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.	)))))	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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San Diego Gas & Electric Company ("SDG&E") files these opening comments pursuant to the *Phase 3 Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge* ("*Phase 3 Scoping Memo*") issued in this proceeding on or about August 2, 2013, and the E-Mail Ruling issued by ALJ Gamson on February 18, 2014. These comments address the *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework* ("*Staff Flexible Capacity Proposal*")[1] issued by the Commission's Energy Division Staff ("Staff") on or about February 10, 2014. SDG&E fully supports the adoption of a Flexible Capacity Resource Adequacy requirement by the Commission. In evaluating the *Staff Flexible Capacity Proposal*, however, the Commission must consider the effects these new requirements will have on the costs customers will bear. SDG&E submits, as a matter of first principles, that among the primary strategies by which the Commission can minimize the costs of any new flexible-capacity requirement is eliminating, or substantially limiting, substantive and regulatory differences between the administration of the Commission's flexible-capacity framework and the California Independent System Operator's ("California ISO" or "ISO") proposed Flexible Resource Adequacy Capacity Must Offer Obligations ("FRACMOO"). Any divergence between the two programs can lead to the inefficient, ineffective and/or uneconomic procurement of resources by load-serving entities and/or trigger otherwise unnecessary incremental or "backstop" procurement by the California ISO.

SDG&E's comments and recommendations concern the following aspects of Staff's Proposal:

- **Counting Flexible and Generic Attributes for Compliance Purposes**: For resource-adequacy counting and compliance purposes, Staff proposes to continue the concept known as "bundling" that requires a megawatt of flexible capacity to be bundled with, and not severed from, its

[1] *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*. Rulemaking 11-10-023, February 10, 2014 ("*Staff Flexible Capacity Proposal*").

underlying megawatt of "generic capacity". SDG&E does not support Staff's proposed continuation of the bundling principle, and instead proposes an alternate framework; and,

- **Use-Limited Flexible Resources**: SDG&E opposes several aspects of the *Staff Flexible Capacity Proposal* regarding the treatment of use-limited resources, notably: a) the substantive divergence between the Staff's three must-offer categories from the three categories under consideration by the California ISO; b) the exemption provided to certain smaller load-serving entities from category-based procurement requirements; and c) the placement of data obligations on load-serving entities.

These comments and recommendations are described in greater detail below.

I. Counting Flexible and Generic Attributes for Compliance Purposes Through "Bundling"

The Commission has previously recognized that the evolution of the California grid necessitates the imposition of additional procurement obligations on load-serving entities beyond the system and locational capacity requirements reflected in the Commission's current resource-adequacy program. To address these matters, the Commission adopted an interim flexible capacity framework.[2] The Commission, however, concluded it was not reasonable to impose mandatory new requirements for flexible capacity in the 2014 resource-adequacy compliance year, but indicated new requirements would take full effect in 2015. The Commission identified several implementation details that should be addressed in the 2015 resource-adequacy proceeding, noting:

> Because there are a number of details remaining to be determined to fully implement the interim flexible capacity framework, it is necessary to start as soon as possible to finalize such details. For the next year, we will gather information, analyze such information, hold workshops to consider refinements to the adopted flexible capacity framework, and build a record for such refinement in our expected June 2014 decision.[3]

In accordance with these sentiments, the Commission defined Phase 3 of the instant rulemaking as encompassing "issues that we must resolve to implement the flexible capacity framework for the RA compliance year of 2015."[4] Importantly, the *Phase 3 Scoping Memo* holds that implementation details to be worked out through workshops and comments include the development of "counting rules, eligibility criteria, and must-offer obligation for use-limited resources, preferred resources, combined cycle gas turbines, and energy storage resources for Commission consideration."[5]

Decision 13-06-024 incorporated what was then a near-consensus view regarding the "bundling" of generic capacity with flexible capacity, *i.e.*, for compliance demonstrations and procurement purposes, the

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[2] 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, July 3, 2013.
[3] *Id.*, printed opinion at p.56.
[4] *Phase 3 Scoping Memo, supra,* at p.3.
[5] *Ibid.*

flexible capacity of a resource included in a load-serving entity's resource-adequacy demonstration was to remain "bundled" with the underlying generic resource-adequacy capacity of the flexible resource.[6] The Staff summarized the bundling concept as follows:

> A megawatt of capacity counts only once – as flexible or generic. A resource may have flexible megawatts and generic megawatts based on how the resource is bid in the market and how flexibility is counted within a resource. Flexible megawatts and generic megawatts count towards system [resource-adequacy] obligations. Only flexible megawatts count towards meeting flexible [resource-adequacy] obligations. If the resource is in a local area, the combined total MW contracted from the facility count towards system and local [resource-adequacy] obligations.[7]

In other words, a resource identified as providing fifty megawatts of flexible capacity would not be permitted to sell fifty megawatts of flexible capacity to one load-serving entity and the underlying fifty megawatts of generic capacity to another load-serving entity; the sale of flexible capacity was presumed to have been "bundled" with the generic resource-adequacy capacity of those fifty megawatts.

Sections VII and VIII of the *Staff Flexible Capacity Proposal* provide rules for counting flexible capacity for resource-adequacy compliance purposes. In those sections, Staff proposes to extend and expand the bundling concept adopted in *Decision 13-06-024*. Under the *Staff Flexible Capacity Proposal,* if a resource is included in a load-serving entity's resource-adequacy as providing flexible capacity, the load-serving entity must also include "the flexible resource towards system targets and local [resource-adequacy] targets where applicable."[8] If, however, the load-serving entity only needed to satisfy a generic capacity requirement, the same flexible capacity would only be listed as generic capacity in that load-serving entity's compliance filing. Because a "megawatt of capacity counts only once," the resource owner whose generic capacity had been sold could not later sell the flexible attributes associated with that generic capacity in a separate transaction or to another load-serving entity. In addition to continuing the bundling concept, Staff would also allow resources with flexible capacity to withhold selling their flexible attributes, proposing that "[a] resource owner may elect to sell any portion of qualified flexible capacity as inflexible."[9] SDG&E recommends these views on the bundling of generic and flexible capacity be reconsidered.

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[6] See *Decision 13-06-024*, printed opinion at pp.17, 66 (Conclusion of Law 10), Appendix A at p.A5.
[7] *Staff Flexible Capacity Proposal,* at p.9.
[8] *Staff Flexible Capacity Proposal*, at p.10.
[9] *Staff Flexible Capacity Proposal*, at p.9.

SDG&E initially supported the bundling concept on the assumption that it would curb the potential exercise of market power,[10] and on the further ground that bundling would increase the simplicity of procuring flexible capacity. SDG&E also initially believed the bundling rule would lower transaction costs associated with the procurement of flexible capacity. SDG&E's procurement experience during 2013 and 2014, however, revealed that the bundling of generic and flexible capacity actually *decreases* market liquidity and *increases* transaction costs.[11] This operational experience, coupled with Staff's explicit proposal to permit withholding which would eliminate any practical benefit that bundling might serve in mitigating market power, has caused SDG&E to rethink its original position on the bundling concept. In addition, while SDG&E acknowledges that resource owners may have valid reasons to withhold flexible capacity,[12] the proposed rule goes farther than necessary to protect the interests of resource owners and may handcuff them by preventing them from offering previously withheld flexible capacity to the market when circumstances change.

For the reasons discussed below, SDG&E does not support the bundling concept as outlined in Sections VII and VIII of the *Staff Flexible Capacity Proposal*. SDG&E instead proposes an unbundling framework it believes will meet the California ISO's needs for generic resource-adequacy and flexible capacity, increases the supply of flexible capacity resources, increases efficiency, facilitates prudent procurement practices, and lowers transaction and procurement costs, without any countervailing adverse impacts on system reliability. Importantly, SDG&E's proposal aligns with the California ISO's intention of unbundling attributes in the FRACMOO process and supports SDG&E's overarching principle of minimizing the potential for the Commission's resource-adequacy program to diverge from the ISO FRACMOO. *Decision 13-06-024* indicates the Commission will "consider refinements to the adopted flexible capacity framework, and build a record for such refinement in our expected June 2014 decision," and SDG&E

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[10] In a general sense, SDG&E originally believed that, if a resource owner was unable to sell the attributes separately, there would be no economic incentive to withhold the flexible attributes of its resource in order to reduce the supply of flexible capacity and thereby artificially inflate prices.

[11] For example, assume a supplier owns four different resources, all of which are capable of providing flexible capacity. Resources 1, 2 and 3 are located in defined local capacity areas and are eligible to provide both local resource-adequacy capacity and flexible capacity. Resource 4 is not in a load pocket and can only provide system or flexible resource-adequacy capacity. Under the Staff's proposal, the supplier could elect to withhold the flexible capability from Resources 1, 2 and/or 3, and instead offer, sell and provide obligations limited to the provision of generic capacity for those local resources. In doing so, the supplier would decrease the amount of flexible capacity available in the market, and increase the likelihood that Resource 4 could exercise market power with respect to the sale of its flexible attributes.

[12] The must-offer obligations imposed on flexible capacity are more burdensome to resource owners, restrict the owner's ability to control operating schedules, and potentially expose the resource to more starts and stops and associated increased wear and tear.

submits its proposals in accordance with the Commission's objectives to adopt new rules governing the procurement and delivery of flexible capacity in the public interest.[13]

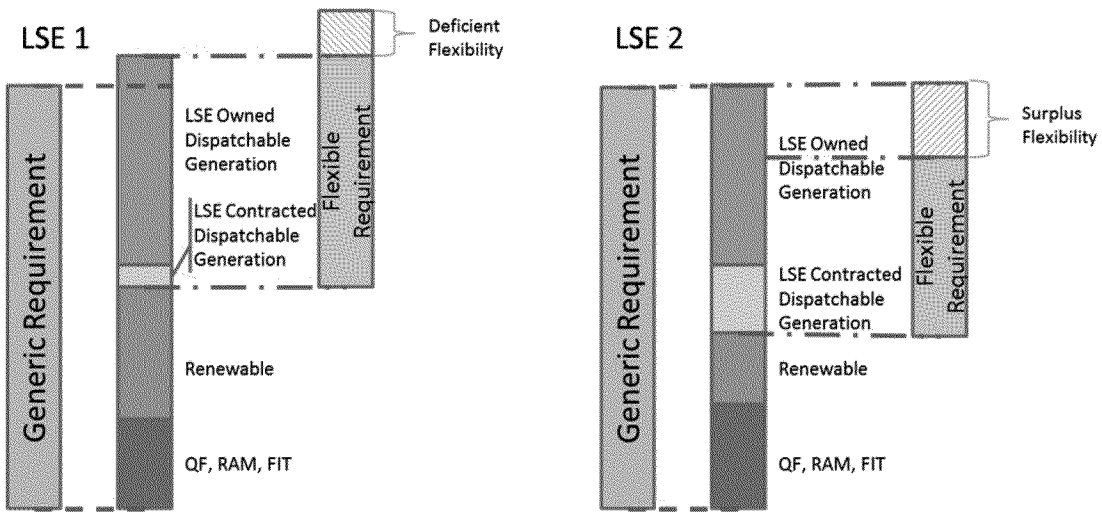
A. Background

The concept of bundling generic and flexible capacity has generated much confusion among market participants and analysts. SDG&E perceives that the support for bundling appears to rest on a variety of assumptions and/or misconceptions about what bundling accomplishes and/or prevents. Chief among these misconceptions are that: 1) bundling supports market efficiencies, minimizes transaction costs, and does not reduce supply; and, 2) unbundling generates reliability concerns and leads to costly overprocurement. SDG&E addresses each of these misconceptions below.

1. Misconception One: Bundling Supports Market Efficiencies, Minimizes Transaction Costs, and Has No Detrimental Impact on Liquidity.

In order to meet the State's environmental and reliability objectives, a load-serving entity's resource portfolio will include a robust mix of resources subject to a variety of operating limitations and pursuant to different contractual terms and conditions. In order to minimize costs to customers and avoid any exposure to performance penalties, load-serving entities will typically commit contracted capacity first in order to meet any particular requirement. Figure 1 below shows an illustrative comparison of a load-serving entity's resource portfolio compared to its resource-adequacy requirements:

Figure 1 Hypothetical LSEs' Portfolios



[13] Accord, *Phase 3 Scoping Memo*, *supra*, at p.3.

The figure illustrates the potential for bundling to decrease the availability of flexible capacity in the marketplace. In Figure 1, the resource portfolio of LSE 1 reflects a flexible-capacity deficiency. The most cost-effective solution that could be available to LSE 1 is to procure the flexible-capacity attributes, *without the underlying generic capacity*, from LSE 2 which has a surplus of flexible capacity; all else being equal, the price for the surplus flexibility attributes held by LSE 2 should reflect only the additional marginal costs associated with LSE 2's assumption of the additional burdens of offering flexible attributes compared to generic capacity. The concept of bundling prohibits this direct, cost-effective transaction, thereby limiting the fungibility of capacity products, and creates market inefficiencies for buyers and sellers alike. SDG&E submits that LSE 2 should be able to offer its surplus flexibility to the market, even if that surplus is tied to generic capacity previously committed to serve as a resource-adequacy resource.

Because bundling prevents LSE 2's surplus flexible capacity from reaching the market, LSE 1's options to cure its deficiency are more limited than they need be. Buyers which are deficient in flexible capacity, but not generic capacity, are forced to transact with a more limited pool of other load-serving entities which have a surplus of *bundled* flexible *and* generic capacity or from generators which had not previously sold their flexible attributes in a bundled capacity product. While LSE 1 may find a seller from this unduly constrained pool of counterparties, the price is likely to be higher, making the bundled capacity product under the proposed framework more costly to market participants and consumers.

An alternative would be for LSE 1 and LSE 2 to engage in a multi-tiered, multi-part, complicated, time-consuming swap under which LSE 2 swaps flexible and generic capacity to LSE 1 in exchange for generic capacity from LSE 1. Under the swap, LSE 1 could obtain flexible capacity from LSE 2 by exchanging some portion of its generic capacity with LSE 2 for bundled generic-flexible capacity. The straightforward example implicit in Figure 1 becomes even more complex if the LSE 2 does not own or control the resource providing the flexible capacity attributes, or if that resource did not originally sell its surplus flexibility to LSE 2. Under these more involved circumstances, the LSE 1-LSE 2 swap and direct transactions between LSE 1 and the resource owner would simply not be available. As a result, LSE 1 faces further limitations on its ability to cure any deficiency in flexible capacity that might exist in its resource-adequacy portfolio. Even where a swap or series of swaps can be executed, these transactions would not increase the resource pool or the level of flexible capacity that could be made available to the California ISO, and are only necessitated by the terms of the bundling rule itself.

For the foregoing reasons, SDG&E believes bundling places an unnecessary and onerous burden on contracting parties and fosters market inefficiency. Moreover, while theoretically possible to contract

around these burdens in the year-ahead time frame, the increased delay and complexity associated with curing flexible-capacity deficiencies under the bundling framework is unworkable in the month-ahead and real-time context. This fact needlessly exposes ratepayers to increased replacement costs and non-availability penalties arising from uncured or incurable planned and forced outages of flexible resources included in the resource-adequacy portfolios of Commission-jurisdictional load-serving entities.

2. Misconception Two: Unbundling Could Threaten Reliability or Lead to Overprocurement

While unbundling could increase market liquidly and potentially lower transaction costs, SDG&E agrees these benefits must be balanced against the potential risks that unbundling could threaten system reliability or lead to overprocurement. SDG&E submits neither risk is present.

a. The Must-Offer Obligations Imposed on the Flexibility Attribute Ensures Reliability Needs Will Be Satisfied. It Is Irrelevant Whether the Attributes Are Conceptually and Administratively Bundled or Unbundled.

Flexible attributes and generic capacity are clearly distinct from one another although they reside within a single megawatt of resource-adequacy capacity.[14] Staff implicitly acknowledges this fact when it proposes that "a resource owner may elect to sell any portion of its qualified flexible capacity as inflexible."[15] These differences are explicitly described in the specific must-offer obligations applicable to flexible and generic capacity. The generic must-offer obligation requires bidding or self-scheduling twenty-four hours per day, seven days per week, while the flexible must-offer obligation requires economic bids which vary by category from as much as seventeen hours per day, seven days per week to as little as five hours per day, five days per week. As illustrated below in Figure 2, these distinct must-offer obligations ensure the California ISO's needs are met and, further, that the ISO is wholly indifferent as to whether the attributes are conceptually and administratively bundled or unbundled.

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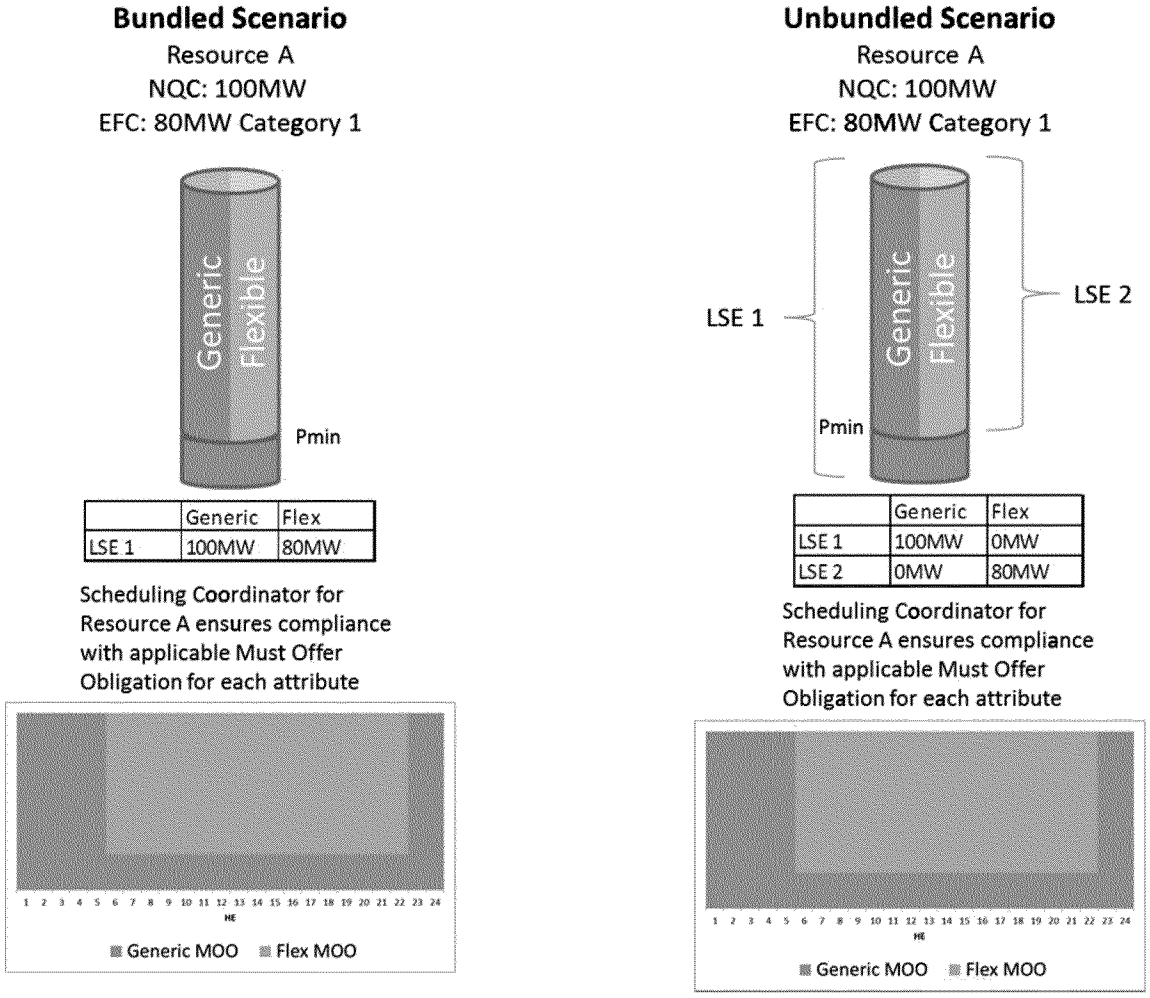
[14] The *Staff Flexible Capacity Proposal* reiterates the uncontroversial definition that only "generic" capacity exists below a resource's Pmin and "flexible" capacity only exists above the resource's Pmin for resources with start times greater than ninety minutes. See *Staff Flexible Capacity Proposal*, at p.6.

[15] *Staff Flexible Capacity Proposal*, at p.9.

Figure 2. Effect of Unbundling on Reliability



As Figure 2 demonstrates, it is irrelevant to the California ISO's reliability objectives whether (a) a single load-serving entity bundles the flexible and generic capacity of a resource or (b) two separate load-serving entities provide the flexible attributes and generic capacity of a resource through some combination of transactions. So long as only one load-serving entity provides and "counts" the flexible attributes of that resource, the California ISO is indifferent to the manner in which the flexible attributes are provided or whether it is provided separately from generic capacity. The ISO, through the must-offer obligations imposed on the resource's scheduling coordinator, will receive the exact same bids and self-schedules in either instance.

b. Unbundling Flexible and Generic Capacity Can *Decrease* Procurement Costs.

Contrary to a commonly held belief, bundling flexible and generic capacity can lead to higher costs and inefficient and/or excess procurement. As shown above in Figure 1, bundling creates market inefficiencies by artificially disqualifying some portion of supply from the market – where generic capacity previously has been sold and/or committed without its flexible attributes, its flexible attributes are simply unavailable to the market by virtue of administrative rule. In contrast, unbundling would provide additional opportunities for flexible attributes to be made available to the market in a seamless manner.

In Figure 1, LSE 2 committed generic capacity sans its embedded flexibility attributes in order to satisfy a generic resource-adequacy obligation. Because it had met its flexible capacity requirements by other means, LSE 2 had no reason to undertake the additional must-offer obligations imposed on flexible capacity for the incremental and available flexible capacity nested in its resource's generic capacity. In a very real sense, bundling leaves LSE 2 "overprocured" with respect to flexible capacity and simultaneously prevents LSE 2 from bringing that surplus flexibility to the market if and when circumstances change.

Figure 1 also illustrates that the concept of bundling – that is, procuring generic and flexible attributes from the same resource – makes intuitive and economic sense. The vast majority of resource-adequacy transactions will likely be bundled because prudent procurement practices will logically dictate that outcome. A prescriptive, illogical mechanism that requires bundling is simply not required to foster prudent procurement. On the other hand, the ability to unbundle can address instances on the margins where the lumpiness of procurement generates both surpluses and deficits of attributes for individual load-serving entities.

B. SDG&E's Proposal

Rather than continue the concept of bundling as proposed by Staff, SDG&E recommends generic and flexible capacity be unbundled in order to facilitate transactions by which individual load-serving entities can mutually resolve their deficiencies and surpluses in flexible capacity and thereby lower their compliance costs. SDG&E proposes the unbundling of generic and flexible capacity, where the generic capacity is "NQC" and flexible capacity is "EFC", as follows:

1. A resource owner may elect to sell any portion of its qualified flexible capacity as inflexible;
2. The EFC of a resource may be sold separately from the NQC of the same resource. A resource owner may sell the EFC and NQC in separate transactions and to different purchasers;
3. The EFC of a resource committed by a load-serving entity may only meet the load-serving entity's flexible-resource requirements. The NQC of a resource committed by a load-

serving entity must meet the load-serving entity's system and local resource-adequacy requirements; and,

4. The EFC of a resource committed by a load-serving entity may be greater than, equal to, or less than the NQC committed for that resource. The committed EFC will bear obligations under the Flexible RA Capacity Must Offer Obligation (FRACMOO) as specified by the ISO tariff. The NQC of a resource will bear obligations under the resource-adequacy must-off obligations as specified by the ISO tariffs for generic capacity. It is responsibility of the resource's scheduling coordinator to bid or self-schedule EFC and/or NQC into the ISO day-ahead and real-time markets in accordance with the ISO tariff.

Finally, SDG&E notes that several new developments and enhancements in the California ISO's Draft Final FRACMOO proposal[16] treats flexible attributes separately and in a way that both fosters and complements SDG&E's unbundling proposal. These include:

1. The ISO proposes to require load-serving entities to submit separate resource-adequacy showings for flexible and generic capacity and resources to submit separate flexible and generic supply plans matching the showings of load-serving entities;
2. The ISO is expected to require replacement and substitution capacity for flexible capacity along with generic capacity. Flexible capacity may be replaced without the need to replace generic capacity;
3. The ISO is expected to backstop flexible capacity separately from generic capacity but will co-optimize its backstop procurements when generic capacity is also needed; and,
4. The ISO is expected to develop standard flexible non-availability incentives and charges based on the bidding behavior for the flexible capacity in addition to the standard non-availability incentives and charges currently found in the ISO's tariff.

II. Response to Staff's Proposals Regarding Use-Limited Resources

Staff is in the process of developing its approach to the assignment of effective flexibility ratings to use-limited resources. Generally, Staff supports an approach where the requirements, caps and limits placed on use-limited resources providing flexible capacity are based on the operating characteristics of the resource and regulated pursuant to categories with varying must-offer obligations and energy limitations. At a conceptual level, SDG&E agrees with the direction being taken by the Staff but nevertheless opposes several aspects of Staff's proposed framework related to use-limited resources, including: a) the substantive divergence between the must-offer categories proposed by Staff and those proposed by the ISO; b) the exemption provided to certain jurisdictional load-serving entities from category-based procurement requirements; and c) the proposal to require load-serving entities provide operational data for those use-limited resources included in its resource-adequacy demonstrations.

[16] http://www.caiso.com/Documents/DraftFinalProposal-FlexibleResourceAdequacyCriteriaMustOfferObligation.pdf

A. Divergence Between the Must-Offer Categories Proposed By Staff and Those Proposed by the ISO

Staff proposes the adoption of three categories of flexible resources distinguished by variations in each category's must-offer obligations and energy limitations. The Staff proposes limiting the amount of flexible capacity a load serving entity may submit from each category each month.[17] In its FRACMOO proposal, the California ISO similarly recommends three flexible-capacity procurement categories with different minimum and maximum procurement targets, as well as different must-offer obligations for each category. In many respects, the two proposals are very similar. Nevertheless, in at least one important respect, the Staff proposal inexplicably diverges from the proposal under consideration by the California ISO. These differences will unduly complicate the administration of the resource-adequacy program and could potentially increase procurement costs for load-serving entities.

Staff's proposal requires a "Category 1" use-limited resource to have the ability to start at least two times per day. In contrast, the most current iteration of the California ISO FRACMOO proposal would only require use-limited resources to start a minimum of once per day, albeit with longer run times. In practice, the difference between the Staff's proposal and the CAISO's FRACMOO would preclude a use-limited resource with an eighteen-hour minimum run-time and a six-hour minimum down-time from providing Category 1 flexible capacity for Commission purposes even though that resource would be eligible to do so under the California ISO framework. It is unclear as to why, and the Staff does not explain why, resources that are otherwise eligible under the California ISO proposal to provide high-quality flexible capacity should be excluded from qualifying to meet the Commission's resource-adequacy compliance requirements for that same category. This divergence may result in Commission-jurisdictional load-serving entities procuring additional Category 1 resources not for reliability reasons but solely for administrative compliance purposes. In the absence of sufficient justifications for any differences between the two agencies' flexible-capacity programs, SDG&E strongly recommends the Staff's proposed flexible-capacity categories closely, if not identically, align with the three categories proposed by the California ISO in the FRACMOO initiative.

B. Staff's Proposal to Exempt Certain Load Serving Entities from Category-Based Procurement Requirements and Limitations

For the sake of "administrative ease," Staff proposes to exempt load serving entities with a maximum flexible-capacity obligation in any month of twenty-five megawatts or less from the category-

[17] See *Staff Flexible Capacity Proposal*, at p.13.

based procurement requirements and limitations.[18] In essence, Staff proposes that load serving entities with "small" monthly flexibility requirements be permitted to meet those requirements with less specific, and lower-quality, flexible resources, while requiring load-serving entities with "larger" monthly flexible requirements to meet their compliance obligations within the constraints of the proposed category-based system. SDG&E submits that this aspect of Staff's proposals raises the spectre that, if the California ISO determines that the collective mix of flexible resources is insufficient to meet its flexibility needs, *even if all Commission-jurisdictional load-serving entities are in individual and collective compliance with the Commission's resource-adequacy requirements related to flexible capacity,* the California ISO will procure additional capacity to meet any unresolved need for flexible capacity. Additionally, Staff proposes the cost of this additional procurement, if any, be borne by the *non-exempt* load-serving entities, despite the fact that they have met their requirements under both the Commission's and California ISO's regulations.

The category-based procurement requirements and limitations attempt to limit over-reliance on certain use-limited resources. By exempting some load-serving entities from those requirements and limitations, Staff's proposal is at odds with the fundamental concept of category-based procurement limitations for use-limited resources. Even if the Commission permits such an exemption, the California ISO will not: if an insufficient amount of the "right" flexible capacity is made available to meet system needs, the California ISO can be presumed to have the authority to procure the resources it needs to assure that flexible capacity can be met.[19] Staff's proposal, if adopted, ensures these backstop procurement costs will not be borne by the load-serving entities directly responsible for the deficiencies and will result in an unfair misallocation of costs. While Staff's proposal might reduce transaction costs for certain load-serving entities, it also expressly shifts procurement burdens and costs to others, *viz.*, the bundled loads of the electric utilities, and should be rejected. Finally, SDG&E believes the Commission's recently opened rulemaking to implement a three-year forward resource-adequacy requirement will result in the creation of market mechanisms that can be relied upon to resolve the liquidity issues raised by Staff here. SDG&E strongly prefers market solutions over short-term administrative fixes and submits the Commission should defer to its new rulemaking to resolve the issues related to transaction costs raised by the Staff here.

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[18] *Staff Flexible Capacity Proposal,* at p.14.

[19] SDG&E notes the precise rules pursuant to which the California ISO would procure resources to address flexible-capacity deficiencies are currently under development.

C. Staff's Proposal to Require Load Serving Entities to Provide Information About Use-Limited Resources Included in Their Resource-Adequacy Demonstrations

In order to develop flexible-capacity rules for use-limited resources for the long term, Staff recommends that load-serving entities should be responsible for providing certain information regarding the operational characteristics of the use-limited resources they include in their annual and monthly flexible resource-adequacy filings.[20] While SDG&E agrees that Staff should be provided with the information necessary to evaluate the effects of use limitations on the flexible capacity that would be available from a use-limited resource, SDG&E disagrees that the load-serving entity is the party which should be relied upon to provide the information sought by Staff.

SDG&E would first point out that the operating characteristics of resources interconnected to the California ISO system, including any operating restrictions and use limitations, are provided to the ISO by the resource owner and operator. This makes the ISO the logical source of the information Staff seeks and SDG&E submits the Commission and the ISO should establish an arrangement pursuant to which the information can be delivered to the Staff. The California ISO will be providing both its flexible-capacity requirements and the draft effective flexible capacity list of eligible resources during May of each compliance year and SDG&E believes these vehicles could easily include the information Staff is seeking.

Further, SDG&E submits that some of the information required by Staff should be expected to be commercially sensitive from the perspective of the resource owner and operator. Load-serving entities should not be expected to demand such information from their suppliers, particularly where the sole purpose of collecting this information would be to divulge and transfer it to the Commission.

Apart from the potentially sensitive nature of the information the Staff would have SDG&E collect, SDG&E submits the requirement involves the collection of an extensive amount of information, some of which might be complex or subject to misinterpretation or change. Placing the load-serving entity in the data-delivery role will no doubt result in further obligations being placed on the load-serving entity to update, clarify or explain the data provided, and SDG&E foresees that it would only be able to serve as an uninformed intermediary for these secondary exchanges of information. SDG&E submits the Staff and/or the ISO should deal directly with the resource owner and operator without the extra step of involving the load-serving entity in facilitating the delivery of information the Staff might need. Because the resource

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[20] See *Staff Flexible Capacity Proposal*, *supra*, at p.15. The information Staff recommends be provided by load-serving entities includes the nature of the use limitations for any resource they include in their filings, "information that will assist Staff in evaluating the extent to which the resource can provide operational flexibility (*e.g.*, maximum starts per day, maximum emissions, available bid hours, maximum energy output, *etc.*)", and "the exact limits on energy duration in hours or number of starts."

owner and operator is the firsthand and best source of the information sought by Staff and has a vested interest in the proper use and interpretation of the information, SDG&E submits the Staff's needs would be better and more immediately served by using a more direct means of receiving the needed information from the resource owner and operator.

Respectfully submitted,

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