



ORA

Office of Ratepayer Advocates
California Public Utilities Commission

505 Van Ness Avenue
San Francisco, California 94102
Tel: 415-703-2381
Fax: 415-703-2057
<http://ora.ca.gov>

JOSEPH P. COMO
Acting Director

May 28, 2014

CPUC, Energy Division—DMS Branch
Attention: Tariff Files, Room 4005
505 Van Ness, Avenue
San Francisco, CA 94102
EDTariffUnit@cpuc.ca.gov

Subject: **Protest of the Office of Ratepayer Advocates (ORA) of San Diego Gas & Electric Company (SDG&E) Advice Letter 2600-E (Approval of Amendment with Goal Line L.P.)**

INTRODUCTION

ORA hereby submits this protest of SDG&E's Advice Letter 2600-E (AL 2600-E). In AL 2600-E, SDG&E seeks California Public Utilities Commission (Commission) approval of its Qualifying Facility (QF) contract amendment with Goal Line and requests that the Commission award SDG&E 10% of the value of the ratepayer savings. ORA protests and recommends that the Commission deny SDG&E's request for a 10% shareholder incentive and require SDG&E to apply the Cost Allocation Mechanism (CAM) to its cost recovery.

BACKGROUND

SDG&E requests approval of the amendment to its QF contract with Goal Line, LP. It requested, among other things, (1) recovery of costs through Energy Resource Recovery Account (ERRA) and recovery of stranded costs consistent with Decisions (D.) 02-12-074¹ and 02-11-022²; (2) that Greenhouse Gas (GHG) reductions associated with the Amendment count toward SDG&E's GHG emissions reduction target in the QF/Combined Heat and Power (CHP) Settlement pursuant to D.10-12-035; (3) that the capacity counts toward SDG&E's CHP MW target in the QF/CHP Settlement; and (4) that SDG&E shareholders receive 10% of the projected cost savings from the amendment.³

¹ Interim Order in Rulemaking 01-10-024, Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development (December 19, 2002).

² Opinion in Rulemaking 02-01-011, Order Instituting Rulemaking Regarding the Implementation of the Suspension of Direct Access Pursuant to Assembly Bill IX and Decision 01-09-060 (November 7, 2002).

³ SDG&E AL 2600-E, p. 7.

DISCUSSION & RECOMMENDATION

ORA does not oppose the amendment to the contract, but files this protest to recommend that the Commission deny SDG&E's request for a shareholder incentive. SDG&E has provided no justification in support of its request for such an award. First, SDG&E cites the Restructuring Advice Letter Filing (RALF) process and D.98-12-066 in support of its request for a shareholder incentive. The RALF process and D. 98-12-066 cannot be applied to this advice letter because SDG&E did not first obtain a Qualifying Facility Restructuring Reasonableness Letter (QFRRL) from ORA.

By way of background, the Commission adopted the RALF process in D.98-12-066 in order to streamline the review of QF contract restructuring applications that benefit ratepayers. Before the Commission issued D.98-12-066, a utility that wished to restructure its QF contracts was required to file an application and obtain a Commission decision approving the restructured contract. The RALF process allows a utility to use the Tier 3 advice letter for a QF contract restructuring if the utility has a QFRRL from ORA. The utility must first provide ORA with a draft advice letter and workpapers demonstrating the benefit to ratepayers. If ORA agrees with the utility's request, ORA will send the utility a QFRRL stating that ORA does not oppose the proposed transaction. Since the Commission approved the QF/CHP Settlement in D.10-12-035, which became effective November 23, 2011, utilities have been able to file for approval of restructured QF contracts via a Tier 3 advice letter without first using the RALF process.

In this instance, SDG&E followed the RALF process, but ORA did not provide SDG&E with a QFRRL because ORA disagreed with SDG&E's request for a 10% shareholder incentive. In its RALF application, SDG&E relied on D.98-12-066 for its shareholder incentive request. Shareholder incentives may have been necessary to give utilities an incentive to restructure their overpriced QF contracts in the late 1990s, but in the post QF/CHP Settlement world, the settlement targets should provide SDG&E with enough incentive to restructure its QF contracts. Further, if SDG&E does not meet its settlement targets, the CHP parties have the right to audit SDG&E's CHP RFO process.⁴ If the Commission thought that the MW and GHG targets in the settlement were not enough incentive for the utilities to restructure their contracts in the ratepayers' favor, the Commission could have set forth a shareholder incentive mechanism when it approved the QF/CHP Settlement.

Another reason not to approve SDG&E's shareholder incentive request is that SDG&E is deficient in meeting its QF/CHP settlement targets. Restructuring existing "must-take" QF contracts to utility prescheduled facility contracts is one way the utility can gain credits toward its CHP MW and GHG targets. Thus, by approving the restructured QF contract, SDG&E is already receiving the benefit of meeting more of its renewable goals. Moreover, both Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) have each restructured existing QF contracts in order to benefit their ratepayers since the QF/CHP

⁴ D.10-12-035, Settlement Term Sheet Section 9.2.

Settlement became effective, but did not request and were not awarded shareholder incentives. SDG&E has not provided any justification for why it should be treated differently and receive an incentive.

ORA's review also finds that SDG&E's proposed rate recovery does not comply with the QF/CHP Settlement because it does not request Cost Allocation Mechanism (CAM) treatment. The QF/CHP Settlement specified that all restructured QF contracts must go through the CAM process.⁵ This contract should receive CAM treatment pursuant to the QF/CHP Settlement. Thus, SDG&E should file a supplemental advice letter with the correct rate recovery.

CONCLUSION

For the above reasons, ORA recommends that the Commission: (1) deny SDG&E's request for a shareholder incentive and (2) require SDG&E to file a supplemental advice letter specifying rate recovery through CAM.

Please contact Claire Eustace at claire.eustace@cpuc.ca.gov or (415) 703-1889 with any questions regarding this protest.

/s/ Chloe Lukins

Chloe Lukins
Program Manager

cc: Attn: Megan Caulson
Regulatory Tariff Manager
8330 Century Park Court, Room 32C
San Diego, CA 92123-1548
MCaulson@semprautilities.com

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Commissioner Carla Peterman, CPUC
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⁵ D.10-12-035, Settlement Term Sheet Section 13.1.2.2, as modified by D.11-07-010, Ordering Paragraph 3, pp. 12-22 (July 11, 2011).