Decision **PROPOSED DECISION OF ALJ YACKNIN** (Mailed 11/20/2012)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Authority to Enter into Purchase Power Tolling Agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power.	Application 11-05-023 (Filed May 19, 2011)

DECISION DETERMINING SAN DIEGO GAS & ELECTRIC COMPANY'S LOCAL CAPACITY REQUIREMENT AND DENYING AUTHORITY TO ENTER INTO PURCHASE POWER TOLLING AGREEMENTS

Table Of Contents

Title **Page**

DECISION DETERMINING SAN DIEGO GAS & ELECTRIC COMPANY'S LOCAL CAPACITY REQUIREMENT AND DENYING AUTHORITY TO ENTER INTO PURCHASE POWER TOLLING AGREEMENTS

1. Summary

This decision determines a local capacity requirement need and directs San Diego Gas & Electric Company to procure up to 343 megawatts of local generation capacity beginning in 2018. This decision denies San Diego Gas & Electric Company authority to enter into purchase power tolling agreements with Escondido Energy Center, Pio Pico Energy Center, and Quail Brush Power, without prejudice to a renewed application for their approval, if amended to match the timing of the identified need, or upon a different showing of need. This proceeding is closed.

2. Background

The Commission's biennial procurement review process, established pursuant to Assembly Bill 57 (Stats. 2002, ch. 835), Decision (D.) 04-01-050 and D.04-12-048, requires that investor-owned electric utilities submit long-term procurement plans that serve as the basis for utility procurement activities until refinement during the next biennial planning cycle. Rulemaking (R.) 04-04-003 (the 2004 LTPP) undertook the first of the biennial procurement reviews and reviewed the utilities' long-term procurement plans for 2005 to 2014. R.06-02-013 (the 2006 LTPP) undertook the second biennial procurement review and reviewed the utilities' long-term procurement plans for 2007 to 2016.

D.07-12-052 (as modified by D.08-11-008), issued in the 2006 LTPP, identified a need for San Diego Gas & Electric Company (SDG&E) to procure up to 530 megawatts (MW) by 2015 to meet its local capacity needs.

Because the 2006 LTPP had just concluded with the issuance of D.07-12-052 immediately before the institution of R.08-02-007 (the 2008 LTPP),

the Commission determined that, rather than requiring the utilities to file new procurement plans, the 2008 LTPP would address a series of policy proposals to refine technical practices used to develop resource and procurement plans, and consider other procedural matters. Order Instituting Rulemaking 10-05-006 (the 2010 LTPP) closed R.08-02-007 and undertook the review of the utilities' long-term procurement plans for 2011 to 2020.

Meanwhile, on June 9, 2009, SDG&E issued a Request for Offers (RFO) to meet the local capacity requirement (LCR) that had been identified in the 2006 LTPP. Now, three years later on May 19, 2011, SDG&E brings this application for authority to enter into power purchase tolling agreements with the winning bidders for the Escondido Energy Center (45 MW), Pio Pico Energy Center (305 MW), and Quail Brush Power station (100 MW).

After the prehearing conference (PHC) on July 14, 2011, the assigned Commissioner issued a scoping memo and ruling on July 29, 2011, identifying the issues to be determined by the Commission in resolving the application and setting a schedule for addressing those issues.

By unopposed joint motion filed October 13, 2011, SDG&E and the Division of Ratepayer Advocates (DRA) requested a delay in the schedule of this application to await the issuance of the decision in the 2010 LTPP which, according to SDG&E and DRA, would address and inform issues of fact that are common to both proceedings. The Administrative Law Judge (ALJ) granted the motion.

On January 18, 2012, the assigned Commissioners to the 2010 LTPP and this application issued a joint ruling delegating the issue of SDG&E's LCR need from the 2010 LTPP to this application in order to allow the opportunity to consider, in determining that need, the California Independent System

Operator's (CAISO) expected report on its 2011/2012 transmission planning process, without unduly delaying the resolution of the issue to a later phase of the 2010 LTPP. Accordingly, after the conduct of a second PHC on January 31, 2012, to consider the schedule and process for taking the CAISO's report into consideration in this proceeding, the assigned Commissioner issued an amended scoping memo and ruling on March 12, 2012, amending the scope of issues to include the determination of SDG&E's LCR and amending the schedule of the proceeding.

The issues to be determined in the proceeding, as identified in the scoping memo (as amended), can be summarized as follows:

1. How much new generation, if any, does SDG&E require to meet its LCR for the planning horizon 2011 to 2020?
2. Is there a need for the PPTA to meet the LCR or for other reasons?
3. Are the PPTAs cost-effective and reasonable?
4. What is the appropriate rate treatment for the costs of the PPTAs?

Evidentiary hearings were held on June 19 through June 22, 2012. Parties filed opening briefs on July 13, 2012, and reply briefs on July 27, 2012, upon which the record was submitted.[1]

3. Local Capacity Requirement

3.1. Spreadsheet Analyses

SDG&E conducted a spreadsheet analysis to forecast San Diego's LCR. This approach compares local area demand (taking into account forecasted peak

[1] SDG&E's unopposed July 9, 2012, and August 15, 2012, motions to supplement the evidentiary record are granted.

load, transmission capacity to bring in resources from outside the area, and the contingent loss of the single largest transmission line and the single largest generator outage (an "N-1/G-1" contingency)) and comparing it to the available resources to meet it including existing supply resources, resource retirements, and proposed resource additions.

Based on its spreadsheet analysis, SDG&E forecasts an LCR need of 488 MW arising in 2018, increasing to 647 MW in 2020. (Ex. 11, Table 1, RA-5.) This analysis uses the 1-in-10 year peak load forecast from the "mid energy demand scenario" in the California Energy Demand (CED) forecast for 2012-2022,[2] and assumes, based on its independent assessment, 16 MW of RPS additions, 17 MW of additional demand-side combined heat and power (CHP) generation, 151 MW of uncommitted energy efficiency, 219 MW of demand response, and zero distributed generation by 2020.

DRA recommends against the use of spreadsheet LCR analyses in general because they are unduly simplistic comparisons of forecasted demand and resources as compared to the CAISO's "Once Through Cooling (OTC) Study" which use power flow and transient stability programs taking into account where supply and demand are located. (DRA opening brief at 13.) SDG&E does not offer an opinion on the relative merits of its spreadsheet analysis and the CAISO's OTC study, other than to note that its spreadsheet analysis results are

[2] SDG&E's prepared testimony relied on California Energy Commission (CEC) staff's "Revised CED Forecast 2012-2022," which was released in February 2012. (Ex. 11 at RA-6.) The CEC adopted that forecast as final on June 13, 2012 (except for a change to the forecasted mid-case 1-in-2 year peak load forecast). (SDG&E/Anderson, Tr. 277.)

consistent with the OTC study results with respect to the amount of LCR need and the year in which the need arises. (SDG&E reply brief at 6-7.)

We concur that the OTC study (subject to adjustment as discussed below), is more appropriate to the task at hand of determining local capacity reliability requirements. Accordingly, although DRA presented alternative spreadsheet analyses based on its own assumptions of "low need" and "high need" scenarios[3] and the parties challenged many of SDG&E's input assumptions, we do not reach the relative merits of the input assumptions to the spreadsheet analyses, other than as they inform the merits of the OTC study as discussed below.

3.2. OTC Study

The CAISO presented its forecast of SDG&E's LCR based on the OTC study that it conducted, as part of its 2011/2012 transmission planning process, to analyze the LCR in the San Diego and San Diego/Imperial Valley areas in view of the recently-adopted State Water Resources Control Board rules that require affected OTC generation units to be retired, repowered, replaced, and/or retrofitted in order to improve coastal and estuarine environmental quality. The OTC study assumes the retirement of the Encina OTC units, and uses power flow and transient stability programs to evaluate mitigation measures (including load, potential transmission measures, potential demand side management and other contracted resources such as combined heat and power) needed to maintain

[3] Based on these assumptions, DRA's "high need" scenario forecasts an LCR surplus that diminishes over the 10-year planning horizon and culminates in a modest LCR need of 47 MW in 2020, while the "low need" scenario forecasts an LCR surplus that grows to 1155 MW in 2020. (Ex. 28.)

zonal and local reliability in the event of the outage of the Imperial Valley-Suncrest portion of the Sunrise transmission line followed by the non-simultaneous loss of the ECO-Miguel portion of the Southwest Powerlink transmission line (an "N-1-1" contingency).

The OTC study evaluated the LCR for 2021 under the four Renewables Portfolio Standard (RPS) resource additions scenarios that were developed in the 2010 LTPP (2010 LTPP RPS scenarios).[4] The OTC study does not model any forecasted uncommitted energy efficiency, demand response, or incremental CHP. (Ex. 17 at 15-17; CAISO/Sparks, Tr. 566-567.)[5] On this basis, the OTC study identified a local capacity requirement need in 2021 of 630 MW, 730 MW, 300 MW, and 540 MW, respectively, under the cost-constrained, trajectory, environmentally-constrained, and time-constrained scenarios, assuming the retirement of the Encina power station generating units (absent approval of the three PPTAs at issue in this proceeding). (Ex. 9 and Ex. 10.) Although it did not

[4] The four RPS scenarios are the cost-constrained scenario, with 909 MW of RPS additions in the SDG&E service territory by 2020 (which the CAISO recommends as its base case); the trajectory scenario, with 508 MW; the environmentally-constrained scenario, with 317 MW; and the time-constrained scenario, with 74 MW. (Assigned Commissioner and ALJ's Joint Scoping Memo and Ruling, December 3, 2010, R.10-05-006 (2010 LTPP Joint Scoping Memo), at 25-26, and February 10, 2011, ALJ Ruling, R.10-05-006, *inter alia*, amending the standardized planning assumptions.

[5] California Environmental Justice Alliance (CEJA) also objects to the OTC study for failing to model any potential future energy storage or transmission upgrades, or load shedding or other non-resource mitigation schemes. (CEJA opening brief at 19 and 24.) We are not persuaded that the LCR requirement should be determined on the basis of such potential eventualities.

analyze LCR needs in prior years, the CAISO maintains that this need will start in early 2018. (CAISO opening brief at 4.)[6]

DRA recommends that we account for the fact that the OTC study models the LCR for 2021, which is outside of the planning horizon for this LTPP, by reducing the OTC study results by the forecasted increase in demand from 2020 to 2021 (76 MW), and for the fact that the OTC study does not take account of forecasted uncommitted energy efficiency and demand response by reducing the OTC study results by these amounts. (DRA opening brief at 23-24.) [7]

With respect to the failure to account for forecasted uncommitted energy efficiency and demand response, the CAISO argues that the OTC study's modeling assumptions are consistent with the statutory requirements of Pub. Util. Code § 345.5 that the CAISO maintain the reliability of the transmission system, most notably by maximizing the efficiency of existing electric generation resources and evaluating cost efficient mitigation solutions to reliability concerns under stressed conditions. (CAISO opening brief at 4-5.) The CAISO explains that, consistent with its statutory responsibility, it did not model uncommitted energy efficiency resources because it is uncertain whether those resources will be achieved and available. Similarly, it did not model incremental demand response because the CAISO does not equate demand response to dispatchable

[6] It is not clear if the CAISO maintains that all, or only some, of this need will appear in 2018.

[7] DRA and CEJA recommend additional adjustments to the OTC study results to account for challenges that they make to the CAISO's transmission operation protocols assumptions. (DRA opening brief at 31-35; CEJA reply brief, summary of recommendations.) We are not persuaded to adjust the CAISO's assumed transmission operation protocols, as these matters are within their jurisdiction.

generation in terms of availability when and where needed for a specific megawatt quantity. (Ex. 27 at 2-6.) The CAISO further explains that it does not use "policy-driven" transmission upgrade assumptions for the purpose of assessing its transmission grid reliability and operational needs. (CAISO opening brief at 5.)

While we respect the CAISO's statutory responsibility and its discretion to model its OTC study modeling based on assumptions that flow from it, the record of the proceeding highlights the limitations of our reliance on the OTC study for purposes of this Commission's statutory responsibility to ensure just and reasonable rates by, among other things, limiting unnecessary ratepayer costs. For the Commission's purposes, it is appropriate to take into account reasonable forecasts of uncommitted energy efficiency and demand response, as well as incremental demand-side CHP, in determining whether to authorize the procurement of additional generation resources. These resources can reasonably be expected to occur as a result of State and Commission policies, and to reduce LCR needs in the San Diego area.[8]

We recognize that subtracting these resources (or the incremental 2021 demand) from the OTC study results is a crude solution. The power flow study results do not correlate, MW for MW, to resource assumption inputs, as shown by the results under the four RPS scenarios. Nevertheless, in the absence of OTC study results that model reasonable forecasts of uncommitted energy efficiency and demand response, it is appropriate to otherwise account for them. In the

[8] While uncommitted energy efficiency and incremental CHP will reduce demand, the Commission is also taking steps to "place [demand response] on equal footing with generation resources." (*See* D.12-04-045 at 16, 76-77.)

absence of any record evidence of an alternative, and consistent with the approach taken in D.06-06-064 to account for demand response with respect to the utilities' local resource adequacy requirements (D.06-06-064 at 53-54), it is reasonable to subtract conservative forecasts of uncommitted energy efficiency and demand response from the OTC study results for purposes of determining the LCR.

With respect to the mismatch of the OTC study "snapshot" of 2021 and the relevant planning horizon, we note that the 76 MW discrepancy between the 2020 and 2021 forecasted demand is relatively small. Further, the 215 MW discrepancy between the CED 2010-2020 and 2012-2022 demand forecasts of 1-in-10 year peak demand in 2020 would appear to (overly) compensate for the former discrepancy. Further yet, this overcompensation may be mitigated by the potential for undercounting uncommitted energy efficiency by virtue of excluding the impacts in changes to committed energy efficiency between the release of the two CED demand forecasts. On balance, given the uncertainties of these competing discrepancies and the crudity of the adjustment mechanism, it would be unreasonable to undertake additional adjustments to attempt to account for these mismatches.

CEJA argues that the OTC study's reliance on a 2.5% reserve margin is inconsistent with reserve requirements. (CEJA opening brief at 6-7.) Similarly, DRA and CEJA criticize the OTC study for failing to account for proposed future transmission system upgrades for the San Diego area (DRA opening brief at 29-30; CEJA opening brief at 16-17) and for failing to include load drop (DRA opening brief at 31, CEJA opening brief at 19). We are not persuaded that the LCR determination should be based on such potential eventualities.

Accordingly, we adjust the results of the OTC study by the forecast amounts of uncommitted energy efficiency, demand response and incremental demand-side CHP, as follows.

Uncommitted Energy Efficiency:

SDG&E's forecast of uncommitted energy efficiency, which culminates in 151 MW in 2020, is based on the "low savings scenario" of the CEC Preliminary Energy Demand Forecast 2012-2022 Draft Staff Report, dated August 2011. (Ex. 11 at RA-10.) As SDG&E concedes, its forecast of uncommitted energy efficiency is conservative. (SDG&E reply brief at 4; Ex. 24 RA-5 through RA-7.)

DRA and CEJA object to the use of SDG&E's forecast on the basis that it deviates from the "Commission's" standardized planning assumptions in the 2010 LTPP (DRA opening brief at 7-12, CEJA opening brief at 33-34) and because updating those standardized planning assumptions is beyond the scope of this proceeding (DRA reply brief at 3). To the contrary, the Commission has not adopted the standardized planning assumptions set forth in the 2010 LTPP Joint Scoping Memo (as amended by February 10, 2011, ALJ Ruling). The Commission's decision in the 2010 LTPP, D.12-04-046, merely approved a settlement of related issues and does not serve as precedent for the merits of those assumptions. (*See* Rule 12.5.) Furthermore, the 2010 LTPP issue of SDG&E's LCR was properly delegated to this proceeding by joint ruling of the assigned commissioners to the 2010 LTPP and this proceeding. To the extent that the resolution of this issue requires consideration of the merits of the standardized planning assumptions, it is properly before us now. In the absence of any substantive challenge to the reliability of the August 2011 report, it is reasonable to rely on it for purposes of forecasting uncommitted energy efficiency.

DRA points out that, while SDG&E based its forecast on the August 2011 report's low savings scenario, the mid savings scenario forecasts 288 MW of uncommitted energy efficiency for 2020, which is close to the 2010 LTPP standardized planning assumption for uncommitted energy efficiency. (Ex. 15 at 14.) CEJA points out that SDG&E conservatively assumes there will be no savings from the Big Bold Energy Efficiency Strategies. (CEJA opening brief at 33.) While the low savings scenario forecast of uncommitted energy efficiency is indisputably conservative, on balance it is appropriate to use this conservative forecast for the purpose of making the crude adjustment to the OTC study results.

Demand response:

SDG&E forecasted demand response consistent with the forecast underlying SDG&E's demand response programs that the Commission recently approved in D.12-04-045. (Ex. 11 at RA-10 through RA-11.)

CEJA objects to this forecast for deviating from the 2010 LTPP standardized planning assumptions and as unduly conservative for failing to account for anticipated increases due to Advanced Metering Infrastructure (AMI) and other investments in technology. (CEJA opening brief at 32.) As discussed above with respect to uncommitted energy efficiency, the 2010 LTPP standardized planning assumptions are not controlling, and it is appropriate to assume a conservative forecast of demand response for the purpose of making the crude adjustment to the OTC study results.

Additional Demand Side CHP:

We assume SDG&E's forecast of additional demand-side CHP. This forecast reasonably reflects current expectations of incremental resources. (Ex. 11 at RA-9 through 10; SDG&E/Anderson, Tr. 63-64.)

3.3. LCR Need

The OTC study identifies an LCR need ranging from 300 MW to 730 MW under the four 2010 RPS scenarios in 2021, without accounting for uncommitted energy efficiency or demand response. Imputing this 2021 LCR need to 2020, and accounting for uncommitted energy efficiency and demand response by subtracting their forecasted amounts in 2020 (151 MW of uncommitted energy efficiency and 219 MW of demand response) from the OTC study results for yields an LCR need in 2020 ranging from -87 MW (surplus) to 343 MW, as follows:

	Environmentally-constrained	Time-constrained	Cost-constrained	Trajectory
OTC study result	300 MW	540 MW	630 MW	730 MW
Uncommitted energy efficiency, demand response and CHP	387 MW	387 MW	387 MW	387 MW
LCR need	[87 MW]	153 MW	243 MW	343 MW

There is no factual evidence for according different weights to the four RPS scenarios or their respective OTC study results. Nevertheless, the record demonstrates that LCR need, if any, will not begin to emerge until 2018 in the event that the Encina OTC units retire.

As discussed below, we deny approval of the three PPTAs on the basis that they are not needed under any scenario until 2018, and we direct SDG&E to conduct an RFO for new generation to meet this potential local capacity need (or, in the alternative, to bring an application for approval of the three PPTAs amended to match the timing of any such need). Accordingly, in the absence of a

record upon which to reasonably determine the amount of local capacity need in 2018 from among the widely disparate OTC study results, we defer the determination of which RPS scenario is most reasonable for purposes of determining SDG&E's authorized procurement amount until SDG&E brings an application for approval of new generation.

4. Need for PPTAs

SDG&E procured the three PPTAs pursuant to D.07-12-052, as amended by D.08-11-008, which authorized SDG&E to procure 530 MW in order to meet local and system resource adequacy requirements beginning in 2015. Accordingly, the three PPTAs would add new capacity starting mid-2014.

As discussed above, we no longer find a need for additional resources to meet local and system resource adequacy requirements as soon as 2015. Under all record forecasts, whether as originally presented by the parties or as adjusted in this decision, there is no need for the new capacity represented by the three PPTAs until early 2018. It would be unreasonable to pay for that excess capacity for four of the 20-year and 25-year terms of the PPTAs. Accordingly, we deny approval of the three PPTAs, without prejudice to a renewed application for their approval, if amended to match the timing of potential local capacity need.

Although SDG&E acknowledges that these PPTAs were originally solicited to meet the resource need identified in D.07-12-052, as amended by D.08-11-008, SDG&E asserts that these new generation resources are nevertheless needed to meet the Commission's directive in D.09-01-008 where, according to SDG&E's interpretation of the following sentence, it admonished SDG&E to avoid "just in time" procurement:

> [W]e are also admonishing SDG&E to have adequate procedures in place to ensure that they do not again find

> themselves in a reliability crisis without sufficient time to follow the procurement protocols set forth in D.07-12-052.

(SDG&E opening brief at 3, citing to D.09-01-008 at 18.)

To the contrary and as elucidated by the subsequent sentence, the Commission did not criticize the fact that SDG&E found itself in a reliability crisis; rather, the Commission criticized SDG&E for failing to have procedures in place to be able to conduct a "fast track" RFO such that it circumvented the competitive solicitation process:

> Specifically, SDG&E must institute internal mechanisms that are triggered when projects run into unanticipated delays or cancellations so that the utility can conduct a "fast track" RFO and procure needed reliability resources through the competitive solicitation process.

(*Id*. at 18-19.) This admonition does not stand for the proposition that a utility should intentionally procure excess capacity in order to avoid reliability crises, and we do not endorse that practice now. To the contrary, we expect SDG&E to respond to this LCR need determination and procurement authorization by timely issuing an RFO and bringing an application for approval of its results.

SDG&E and the CAISO assert that it is necessary to approve these PPTAs now, in 2012, in order to ensure that needed capacity will be online in time to meet the need for it. (SDG&E opening brief at 7; CAISO opening brief at 28.) In support of this proposition, SDG&E cites to the Commission in D.07-12-052, wherein we stated:

> Recent experience suggests that the time required to develop and carry out competitive long-term RFOs, then finance, permit and construct new generation resources – including a cushion to account for unanticipated delays – requires that these procurement decisions be made up to seven years in advance of when the resources are needed. (D.07-12-052 at 21.)

Paradoxically, the instant application disproves this expectation: Even with SDG&E taking nearly one and a half years to issue an RFO after securing clarification as to its procurement authority, and taking another two years to bring this application, the PPTA projects (if approved) would be operational in only two years -- six years from the time the Commission issued the modified procurement decision, D.08-11-008. Now, pursuant to our admonition in D.09-01-008, we expect SDG&E to respond to *this* procurement decision in a much more timely fashion, with adequate cushion to enable needed resources to come online within six years.

The CAISO asserts that the consequences of failing to bring new generation resources online in time are too great to risk because if the necessary generation resources do not materialize in time, it will be required to use its backstop Capacity Procurement Mechanism (CPM) procedures (if generation is even available), which will increase costs to ratepayers by requiring them to pay both for resource adequacy capacity and CPM capacity. (CAISO opening brief at 28.) On balance, as between the certainty of four years of costs for unneeded capacity and the speculative possibility of a short-term local capacity requirement shortage and resulting CPM capacity costs, it is reasonable to procure resources based on the time of their need.

While it acknowledges that the issue is beyond the scope of the proceeding, SDG&E asserts that a prolonged outage of the San Onofre Nuclear Generating Station (SONGS) would increase the need for the generation resources represented by the PPTAs. (SDG&E opening brief at 20.) We take judicial notice of the fact that, as of this date, SONGS Units 2 and 3 are out of

service.[9] However, and without prejudice to an application for approval of the PPTAs upon such a showing, there is no record evidence in this proceeding of the expected duration of the outage or its implications for SDG&E's system requirements. We cannot, on this record, find that the PPTAs are needed to meet SDG&E's resource requirements as a result of SONGS' permanent retirement.

SDG&E asserts that the generation resources represented by the PPTAs are needed to support renewable resources integration. (SDG&E opening brief at 23-25.) To the contrary, the Commission has yet to determine the particular operational characteristics of resources that are needed to support renewable resources integration or to set procurement targets for them. This issue is currently before the Commission in the 2012 LTPP. (*See* R.12-03-014.) We cannot, on this record, find that the PPTAs are needed to support renewable resources integration.

For all these reasons, we deny SDG&E's request for approval of the three PPTAs. As discussed previously, SDG&E may bring a renewed application for their approval, if they are amended to match the timing of the potential local capacity need. . Otherwise, SDG&E should expeditiously issue an RFO for up to 343 MW of local capacity to come on line beginning in 2018. In either event, SDG&E should recognize, as bidders must likewise, that when it brings an application for approval of the RFO results (or amended PPTAs, as the case may be), we will reassess local capacity need taking into consideration material intervening events and circumstances.

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[9] http://www.nrc.gov/reading-rm/doc-collections/event-status/reactor-status/ps.html.

5. Contract Reasonableness and Cost Allocation

Because we do not approve the PPTAs, we do not reach the issues of contract reasonableness or cost allocation.

6. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments on the proposed decision were filed on December 10, 2012, by SDG&E, the CAISO, DRA, CEJA, Natural Resources Defense Council and, jointly, the Alliance for Retail Energy Markets, Direct Access Customer Coalition and the Western Power Trading Forum (Joint Parties); and reply comments on the proposed decision were filed on December 17, 2012, by SDG&E, DRA, and the Joint Parties. We make no revisions to the proposed decision.

7. Assignment of Proceeding

Mark J. Ferron is the assigned Commissioner and Hallie Yacknin is the assigned ALJ and presiding officer in this proceeding.

Findings of Fact

1. The three PPTAs would require SDG&E to begin purchasing capacity in 2014, and to continue to purchase capacity over the PPTAs' 20-year and 25-year terms.

2. There is no LCR need until 2018 under any scenario or forecast in the record of this proceeding.

3. The OTC study uses power flow analysis, which allows for a more sophisticated analysis of resource needs than a spreadsheet analysis of resources and need.

4. The CAISO's OTC study did not model forecasted additions of uncommitted energy efficiency, demand response or incremental CHP.

5. SDG&E's forecast of demand response takes account of the Commission's recent decision approving SDG&E's demand response programs in D.12-04-045; the 2010 LTPP standardized planning assumptions do not reflect this.

6. SDG&E's forecast of uncommitted energy efficiency is based on the "low savings scenario" of the CEC Preliminary Energy Demand Forecast 2012-2022 Draft Staff Report, dated August 2011, which is a conservative assessment of whether these resources are certain to materialize; this forecast is more current that 2010 LTPP standardized planning assumption for demand response.

7. The OTC study results, adjusted for uncommitted energy efficiency, demand response, and incremental CHP, show an LCR need in 2021 ranging from -87 MW (surplus) to 343 MW.

8. To the extent that there is a forecasted LCR need, it arises in 2018.

9. There is no record evidence of the relative merits of the four RPS scenarios.

10. There is no record evidence of the impact of a prolonged SONGS outage on SDG&E's LCR need.

11. There is no record evidence of the relative merits of various operational characteristics of resources that are needed to support renewable resources integration or procurement targets for such resources.

12. After receiving conditional procurement authority in December 2007, and confirmation of that procurement authority in November 2008, SDG&E issued an RFO in June 2009, and brought this application for approval of its results in May 2011.

13. The three PPTAs would add new capacity beginning in 2014.

Conclusions of Law

1. It is unreasonable for SDG&E to enter into the PPTAs to purchase local capacity beginning in 2014, when there is no need to for incremental local capacity until 2018, four years into the 20- and 25-year terms of the PPTAs.

2. In the absence of a power flow modeling study for the relevant planning horizon, it is reasonable to impute that the OTC study results for 2021 will occur in 2020.

3. In the absence of a power flow modeling study that models these resources, it is reasonable to account for conservative but reasonable forecasts of uncommitted energy efficiency and demand response by subtracting them from the results of the OTC study.

4. The CAISO's modeling assumptions, other than with respect to uncommitted energy efficiency and demand response, are reasonable.

5. SDG&E's forecasts of uncommitted energy efficiency, demand response, and incremental CHP are conservative but reasonable.

6. In the absence of a record upon which to reasonably determine the amount of local capacity need in 2018 from among the widely disparate OTC study results, it is reasonable to defer the determination of which RPS scenario is most reasonable for purposes of determining SDG&E's authorized procurement amount until SDG&E brings an application for approval of new generation.

7. It is reasonable to direct SDG&E to issue an RFO for up to 343 MW of local generation capacity to come on-line beginning in 2018 or, in the alternative, allow it to bring an application for approval of power purchase tolling agreements with Escondido Energy Center, Pio Pico Energy Center and/or Quail Brush Power amended to coordinate with the anticipated retirement in 2018 of once-through cooling generation units.

8. SDG&E's unopposed July 9, 2012, and August 15, 2012, motions to supplement the evidentiary record should be granted.

9. All other pending motions should be deemed denied.

10. Application 11-05-023 should be closed.

11. This order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's request for authority to enter into power purchase tolling agreements with Escondido Energy Center, Pio Pico Energy Center and Quail Brush Power is denied without prejudice.

2. San Diego Gas & Electric Company is directed to issue a request for offers to meet a local capacity requirement need of up to 343 MW beginning in 2018 or, in the alternative, it may bring an application for approval of power purchase tolling agreements with Escondido Energy Center, Pio Pico Energy Center and/or Quail Brush Power amended to coordinate with the anticipated retirement in 2018 of once-through cooling generation units.

3. San Diego Gas & Electric Company's July 9, 2012, and August 15, 2012, motions to supplement the evidentiary record are granted.

4. All pending motions that are not otherwise granted in this order are deemed denied.

5. Application 11-05-023 is closed.

This order is effective immediately.

Dated _____, at San Diego, California.