

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 20, 2011)

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

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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 27, 2014, San Diego Gas & Electric Company (“SDG&E”) files these reply comments in response to certain opening comments filed by parties in this proceeding on or about February 24, 2014. Those opening comments addressed 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.

As noted in its opening comments, SDG&E supports imposing Flexible Capacity Resource Adequacy requirements on jurisdictional load serving entities. That support, however, is tempered by apparent differences in the implementation of those requirements in this forum, and as part of the California Independent System Operator’s (“California ISO” or “ISO”) proposed Flexible Resource Adequacy Capacity Must Offer Obligations (“FRACMOO”). Substantive and regulatory differences in the implementation and administration of the Commission’s flexible-capacity framework and the ISO’s FRACMOO create “inefficiencies, unnecessary procurement costs, [and] increases [the] risk of non-compliance” for jurisdictional load-serving entities.² Given these impacts, differences in the administration of the two frameworks should be minimal, and where unavoidable, those differences should be thoroughly evaluated and justified.

As discussed below, opening comments by parties reveal material differences between the two frameworks in several key areas. Because these differences may increase costs or create inefficiencies,

¹ *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 10, 2014 (“*Staff Flexible Capacity Proposal*”)

² *Comments of the Alliance for Retail Energy Markets on Energy Division’s Flexible Capacity Proposal*, Rulemaking 11-10-023, February 24, 2014, at p 2.

SDG&E joins others in requesting a workshop and post-workshop comments to further evaluate and discuss Staff's Flexible Capacity Proposal.³ Further discussion beyond the limited confines of opening and reply comments is required to address and minimize divergence between the two frameworks.

I. A Workshop is Needed to Better Understand Staff's Flexible Capacity Proposal and to Evaluate Substantive Differences Between it and the ISO's Draft Final FRACMOO Proposal.

Opening comments by multiple parties reveal material differences, or potential differences, between the two frameworks in several key areas, and conclude a workshop is necessary to resolve those differences.⁴ SDG&E agrees, and strongly supports both a workshop and post-workshop comments to facilitate a deeper understanding of Staff's Flexible Capacity Proposal, and to foster broader coordination between the two implementation frameworks. Key areas of apparent divergence between the two frameworks requiring workshop discussion include, but are not limited to:

- i. **Differences in Proposed Flexible Capacity Categories:** While both Staff and the ISO propose three separate flexible capacity categories, there are significant differences in the two approaches. First, Staff's Flexible Capacity Proposal suggests fixing the amount of flexible capacity a load serving entity can procure in each category. In contrast, the ISO has proposed that the percentage and quantity of flexible capacity would vary month-to-month according to the flexible capacity needs identified in the ISO's flexible capacity needs assessment.⁵ Importantly, the CAISO notes that using the fixed percentages suggested by Staff would lead to over procurement of flexible capacity in some months and under procurement in other months.⁶ Under-procuring flexible capacity in certain months would likely trigger additional backstop procurement costs to be allocated to jurisdictional load serving entities.

Second, although both proposals include must offer and other sub-category criteria that are generally consistent, there is at least one potentially costly difference. As SDG&E noted in its opening comments, 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 draft final FRACMOO proposal only requires "Category 1" 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 some use-limited resources from providing Category 1 flexible capacity for Commission purposes

³ See e.g., *Comments of the Utility Reform Network on the Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 24, 2014, at p. 1; *California Independent System Operator Corporation Comments on the Proposed Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 24, 2014, at p. 3; *Comments of the Independent Energy Producers Association on the Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 24, 2014, at p. 1; *Comments of NRG Energy, Inc. on Staff Flexibility Proposal*, Rulemaking 11-10-023, February 24, 2014, at p. 6.

⁴ *Ibid.*

⁵ *California Independent System Operator Corporation Comments on the Proposed Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 24, 2014, at p.6.

⁶ *Ibid.*

even though that resource would be eligible to do so under the California ISO framework. 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.

- ii. **Conflicting Approaches to Bundling and Unbundling Flexible and Generic Capacity:** Staff's Flexible Capacity Proposal appears to carry forward the concept of "bundling:" that is, a resource that has both generic capacity and flexible capacity may sell the generic capacity without any corresponding flexible capacity, but requires the sale of any flexible capacity to be "bundled" with a corresponding amount of generic resource adequacy capacity. This "bundling" concept is also carried forward into the resource adequacy compliance showings, where a flexible megawatt must be shown with the underlying generic megawatt. In contrast, the draft final FRACMOO proposal does not require bundling for compliance purposes, and instead proposes to allow load-serving entities to submit separate resource-adequacy showings for flexible and generic capacity.⁷

This difference in approaches may have cost implications. As SDG&E's opening comments revealed, bundling may lead to the overprocurement of flexible capacity, and simultaneously prohibit the sale of surplus flexibility.⁸ In response, SDG&E articulated a framework for counting each attribute separately (i.e., "unbundling"). EnerNOC as well argued that for DR resources, "flexible capacity should not be required to be bundled with generic capacity."⁹ Additionally, PG&E appears to support some form of unbundling, arguing that "generic and flexible RA obligations be examined separately, so that the LSE's obligation to meet each is tested separately."¹⁰ SDG&E submits that evaluating the cost implications of bundling versus unbundling deserves further scrutiny in a workshop setting.

- iii. **Impact of Differing Approaches for Allocating the Flexible Capacity Requirement:** The ISO proposes to allocate to each local regulatory authority ("LRA") the sum total of the LRA's individual jurisdictional load-serving entities' contribution to the overall system flexible capacity requirement each month. Rather than allocate the LSE-specific amount generated by the ISO's study, Staff proposes to allocate the total amount at the LRA level to jurisdictional load serving entities based on the LSE's load ratio share of the CEC forecasted ISO system coincident peak.

SDG&E supports the Commission's jurisdiction to allocate requirements as it sees fit. However, SDG&E believes it is necessary to explore the potential impact of the divergent allocation

⁷ See *Draft Final Proposal – Flexible Resource Adequacy Criteria Must Offer Obligation*, at p. 35. The ISO will require that the scheduling coordinator for each load serving entity submit separate showings for flexible and generic capacity. Resources that are as listed providing *only* flexible capacity will be subject to the flexible capacity offer obligations and any future applicable availability charges and credits, but subject to the generic must offer obligation and applicable availability charges and credits. <http://www.caiso.com/Documents/DraftFinalProposal-FlexibleResourceAdequacyCriteriaMustOfferObligation.pdf>

⁸ *Opening Comments of San Diego Gas & Electric Company (U-902-E) On Phase 3 Resource Adequacy Issues*, Rulemaking 11-10-023, February 24, 2014, at pp. 5-10.

⁹ *Comments of EnerNOC, Inc., on Energy Division's Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 24, 2014, at p.4.

¹⁰ *Comments of Pacific Gas and Electric Company (U 39 E) on the Energy Division's February 10, 2014 Flexible Capacity Framework Proposals*, Rulemaking 11-10-023, February 24, 2014, at p.4. PG&E additionally proposes that "there should be no presumption that every flexible RA MW can or must count against an LSE's generic RA obligation." *Ibid.*

approaches. In particular, SDG&E believes additional dialogue is required to address cost allocation for any incremental backstop procurement to address effectiveness issues. In this instance, SDG&E believes the ISO will allocate costs to individual load serving entities that are deficient based on the ISO's estimation of the individual load serving entity's contribution to the overall system flexible capacity requirement, regardless of how the Commission ultimately allocated those requirements.¹¹

In addition to addressing key differences between Staff's Flexible Capacity Proposal and the ISO's FRACMOO framework, SDG&E believes a workshop would also generate clarity on at least two additional issues. Those issues include:

- i. **Staff's Proposed Elimination of the Maximum Cumulative Capacity Buckets:** In addition to illuminating differences between the two flexible capacity implementation frameworks, opening comments reveal a lack of clarity on, or substantive disagreement with, Staff's proposal to eliminate the maximum cumulative capacity ("MCC") buckets.¹² To ensure peak load conditions are met, the MCC buckets were originally designed to set limitations on the quantity of use-limited resources that could count towards meeting resource adequacy requirements. Given that MCC buckets are aimed at addressing *peak* load conditions, it doesn't necessarily follow that implementing flexible RA categories to address *ramping* requirements obviates the need for the MCC buckets. SDG&E submits that this topic, in addition to those described above, would benefit from additional discussion via workshops.
- ii. **Determining the Effective Flexible Capacity for Combined Heat and Power Resources:** In its opening comments, the Cogeneration Association of California ("CAC") proposes an exemption from the standard formula for determining a resource's effective flexible capacity ("EFC") for combined heat and power ("CHP") resources.¹³ In short, CAC proposes that CHP resources be permitted to essentially self-determine and self-designate their EFC value. CAC is concerned that the standard formula for determining EFC – a formula that includes the unit's industrial process – will prohibit the resource from self-scheduling the Regulatory Must Take Generation in the Day-Ahead and Real-Time markets.¹⁴

SDG&E shares CAC's underlying concerns, but believes there may be other ways to address those concerns short of the wholesale carve-out CAC proposes for CHP resources. For example, EFC for CHP resources could be calculated as the capacity above the Regulatory Must Take

¹¹ See *California Independent System Operator Corporation Comments on the Proposed Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 24, 2014, at p.5.

¹² See e.g., *Comments of Pacific Gas and Electric Company (U 39 E) on the Energy Division's February 10, 2014 Flexible Capacity Framework Proposals*, Rulemaking 11-10-023, February 24, 2014, at p. 4; *Southern California Edison Company's (U 338-E) Comments on Energy Division's Flexible Capacity Implementation Framework Proposal*, Rulemaking 11-10-023, February 24, 2014, at p. 7; *Comments of EnerNOC, Inc., on Energy Division's Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, Rulemaking 11-10-023, February 24, 2014, at p. 7.

¹³ *Opening Comments on Determining Flexible Capacity from CHP Resources of the Cogeneration Association of California*, Rulemaking 11-10-023, February 24, 2014, at p. 2.

¹⁴ *Ibid* at p. 3.

Generation. SDG&E submits that alternatives to the concerns raised by CAC in its opening comments should be presented and vetted in a workshop setting.

II. Conclusion

SDG&E firmly believes that eliminating, or substantially limiting, substantive and regulatory differences between the administration of the Commission's flexible-capacity framework and the ISO's FRACMOO will lower the overall costs of the new flexible capacity requirements. As the above illustrates, divergence in key areas exists between the two proposed frameworks, and that divergence can potentially increase costs. To address these differences and foster increased coordination between the two implementation frameworks, SDG&E recommends the Commission schedule a further workshop, and authorize post-workshop comments.

Respectfully submitted,

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