

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Integrate and Refine Procurement Policies and Consider Long-Term Procurement Plans.

Rulemaking 12-03-014
(Filed March 22, 2012)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY
(U 902 E) REGARDING ENERGY DIVISION STRAW PROPOSAL
ON 2012 LTPP PLANNING STANDARDS**

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**I.
INTRODUCTION**

In accordance with the direction provided in the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (“Scoping Memo”), San Diego Gas & Electric Company (“SDG&E”) provides these reply comments regarding the straw proposal (“Staff Proposal”) developed by the California Public Utilities Commission’s (“Commission’s”) Energy Division (“ED”) in the above-captioned proceeding. The Staff Proposal “seeks to inform future decision-making by presenting broad choices of assumptions for scenario creation in order to inform policy-makers of the options available to them.”^{1/}

In its opening comments, SDG&E expressed support for the ED’s effort to transparently develop a broad set of planning assumptions for use in the 2012 long-term procurement plan (“LTPP”) planning process and provided detailed comments regarding several aspects of the Staff Proposal. Other parties to the proceeding submitted a wide range of comments on the Staff Proposal reflecting highly divergent views. SDG&E is unable to respond to each and every claim included in parties’ comments (and does not

^{1/} Staff Proposal, p. vi.

respond herein to proposals offered in parties' comments that exceed the scope of the Staff Proposal and must, therefore, be ignored), but offers the following general observations and limited specific responses.

II. DISCUSSION

A. Resource Planning Analysis must Reflect Circumstances that are Reasonably Likely to Occur, Must Comprehensively Evaluate Potential Future Outcomes and Must not be Based upon Preferred Resources

As noted above, parties' comments make clear that there exists a wide range of opinions regarding resource availability in the future, as well as the approach that the Commission should take to resource planning. Certain parties, for example, present extremely optimistic forecasts of availability of resources such as uncommitted energy efficiency ("EE") and demand response ("DR"), and urge the Commission to follow a resource planning approach that relies on overly-optimistic assumptions in order to promote policy goals. Other parties express support for policy goals related to EE and DR, but point out that for resource planning purposes, it is necessary for the Commission to comply with the requirement of Public Utilities Code § 454.5(b)(9)(C) to ensure that assumptions used for resource planning are "cost effective, reliable and feasible." Pacific Gas & Electric Company ("PG&E") correctly points out, for example, that "[EE] used in the plan should not include aspirational goals which are not supported as being cost effective, reliable and feasible."^{2/} SDG&E agrees that the assumptions use for resource

^{2/} PG&E Comments on Staff Proposal, pp. 3-4.

planning must reflect circumstances that are reasonably expected to occur. This will ensure prudent planning and will help to protect system reliability – an obligation shared by the Commission and the investor-owned utilities (“IOUs”).

It is important, as the Commission undertakes its resource planning obligations in this proceeding, for it to remain mindful of the distinction between support for the environmental policy goals of the State, on the one hand, and the need to base its resource planning determinations on sound, realistic planning assumptions, on the other. While certain parties may advocate in favor of adoption of a particular planning assumption that would further such parties’ political or policy goals, the Commission should avoid conflating the resource planning process, which demands pragmatic adherence to realistic forecasts, with the process of establishing “stretch” goals to encourage particular public policy initiatives.

While the Commission, and indeed most parties, including SDG&E, support the State’s policy goals, the focus of this proceeding must be on the Commission’s primary obligation to develop resource planning assumptions that are “cost effective, reliable and feasible.” Support for a given technology does not signify that the technology is actually cost-effective, nor does it establish that it is reliable or feasible. Likewise, a party’s recommendation that a “low” value be assigned to a given variable is not necessarily an indication of lack of support by that party for that particular resource type or policy direction related to that resource type. As a practical matter, a party might support a policy that favors a particular resource type while simultaneously recognizing the uncertainty regarding future availability of that resource type for resource planning purposes.

It is also important that the planning process examine a wide range of possible futures. The goal of this proceeding must be to provide comprehensive and relevant information to the Commission – to expand rather than limit the information provided to it. While the Commission must determine, as part of its decision making process, how much to weight to place on each scenario, it can do so effectively only if it is provided with scenarios that fully explore potential future outcomes.

An analysis that is too narrowly drawn and assumes a single, defined future (particularly where there is strong disagreement as to the accuracy of the predicted future) is of little value for resource planning purposes; such a limited record would hinder the Commission’s ability to render a sound, well-reasoned decision on resource planning issues. This is especially true in the current environment, where the timing of economic recovery is uncertain. As the Independent Energy Producers Association (“IEP”) correctly points out, “the pace of economic recovery can accelerate quickly and catch planners off-guard.”^{3/} SDG&E agrees with this observation and notes the importance of considering in the current proceeding the potential impact of a near-term economic recovery on resource needs. Thus, as planning assumptions are finalized and scenario analysis occurs, it will be important for the ED to allow a wide range of potential future outcomes to be adequately studied.

Finally, it is important that the Commission and stakeholders remain focused on the purpose of the LTPP proceeding – to define need, rather than to pick “winners.” The need analysis should be focused solely on determining the quantity and resource characteristics that are required; the process should be resource-agnostic. The actual selection of the resources that are the most cost-effective to meet the defined need should

^{3/} IEP Opening Comments on Staff Proposal, p. 2.

be determined via the request for offers (“RFO”) process, consistent with the Commission’s direction.^{4/}

B. Issues Regarding Renewable Generation Supply Should be Addressed in the RPS Proceeding

SDG&E is encouraged to see that many parties agree with the ED’s proposal to incorporate into the LTPP planning assumptions the Renewable Net Short (“RNS”) methodology currently being developed in the Commission’s Renewables Portfolio Standard (“RPS”) proceeding.^{5/} SDG&E agrees with the observation of the Division of Ratepayer Advocates (“DRA”) that “[i]t is important that identical information feeds into both the RPS and LTPP proceedings to result in more accurate scenario planning.”^{6/} It shares the common-sense view articulated by the Large-scale Solar Association (“LSA”) that “the California energy agencies’ planning processes should build upon one another and incorporate the results of completed efforts.”^{7/} Relying on this RNS methodology to determine the RPS supply to be used in LTPP planning assumptions will avoid duplicative efforts and will ensure consistency between various resource planning efforts. SDG&E looks forward to working with the Commission and stakeholders to establish a robust RNS methodology and believes that most of the issues raised in connection with the Staff Proposal would be better addressed as part of the RNS workshop process in the context of the RPS proceeding. Accordingly, it will reserve comment on the various issues related to the RNS methodology raised in parties’ opening comments on the Staff Proposal.

^{4/} See, e.g., 12-04-046, *mimeo*, p. 31.

^{5/} Rulemaking 11-05-005.

^{6/} DRA Comments on Staff Proposal, p. 12.

^{7/} LSA Comments on Staff Proposal, p. 9.

C. An Additional Environmental Sensitivity is Unnecessary

SDG&E agrees with DRA’s assertion that “including another layer of environmental sensitivity does not add any additional value to the planning exercise.”^{8/} As DRA correctly points out, projects will inherently be developed on sites that are not just economic but also feasible. Environmental permitting and the requirements of the California Environmental Quality Act (“CEQA”) will have already limited the land that is “feasible” to that which is the most preferred from an environmental perspective. Thus, additional analysis based on the environmental sensitivity parameters outlined in the Staff Proposal is not necessary.

D. The Low Scenario Proposed in the Staff Proposal Should be Retained and the ICF International Base Case Should be Used for Both the Mid and High Cases

The California Environmental Justice Alliance (“CEJA”), Sierra Club California (“Sierra Club”), the Cogeneration Council (“CCC”) and the City and County of San Francisco (“CCSF”) argue that the combined heat and power (“CHP”) assumptions included in the Staff Proposal are too low.^{9/} Both CEJA and the Sierra Club suggest that the CHP forecast should be higher given the California Air Resources Board (“ARB”) Scoping Plan, which shows 4,000 MW of CHP economic potential, and the Governor’s goal of 6,500 MW of CHP by 2030.^{10/} These parties overlook the fact, however, that the CHP numbers included in the Staff Proposal are from reports that have been updated,

^{8/} DRA Comments on Staff Proposal, p. 14.

^{9/} CCSF suggests replacing the ICF International assumptions with the California Energy Commission (“CEC”) forecast, which when converted from MWh to MW using an 88% capacity factor is similar to the ICF International base case. The 7,200,000 MWh in the CEC assumption is 934 MW of behind the meter installed CHP capacity and 1,868 of total CHP based on the CEC 50% assumption compared to the total. This amount is roughly comparable to the mid case of 1,885 in the Staff Proposal.

^{10/} CEJA Comments on Staff Proposal, pp 19-20; Sierra Club Comments on Staff Proposal, p. 9.

whereas the ARB Scoping Plan forecast is based on a 2005 Report on CHP^{11/} and the Governor's goal is based on data included in the 2010 ICF International report. Plainly, the Staff Proposal should not rely on outdated analysis when a new analysis with better assumptions is available. CEJA also incorrectly points to 3,000 MW of new CHP from the QF Settlement.^{12/} That settlement requires the IOUs to potentially sign contracts totally 3,000 MW from existing or new CHP to maintain the greenhouse gas ("GHG") savings embedded in the existing CHP fleet. The 3,000 MW will likely come from existing CHP resources or replacements for retired CHP.

SDG&E supports retention of the low scenario as proposed in the Staff Proposal, taking into account the likelihood of a significant amount of MW conversions and retirements of less efficient existing CHP that have minimal heat loads. Also, there may be a future reconsideration of new CHP by the ARB in its 2013 Scoping Plan Update in light of local area criteria pollutant impacts of CHP, potential incompatibility with 2050 state GHG goals given the needs for flexible fossil resources to accommodate variable renewables, and the significant reduction in GHG content of load-serving-entity-supplied electricity that is occurring due to the 33 percent RPS mandate and the reduction of coal in portfolios.

Likewise, the high scenario should be reduced to the ICF International base case inasmuch as the ICF mid case is similar to the base case except the CHP installed is combined cycle technology instead of simple cycle so that more electricity is generated for a given level of steam. The ICF mid case simply provides the IOU with more non-dispatchable baseload power that has similar characteristics to dispatchable combined

^{11/} Air Resources Board, Climate Change Scoping Plan, pages C-123 and C-124, shows the source of the ARB CHP projection to be a 2005 report on CHP completed for the CEC.

^{12/} CEJA Comments on Staff Proposal, p. 20.

cycle power, but with no flexible attributes to help maintain grid reliability and minimal GHG savings over the base case (when considering new alternative new generation, not existing fossil generation implicit in the ARB benchmarks). Using the ICF International base case for both the mid and high case will allow the Commission to determine how much more must-take baseload fossil generation will fit in the IOUs' respective portfolios under each of the scenarios.

Dated this 11th day of June, 2012 in San Diego, California.

Respectfully submitted,

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