BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local Procurement Obligations	R.11-10-023 (Filed October 27, 2011)

INITIAL COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) ON ORDER INSTITUTING RULEMAKING

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In accordance with the October 27, 2011, Order Instituting Rulemaking ("OIR"), San Diego Gas & Electric Company ("SDG&E") respectfully submits these comments on preliminary matters pertaining to the scope, schedule, and administration of this proceeding.

SDG&E generally supports the scope and schedule of the proceeding as outlined in the OIR. Additionally, SDG&E favors including the list of issues and topics identified by the Energy Division in Appendix A within the scope of this proceeding. In particular, SDG&E below highlights two high-priority items from Appendix A that must be addressed in Phase 1. In addition to prioritizing topics raised by the Energy Division, SDG&E also urges the Commission to include two additional items within the scope of Phase 1.

I. Priority of Issues from Appendix A

a. CAISO Non-generic Capacity Procurement Proposal

In a motion to expand the scope of the 2012 RA proceeding, the California Independent System Operator (CAISO) asked the Commission to direct load-serving

entities (LSEs) to consider a resource's operational characteristics during year-ahead procurement.[1] The CAISO argued the proposal was necessary to help ensure that the resource-adequacy (RA) fleet has sufficient operational flexibility to allow the CAISO to integrate increasing volumes of variable energy resources. Under the CAISO's Non-generic Capacity Procurement proposal, the CAISO would each May publish a list of non-generic capacity characteristics of the existing fleet, including start up times, energy ramp rates in time frames needed for load-following, and regulation certified capacity and ramp rates. In addition, the CAISO will publish its expected operational requirements based on the most recent load forecasts and wind and solar production profiles. Each November, the CAISO will assess whether each LSE's RA resources meet the CAISO's expected operational requirements. The CAISO further proposes that the Commission direct LSEs to: (a) conduct their year-ahead procurement considering the inventory and operational requirement information provided by the ISO by May, and (b) conduct their month-ahead RA procurements consistent with the results of the CAISO's November assessment of residual operational needs. Finally, to help implement this proposal, the CAISO requested the Commission extend the current year-ahead RA showing from a summer-month-only showing to a full-year showing.

The Commission last year deferred consideration of the CAISO's Non-generic Capacity Proposal, and has initially scoped it for inclusion this proceeding. SDG&E considers the proposal a high priority issue that is properly included in Phase 1. SDG&E believes it is critical for the Commission to maintain close coordination between the CAISO's operational needs, and the capabilities and design of the existing RA program.

[1] Motion of the California Independent System Operator Corporation for Expansion of the Phase 2 Scope to Include a Proposal for Procurement of Non-generic Capacity Through the Resource Adequacy Program (November 30, 2010).

If the latter is not aiding the former, then it must be modified. SDG&E suggests that this proceeding, and not a CAISO stakeholder process, is the best forum to discuss enhanced requirements for RA procurement. In particular, SDG&E seeks to avoid a default solution that has the CAISO relying on its backstop procurement authority to manage operational needs that were known in advance of the RA compliance cycle.

b. Qualifying Capacity Rules for Distribution-Interconnected Resources

Distribution interconnection requests are on the rise in large part due to the success of Legislative and Commission-sponsored procurement programs. These programs include, but are not limited to, the Renewable Auction Mechanism, the SB 32 Renewable Feed-in Tariff, and the AB 1613 Combined Heat and Power (CHP) Feed-in Tariff for clean CHP technologies. In deriving the prices paid by the purchasing utility under these feed-in tariffs, the Commission expressly included the generator's ability to provide the purchasing utility with RA eligible capacity. Because resources receiving feed-in tariff rates are therefore obliged to provide RA in exchange for the agreed upon tariff price, they must have an economical, transparent path to obtaining RA-eligible status.

In light of the increased focus on distributed generation, the Commission recently opened a new Rulemaking to streamline the rules about distribution level interconnection.[2] In addition, the instant OIR offers to consider "consider potential modifications to the qualifying capacity rules and deliverability guidelines" for resources that interconnect at distribution.[3]

[2] R.11-09-011

[3] Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local Procurement Obligations, Appendix A at p. 2 (October 27, 2011).

SDG&E believes the RA eligibility of distribution interconnected resources is high priority issue properly included in Phase 1. Moreover, SDG&E appreciates the close coordination between proceedings, but cautions the Commission to remain vigilant against the possibility that sometimes arises where both proceedings assume the other is addressing an issue, when in fact neither is. To avoid this unfortunate outcome, SDG&E suggests the Commission unequivocally denominate the Interconnection Rulemaking (R.11-09-011) as the principal forum to discuss technical issues and deliverability assessment requirements for distribution interconnected resource to become eligible to provide RA capacity. SDG&E believes the engineers and technical experts assembled in that forum, working in close consultation with the CAISO, are properly equipped to address the engineering-based issues associated with determining a resource's deliverability, and thus, its threshold ability to provide RA capacity. SDG&E suggests the instant RA Rulemaking can address the equally important but subordinate issues of quantity – that is, how and how much this newly eligible capacity will count towards satisfying an LSE's RA requirements.

II. New Items for Inclusion in Scope

SDG&E suggest the Commission include the following issues in Phase 1.

a. Placeholder for Seasonal Local RA Settlement

In the 2012 RA proceeding, SDG&E proposed a multistep process to assess the feasibility and desirability of implementing both a summer and non-summer local RA Requirement.[4] SDG&E's proposal was carefully designed to generate information first followed, perhaps, by a change to the RA program in the 2013 or 2014 time frame. The

[4] *See e.g.* SDG&E's post-workshop opening and reply comments, and opening comments on the CAISO's 2012 Local Capacity Technical Study,

necessary first step of that proposal was the request for the CAISO to conduct a supplemental seasonal LCR assessment for non-summer months as part of the 2013 Local Capacity Technical Study process.

In Reply Comments on the Proposed Decision governing 2012 Local RA requirements, the CAISO agreed to:

> include preparation of a seasonal LCR study as a topic for discussion at this year's stakeholder meeting on the ISO's local capacity technical study . . . Assuming that appropriate parameters can be formulated and agreed upon by the stakeholder community, the ISO will conduct a pilot study, in conjunction with the 2013 local capacity technical study, to analyze what the seasonal local RA requirement would be for SDG&E's service area for the non-summer months.[5]

SDG&E appreciates the CAISO's willingness to engage in this process. In the hopes that stakeholders can agree on parameters and pilot study results, SDG&E here recommends the Commission include a placeholder for this topic in the final scope of Phase 1.

b. Placeholder for Consideration of Outage Replacement Issues

The Proposed Decision on 2012 Local RA Requirements recommended eliminating, for the 2012 compliance year, the rule that required LSEs to replace RA capacity for resources on planned outages (the "replacement rule"). The CAISO expressed serious concerns about discontinuing the replacement rule before another system was in place to account for RA capacity on a scheduled maintenance outage.[6] The CAISO argued the abrupt end of the replacement obligation would compromise the objectives of the Commission's RA program and adversely impact system reliability.

[5] California Independent System Operator Corporation Reply Comments on Proposed Decision, June 20, 2011, at p. 3.
[6] California Independent System Operator Corporation Opening Comments on Proposed Decision, June 13, 2011.

Additionally, the CAISO argued that discontinuing the rule would likely generate increased backstop procurement, leading to increased costs for ratepayers.

In lieu eliminating the replacement rule in 2012, the CAISO proposed to undertake development of new policies and new tools to better manage scheduled maintenance outages. The Commission acquiesced and retained the replacement rule, but to date, the development of the promised new policies has not yet begun at the CAISO. In light of the Commission's express desire to eliminate the rule, and the current lack of a process to develop a replacement policy at the CAISO, SDG&E recommends the fate of the replacement obligation be included in the scope of Phase 1.

Respectfully submitted,

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