Staff’s proposal. Staff indicated existing demand-response programs not characterized as “supply-side” will remain subject to existing counting conventions, and demand-response and storage resources not participating in the California ISO’s markets, *i.e.*, nearly 100 percent of current demand-response resources, would not be within the scope of the Staff’s proposal. SDG&E agrees with this view and recommends the Commission adopt it.

### **III. Eliminating Resource Adequacy Benefits for Cost Allocation Mechanism (CAM) and Combined Heat and Power Resources Procured Outside of the IOUs’ Transmission Access Charge (TAC) Areas**

Staff proposes to limit the recognition of resource-adequacy benefits associated with combined heat and power (“CHP”) resources whose costs are recovered through the Commission’s Cost Allocation Mechanism (“CAM”).<sup>8</sup> Staff would limit the recognition of those benefits to instances where the CHP resource is located within the Transmission Access Charge (“TAC”) area served by the procuring utility.<sup>9</sup> SDG&E opposes any such limitation.

State policy clearly and strongly favors the development of CHP resources and the Commission has consistently encouraged the addition of new CHP resources by recognizing the benefits of these resources in various regulatory proceedings.<sup>10</sup> In particular, the Commission recently considered a comprehensive settlement addressing a broad range of issues arising from the transition of the Commission’s longstanding Qualifying Facilities program to an approach more reflective of the current

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<sup>8</sup> See Public Utilities Code Section 365.1 regarding the recovery of utility procurement costs through CAM.

<sup>9</sup> See *RA Implementation Staff Proposals*, Rulemaking 11-10-023, January 16, 2014, at pp.3-4; incorporated into record of proceeding by the E-Mail Ruling of ALJ Gamson on February 4, 2014 (“*Staff RA Implementation Proposals*”).

<sup>10</sup> See, *e.g.*, Public Utilities Code Section 372(a).

structure of California energy markets.<sup>11</sup> In adopting CHP procurement objectives and approving associated targets for reductions of greenhouse gas emissions, the Commission there authorized the recovery of CHP costs via a utility's CAM, pursuant to which the resource-adequacy benefits of the underlying CHP resources would be allocated to load-serving entities along with the costs.<sup>12</sup> The Staff proposal to limit the recognition of CHP resource-adequacy benefits is contrary to the Commission's general policies promoting the addition of CHP resources and the specific provisions of *Decision 10-12-035* reflecting those policies. Moreover, in SDG&E's case, the Staff's proposal would significantly impair SDG&E's ability to procure CHP resources given the paucity of suitable industrial and commercial hosts in the SDG&E service territory. Under these circumstances, Staff's proposal would make SDG&E's efforts to meet its CHP targets more difficult and likely increase SDG&E's resource-adequacy compliance costs.

To the extent Staff would reverse the Commission's treatment of CHP resources and related resource-adequacy benefits, Staff should bear an obligation to demonstrate some compelling basis for the change of course. At the January 27<sup>th</sup> workshop, Staff indicated its proposal was largely driven by the purportedly anomalous recognition of capacity benefits of CHP resources located in one TAC area to load-serving entities located in another – according to Staff, this could ignore Path 26 transmission constraints and allow the counting of resource-adequacy capacity that might not be deliverable across Path 26. While SDG&E acknowledges the theoretical validity of Staff's point, SDG&E emphasizes that Staff could not identify the magnitude of the "problem" in fact. Moreover, any solution that would effectively limit SDG&E's procurement of CHP resources to those located in its TAC area is overbroad since it would discourage SDG&E from procuring resources located in the Southern California Edison territory, despite their location south of any Path 26 transmission constraints. Staff's proposal here could well solve the theoretical anomaly it raises, but would no doubt create obstacles to achieving the Commission's larger, more important objectives served through the promotion of CHP procurements. In the absence of some greater

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<sup>11</sup> See *Decision Adopting Proposed Settlement*, Decision 10-12-035, Application 08-11-001, *et al.*, December 16, 2010; *Order Modifying Decision 10-12-035; Denying Rehearing of D.10-12-035, As Modified, on Certain Issues Raised by the City and County of San Francisco; and Granting the Motion for Abeyance Filed by the California Municipal Utilities Association*, Decision 11-03-051, March 24, 2011; *Decision Granting Petition to Modify Decision 10-12-035*, Decision 11-07-010, July 15, 2011; *Order Dismissing Application for Rehearing of Decision 10-12-035*, Decision 11-10-027, October 18, 2011; and *Order Denying Rehearing of Decision 10-12-035 on Certain Issues Raised by the City and County of San Francisco*, Decision 11-10-043, October 24, 2011.

<sup>12</sup> See *Decision 10-12-035*, *supra*, printed opinion at p.56; also, Finding of Fact 5 at pp.68-69.

demonstration that the Staff proposal is necessary to protect the integrity of the Commission's resource-adequacy program and its counting conventions, SDG&E submits the proposal should be rejected.<sup>13</sup>

#### **IV. Scheduled Outage Replacement Rule and Standard Capacity Product (SCP) Mechanisms for CAM and CHP Resources**

Under the rules of the California ISO, load-serving entities and scheduling coordinators are required to replace resource-adequacy resources on scheduled outages when the ISO determines replacement capacity is needed; whether it is a load-serving entity or the resource's scheduling coordinator bears the replacement obligation depends on when, in relation to the compliance month, the outage schedule is requested.<sup>14</sup> In addition to the scheduled outage replacement rules included in its tariffs, the California ISO has established a Standard Capacity Product ("SCP") mechanism that penalizes the scheduling coordinators of resource-adequacy resources which are on forced outage.<sup>15</sup>

Staff proposes the utilities alone be responsible for procuring resource-adequacy capacity where needed to replace CAM and CHP resources on scheduled or forced outage. Staff proposes that utilities be provided with authority to recover the costs for such procurements through a new balancing account mechanism, but directs the use of specific resources as replacements whose benefits, while tangible, may be difficult to capture and compensate through a simple balancing ratemaking account.<sup>16</sup> SDG&E believes this set of proposals requires clarification and revision before it can be properly evaluated by the parties or adopted by the Commission.

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<sup>13</sup> Additionally, the Commission should consider that the issues related to the Path 26 constraints raised by Staff could be better solved by addressing them in a newly opened proceeding, *Order Instituting Rulemaking to Consider Electric Procurement Policy Refinements Pursuant to the Joint Reliability Plan*, Rulemaking 14-02-001, February 5, 2014. That proceeding will consider the implementation of a three-year forward resource-adequacy requirement and is expected to facilitate the opening of markets in which capacity can be freely sold, bought and exchanged to meet the resource-adequacy requirements of each load-serving entity. These transactions could address locational issues such as the one raised by Staff without impairing the progress the Commission and utilities have made in promoting the development of CHP resources.

<sup>14</sup> CAM and CHP resources are not subject to the scheduled outage replacement rules, primarily because these resources appear as "credits", rather than distinct resources, in the resource-adequacy plans of load-serving entities

<sup>15</sup> While the SCP mechanism applies to all scheduling coordinators, it is possible that the scheduling coordinator for CAM or CHP resources may lack the portfolio of resources to mitigate exposure to SCP penalties cost-effectively.

<sup>16</sup> See *Staff RA Implementation Proposals*, at pp.5-6.



Fundamentally, Staff's proposal erroneously presumes the utility is always the scheduling coordinator for CAM and CHP resources. With respect to CAM resources, utilities have in the past, and may in the future,<sup>17</sup> conduct energy auctions for CAM resources – auction winners may become the scheduling coordinator for those resources. With respect to CHP resources, the resource owner has the option to act as the scheduling coordinator for the resource. The fact that the utility might not be the scheduling coordinator is significant, particularly in the context of replacement, insofar as the California ISO assigns replacement obligations based upon when a resource submits its request for a planned outage. For outages requested forty-five days prior to the compliance month, the load-serving entity bears the replacement obligation. For outages requested less than forty-five days prior to the compliance month, the scheduling coordinator for the resource bears the replacement obligation. SDG&E suggests Staff revise its proposal to (a) address situations where the utility is not the scheduling coordinator and (b) resolve the current conflict between its proposal and the replacement obligations expressed in the California ISO's tariffs.

Additionally, SDG&E believes a *detailed* cost-allocation and cost-recovery mechanism must accompany any revised proposal. For example, the current proposal directs the utilities to use resources managed under a tolling agreement or owned by the utilities first to satisfy the replacement obligations the Staff places on them. Underlying Staff's recommendation is the assumption that utility-owned or -controlled generation is "cheaper" than market purchases. But utilities may hold surplus resource-adequacy capacity of the types Staff would commit to replacements in order to allow for replacements or substitutions for the utilities' own resource-adequacy portfolios or to hedge ratepayer costs. When that surplus is used on behalf of Direct Access and Community Choice Aggregation customers as Staff proposes, utility ratepayers incur incremental risks of increased costs if a later forced outage occurs and the utility's surplus capacity has become unavailable to provide replacement on behalf of the utility's bundled customers. As this single example demonstrates, a detailed proposal on cost-allocation and cost-recovery is necessary to both evaluate the assumptions underlying Staff's policy recommendations and fully address the actual costs and risks associated with a particular course of action.

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<sup>17</sup> The Commission is actively considering the elimination of energy auctions as a tool for setting net capacity costs for resources subject to cost recovery under CAM. See *Proposed Decision of ALJ Gamson: Decision Modifying Long-Term Procurement Planning Rules*, Rulemaking 120-03-014, January 28, 2014, pending action by the Commission on or after February 27, 2014, printed opinion at pp.54-55. This *Proposed Decision*, however, allows the utility procuring a resource subject to CAM cost recovery to hold an energy auction if it so chooses, in which case the utility would not be the scheduling coordinator for the resource. *Id.*, printed opinion at pp.57-58.

Without these essential details in place, SDG&E cannot support the Staff proposal at this time and requests that the Staff revise its proposals so as to allow its proper and fair evaluation.

## **V. Process for Allocating Committed Flexible Capacity Associated with CAM Resources**

For a resource subject to cost recovery under CAM, resource-adequacy credits are allocated to load-serving entities serving customers in the service territory of the utility procuring the resource. These credits are applied to the resource-adequacy requirements imposed on affected load-serving entities. As the California ISO proceeds to implement additional flexibility requirements, new rules for allocating the flexibility attributes provided by resources subject to CAM should be adopted. Staff proposes that the same allocation methodology currently used for the allocation of local resource-adequacy benefits apply to the allocation of flexibility benefits. SDG&E agrees with the general proposition and framework proposed by Staff, but suggests certain modifications, outlined below, to better reflect the increasing complexities of the resource-adequacy program portended by the new flexibility requirements.

First, Staff's proposals should be clarified so as to recognize the distinct categories of flexibility (*i.e.*, Categories 1, 2 and 3) currently being contemplated in the California ISO's Flexible Resource Adequacy Capacity Must Offer Obligation stakeholder process. Any flexibility credits attributable to CAM resources should specify the most flexible category (starting with lowest numbered Category) for which the resource qualifies. This provides the procuring utility with the ability to manage the resource efficiently and will facilitate the California ISO's validation of the resource-adequacy demonstrations and supply plans submitted by load-serving entities. If the utility procuring the CAM resource is not the scheduling coordinator of the resource, the utility should work with the scheduling coordinator to ensure the flexibility credits being allocated and reported match with the supply plans in which the resource appears.

Second, Staff proposes that the utility procuring CAM resources provide a complete list of all "committed" flexible CAM resources in order to facilitate the allocation of flexible-resource credits to load-serving entities in the utility's service area.<sup>18</sup> The Commission has previously defined a "committed flexible resource" as "a qualified flexible resource that [a load-serving entity] reports toward[s] meeting [its] flexible target."<sup>19</sup> Experience from 2013 indicates the need to improve and clarify this definition further: load-serving entities held surplus flexible resources which were not reported towards meeting their flexible-

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<sup>18</sup> See *Staff RA Implementation Proposals*, at p.7.

<sup>19</sup> See *Decision Adopting Local Procurement Obligations for 2014, A Flexible Capacity Framework, and Further Refining the Resource Adequacy Program*, Decision 13-06-024, Rulemaking 11-10-023, June 27, 2013, printed opinion at Appendix A, p.A-4.

capacity targets and only partially committed others. Use of the term “committed” in the Staff proposal could continue these circumstances since the term can be read to indicate the procuring utility could still choose the level to which a CAM resource would be committed to meet flexibility requirements. Thus, SDG&E recommends Staff’s proposal be amended to require that all “contracted” or “procured” CAM resources be reported and that utilities procuring CAM resources provide a list of all contracted flexible CAM resources prior to the July resource-adequacy credit allocations.

Third, Staff’s proposal omits the reflection of the online date of new CAM resources and the manner in which the flexibility credits associated with new resources will be allocated. Staff proposes to allocate flexibility credits only until the final year-ahead allocations are made. Credits from new resources coming online after those allocations are made *but during the compliance year* are omitted from the Staff’s proposal. SDG&E recommends this omission be addressed. SDG&E proposes that a quarterly update for flexible CAM resources be used, particularly for new flexible CAM resources.

Finally, effective flexible capacity values for CAM resources may not yet be finalized or published prior to the final year-ahead allocations. In the interest of accuracy, Staff’s proposal should be clarified to allow updates to the flexibility credits associated with CAM resources when those values are finalized and published. Once again, SDG&E’s proposal for quarterly updates would resolve this issue.

## **VI. Aggregation of Local Area Requirements by Utility Service Area**

In order to reduce transaction costs for smaller load-serving entities, Staff proposes to aggregate local resource-adequacy requirements by TAC areas for load-serving entities whose local resource-adequacy requirements do not exceed five megawatts within any single TAC area.<sup>20</sup> SDG&E submits this proposal solves one problem at the risk of creating another, namely, jeopardizing grid reliability.

Local resource-adequacy requirements specifically recognize and resolve physical deliverability constraints which create load pockets. By allowing load-serving entities to substitute local capacity in one load pocket for local capacity needed in another, Staff’s proposal is at odds with the fundamental concept of local capacity requirements. Even if the Commission permits such a substitution, the California ISO will not – if an insufficient amount of local capacity is made available to serve a load pocket, the California ISO is empowered to procure the local resources it needs to assure that local energy needs can be met. Under the California ISO’s tariffs, the costs of such procurement will be imposed on all load-serving entities serving demand in the load pocket where insufficient local resources were made available, including on

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<sup>20</sup> See *Staff RA Implementation Proposals*, at pp.9-10.

