

**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)

**POST-WORKSHOP OPENING 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, San Diego Gas & Electric Company (“SDG&E”) files these opening comments on issues raised by the proposals presented by both the Commission’s Energy Division Staff (“Staff”) and other parties during the April 9, 2014, workshop.

I. SDG&E’s Proposal to Unbundle Flexible and Generic Attributes Should Be Adopted.

In comments filed on February 24, 2014, SDG&E demonstrated that the current rule requiring the bundling of flexible and generic attributes for procurement purposes merits reconsideration.¹ In those comments, and at a presentation during the April 9 workshop, SDG&E demonstrated that, while the vast majority of transactions for flexibility will be bundled with the underlying generic attribute, a prescriptive rule *requiring* bundling in all instances is not necessary to promote least-cost/best-fit procurement. In fact, the bundling requirement – expressed through the current rule that “a megawatt may be sold only once as either flexible or inflexible”² – unquestionably harms ratepayers by 1) decreasing the supply of flexible capacity, 2) generating overprocurement, and 3) potentially exposing incremental capacity to ratepayer-funded performance obligations and penalties.³

To address these impacts, SDG&E recommends the Commission simply omit the concept that “a megawatt may be sold only once as either flexible or inflexible” from any final rule on implementing the

¹ *Opening Comments of San Diego Gas & Electric Company on Phase 3 Resource Adequacy Issues*, February 24, 2014, at pp. 5-10 (“SDG&E Opening Comments”).

² See *Decision Adopting Local Procurement Obligations for 2014, a Flexible Capacity Framework, and Further Refining the Resource Adequacy Program*, Decision 13-06-024, Appendix A at p. A2, Rulemaking 11-10-023, July 3, 2013.

³ See *SDG&E’s Opening Comments* at pp. 5-10; see also, SDG&E’s April 9, 2014, Workshop Presentation, *Unbundling Flexible and Generic Attributes for Procurement Purposes*.

flexible resource adequacy program for the 2015 compliance year. In its place, the Commission should adopt the principle, recommended by Staff in its revised proposal, that a “resource owner may sell flexible and inflexible capacity in separate transactions to different purchasers.”⁴ Such a revision would increase the supply of flexible capacity, prevent the overprocurement of resource adequacy capacity attributes, and prevent exposing incremental capacity to performance obligations and penalties.

II. Comments on Staff’s Revised Proposal Implementing the Flexible Capacity Procurement Framework.

SDG&E provides the following comments on April 9, 2014, revised Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework.

a. Differing Approaches to Preventing Overreliance on Use-limited Flexible Resources Needlessly Expose Ratepayers to Incremental Costs.

To prevent overreliance on resources that, while flexible, are nevertheless constrained by operating or environmental use-limitations, Staff proposes load-serving entities be permitted to procure a fixed percentage of use-limited flexible resources.⁵ In contrast, the California Independent System Operator’s (“California ISO” or “ISO”) recently adopted Flexible Resource Adequacy Capacity Must Offer Obligations (“FRACMOO”) propose limitations on the amount of use-limited resources a load-serving entity can show for flexible resource-adequacy purposes which vary by season.⁶

As SDG&E stressed in opening comments in the proceeding, one of 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 ISO’s 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. The ISO is expected to soon file tariff language reflecting variable monthly percentages.⁷ For administrative ease, SDG&E recommends the Commission adopt the ISO’s seasonal percentages for

⁴ See *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, April 9, 2014, at p. 9.

⁵ See *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, April 9, 2014, at p. 13.

⁶ See April 18, 2014, ISO presentation entitled *2014 Flexible Capacity Needs Assessment: Study Methodology, Assumptions, and Preliminary Results* at Slide 26. Available at: <http://www.caiso.com/Documents/AgendaPresentation-2014FlexibleCapacityNeedsAssessment-Apr182014.pdf> .

⁷ The ISO is currently proposing base flexibility resources comprise 68 percent to 74 percent in summer and non-summer months, respectively, and recommending that the maximum contribution from super-peak flexibility be five percent each month, with peak flexibility rounding out the remainder.

2015. If necessary, the Commission and the ISO could work jointly to refine this framework for the 2016 compliance year.

b. Combined Heat and Power Counting Conventions

In its revised implementation proposal, Staff recommends that a Combined Heat and Power (“CHP”) resource be permitted to designate an effective flexible-capacity (“EFC”) value annually for each month of a counting year to reflect its unique operating requirements, or its CHP contract limitations. Staff also recommends that the EFC should not exceed the net qualifying capacity (“NQC”) of the unit.⁸

SDG&E believes the Staff’s proposed convention is arbitrary and unrelated to the resource’s actual operational capability to provide flexibility. Moreover, a self-elected and potentially unachievable EFC rating could impact grid reliability, particularly if the ISO believes it has more flexibility than is actually available. SDG&E recommends a more structured calculation to determine the EFC for CHP resources that mirrors the counting convention for dispatchable thermal resources. SDG&E recommends the EFC range be limited to a value lying between the maximum of regulatory must-take generation portion to the NQC of the resource. Under this recommendation, the EFC would be determined using the following calculation:

- If the start-up time of resource is greater than 90 minutes, then EFC is limited to the MW range between $RMTG_{max}$ and NQC as limited by ramp rate.
 - $EFC = \text{minimum of } (NQC - RMTG_{max}) \text{ or } (180 \text{ min} * RR_{avg})$
 - Where: RR_{avg} = average between P_{min} and NQC.

- If the start-up time of resource is less than or equal to 90 minutes, then EFC is limited to the MW range between zero and NQC as limited by start-up time and ramp rate.
 - $EFC = \text{minimum of } (NQC - RMTG_{max}) \text{ or } (RMTG_{max} + (180 \text{ min} - SUT) * RR_{avg})$
 - Where: SUT = Longest (cold) RDT start-up time in minutes.
 - Cold start-up time is the highest value in the startup time segments for the resource.
 - RR_{avg} = average between $RMTG_{max}$ and NQC.

SDG&E proposes that, if a CHP resource believes the above methodology yields EFC values in excess of the resource’s appetite to provide flexibility, it could exercise the option (available to all dispatchable resources) to request a lower value.

⁸ See *Revised RA Implementation Staff Proposals*, April 3, 2014.

c. Effective Flexible-Capacity List

Staff proposes the Commission and California ISO jointly develop and post a document by September of each year listing each participating dispatchable resource's EFC.⁹ In addition, Staff proposes to combine this EFC list with the current NQC list. SDG&E supports both measures, but suggests the target date for completing and posting the combined list be moved to July to allow for more informed contracting.

III. Comments on Staff's Revised Resource-Adequacy Implementation Proposals

SDG&E offers the following comments on the Revised RA Implementation Staff Proposals issued on April 3, 2014.¹⁰

a. Revising the Resource Adequacy Benefits for Cost Allocation Mechanism ("CAM") and Combined Heat and Power ("CHP") Resources Procured Outside of the IOUs' Transmission Access Charge (TAC) Areas

In its initial proposal, Staff suggested limiting the recognition of resource-adequacy benefits to instances where the CHP resource is located within the Transmission Access Charge ("TAC") area served by the procuring utility.¹¹ In its revised proposal, Staff does not strictly limit the recognition of resource-adequacy benefits to resources in a particular TAC area, but rather requires that CAM and CHP resources procured outside of the IOUs north or south zone be included in the existing Path 26 netting process.¹²

SDG&E supports Staff's revised proposal. As Staff notes, however, some current contracts may not be able to take advantage of the proposed netting process. In these instances, SDG&E recommends the CHP resources be netted against the grandfathered contracts flows accounted for in the earlier steps of the Path 26 allocation process to maximize the remaining Path 26 flow available for allocation in later steps.

⁹ See *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework*, April 9, 2014, at pp. 7-8.

¹⁰ See *Revised RA Implementation Staff Proposals*, April 3, 2014, at p. 4.

¹¹ See *RA Implementation Staff Proposals*, Rulemaking 11-10-023, January 16, 2014, at pp.3-4.

¹² See *Revised RA Implementation Staff Proposals*, April 3, 2014, at p. 4.

b. Proposed Outage Replacement Rule for CAM and CHP Resources

Staff proposes the utility responsible for procuring the CAM and CHP resources also be the scheduling coordinator (“SC”) for the LSE of the CAM and CHP resource.¹³ This proposal requires the IOU to be responsible for showing CAM and CHP resources on its RA plans. This revision would fix an issue generated by the existing outage replacement rules, and would require the IOU to replace, if needed, CAM and CHP resources on maintenance outages scheduled at least 45 days before the compliance month. Staff proposes the IOU be permitted to recover costs associated with replacement capacity; however, staff also proposes that costs be “determined using the average capacity price from the most recent RA Report.”¹⁴

SDG&E has two concerns with Staff’s proposal. First, with regard to costs for replacement, Staff proposes that cost of replacement capacity be determined using the average capacity price from the most recent RA Report. SDG&E opposes this recommendation. The most recent published RA Report contains stale and outdated 2011 capacity prices.¹⁵ Moreover, the RA report is at best incomplete inasmuch as it only reflects some, but certainly not all, RA transactions in a given year.¹⁶ In light of these shortcomings, SDG&E recommends using the ISO’s administratively determined CPM price as a proxy for replacement costs. SDG&E believes CPM is a superior alternative because a majority of the IOU’s portfolio is comprised of local resources, and if a local resource used for replacement pursuant to Staff’s proposal is forced out, the ISO will penalize the IOU using the CPM rate. In addition, if the scheduled outage was not replaced by the IOU, the ISO would backstop the outage at the CPM rate.

Second, it is unclear at which point costs for procuring replacement can be shared with benefiting LSEs. As Staff recognizes, not all planned outages require replacement, and the SC for an LSE may not know if replacement is required at the time the outage is scheduled. Under these circumstances, the IOU may, in exercising good utility practice, procure replacement capacity in anticipation of an obligation to replace, particularly if the terms are favorable. However, the obligation to replace may not materialize. In these instances, will the cost of procurement flow to those who would have benefited *if* there was a replacement obligation? Or, does the IOU alone bear the entire cost? SDG&E recommends that a final rule

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ See the 2011 *Final Resource Adequacy Report* found at: <http://www.cpuc.ca.gov/PUC/energy/Procurement/RA/>.

¹⁶ *Id.*, at p. 21. According to the Report, the data request that yielded RA price estimates excluded Combined Heat and Power (CHP), Renewable Portfolio Standard (RPS) and Qualifying Facility (QF) and tolling contracts.

adopting Staff's Proposal clarify the circumstances under which replacement costs will be borne by all potentially benefiting entities.

Respectfully submitted,

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