

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)

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

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Order Instituting Rulemaking to Oversee the)	
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**REPLY 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 reply comments in response to certain of the opening comments filed by the parties in this proceeding on or about February 18, 2014. These reply comments address issues raised by the proposals of the Energy Division Staff (“Staff”) presented during the workshop of January 27, 2014.

As indicated in its own opening comments, SDG&E generally supports the proposals presented by the Staff, but recommends certain of the Staff’s proposals be rejected. In particular, two such proposals are inconsistent with well-considered policies adopted in prior Commission orders, and/or fail adequate foundation, and/or are based upon incorrect assumptions. Other parties identified the same flaws in these Staff proposals, but nevertheless proposed modifications to the Staff’s proposals to cure the defects. SDG&E submits that these well-intended modifications should not be considered until Staff demonstrates that the new policies and program rules Staff proposes are warranted. Until such demonstrations are made, alternatives to the Staff’s proposals should be considered premature or irrelevant to this proceeding.

I. Recognition of Resource-Adequacy Benefits from Combined Heat and Power Resources Subject to the Cost Allocation Mechanism but Procured Outside of the Procuring Utility’s Transmission Access Charge Area.

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”). 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.

Opposition to this Staff proposal is widespread.¹ The vast majority of the parties addressing this proposal correctly noted that it directly undermines the comprehensive settlement governing the transition of the Commission's longstanding Qualifying Facilities program to an approach more reflective of the current structure of California energy markets.² That settlement, adopted in *Decision 10-12-035*, authorized the recovery of CHP costs via a utility's CAM and addressed the allocation of resource-adequacy benefits of the underlying CHP resources to load-serving entities bearing the costs of those resources.³ Importantly, the settlement adopted in *Decision 10-12-035* also expressly contemplated procurement of CHP outside a utility's TAC area. SDG&E submits that reversals or changes in policies – here, abandoning a core component of the affected settlement – should only be done upon a substantial showing that the previously adopted compromises, rules and policies are contrary to the public interest due to compelling intervening experience or supervening exigencies. Such a record simply does not exist in this instance.

Finally, while most parties agree the Staff's proposal should be rejected because it directly conflicts with *Decision 10-12-035*, some parties recommend various alternatives addressing the underlying

¹ See, e.g., *Comments of the Alliance for Retail Energy Markets on Energy Division's Proposals*, Rulemaking 11-10-023, February 18, 2014, at pp.4-5; *Comments of the Cogeneration Association of California on Staff Proposals on Resource Adequacy and the January 27, 2014 Workshop*, Rulemaking 11-10-023, February 18, 2014, at pp.2-4; *Comments of the Office of Ratepayer Advocates on Workshop and Energy Division Proposals*, Rulemaking 11-10-023, February 18, 2014, at pp.1-2; *Post-Workshop Comments of the Utility Reform Network*, Rulemaking 11-10-023, February 18, 2014, at pp.2-4; *Comments of Calpine Corporation on Energy Division Proposals Addressing Resource Adequacy Implementation*, Rulemaking 11-10-023, February 18, 2014, at pp.1-2; *Comments of NRG Energy, Inc., on Phase 3 Workshop Reports*, Rulemaking 11-10-023, February 18, 2014, at pp.5-6; *Southern California Edison Company's Post-Workshop Comments*, Rulemaking 11-10-023, February 18, 2014, at pp.14-15; and *Comments of Pacific Gas and Electric Company on the Energy Division's Resource Adequacy Proposals Issued on January 16, 2014, and Discussed at the January 27, 2014 Workshop*, Rulemaking 11-10-023, February 18, 2014, at pp.11-12.

² 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.

³ In considering the merits of the current rules in light of the Staff proposal, SDG&E urges the Commission to consider the detailed explanation of the Commission-approved settlement and its merits provided by the California Cogeneration Council. See *Comments of the California Cogeneration Council on Energy Division Proposals on Refinements to the Resource Adequacy Program*, Rulemaking 11-10-023, February 18, 2014, at pp.2-7.

“problem”.⁴ But as SDG&E and many other parties noted, the Staff proposal contains “no data ... to assess the extent of the potential problem.”⁵ SDG&E submits that in the absence of evidence indicating the magnitude of the problem Staff’s proposal seeks to address, and its purported impact on reliability, it is premature to consider any such alternatives. In short, stakeholders need a clear description of the problem, data on whether and *to what extent* that problem impacts the Path 26 counting constraint, and whether that constraint *binds* as a result. Staff should bear an obligation to demonstrate some compelling basis for the change of course. Only until such a showing is made by the Staff should potential alternatives to Staff’s approach be considered.

II. Scheduled Outage Replacement Rule and Standard Capacity Product Mechanisms for CAM and CHP Resources.

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.

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 which should be borne by other entities. In its opening comments, Pacific Gas and Electric (“PG&E”) also opposed Staff’s proposal, noting that “[c]hanging the current practice as proposed by the Energy Division would place an administrative, compliance, and procurement burden on IOUs, a burden for which insufficient justification has been provided.”⁶ PG&E notes these incremental burdens are particularly acute where “the IOU is not the scheduling coordinator for the [CAM or CHP] resource, and does not necessarily

⁴ For example, Southern California Edison proposes a “netting” concept that would ostensibly address Staff’s concerns, *viz.*, that the current allocation of resource adequacy benefits for CHP resources does not consider the Path 26 counting constraint. See *Southern California Edison Company’s Post-Workshop Comment, supra*, at pp.12-14. The Alliance for Retail Energy Markets opposes consideration of this proposal on the same grounds as raised here by SDG&E. See *Comments of the Alliance for Retail Energy Markets on Energy Division’s Proposals, supra*, at pp.5-6.

⁵ *Comments of the Office of Ratepayer Advocates on Workshop and Energy Division Proposals, supra*, at p.2.; see also, *Opening Comments of San Diego Gas and Electric Company on Phase 3 Resource Adequacy Issues, Rulemaking 11-10-023, February 18, 2014, at p.6.*

⁶ *Comments of Pacific Gas and Electric Company on the Energy Division’s Resource Adequacy Proposals Issued on January 16, 2014, and Discussed at the January 27, 2014 Workshop, supra*, at p.13.

have any more insight into the planned or forced outages of the resource than would any other LSE benefiting from the resources' RA value."⁷ PG&E's comments also note that Staff's proposal is flawed insofar as it assumes that all CAM and CHP resources can be managed as flexible resource-adequacy resources, when in fact there is no evidence that this is "contractually or operationally feasible or necessary."⁸

Staff's proposal is premised on false assumptions and SDG&E joins PG&E in recommending the proposal be rejected. Because the fundamental premise underlying Staff's proposal is flawed, the alternatives to Staff's proposal submitted by other parties⁹ – while aimed at improving particular aspects of Staff's proposal – likewise should be rejected. SDG&E submits that, until Staff's proposal is revised so as to cure and address its foundational flaws, it is unnecessary to weigh the merits of any alternatives to the original Staff proposal.

Respectfully submitted,

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⁷ *Ibid.*

⁸ *Ibid.*

⁹ See, e.g., the Office of Ratepayer Advocates' recommendation to require a resource on outage be replaced by a flexible capacity only if the resource was providing flexibility; *Comments of the Office of Ratepayer Advocates on Workshop and Energy Division Proposals*, *supra*, at p.2. See also, Southern California Edison's proposal to use the median price from the Commission's yearly resource adequacy report to address cost-allocation implementation details; *Southern California Edison Company's Post-Workshop Comments*, *supra*, at pp.16-17.