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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 and Flexible Procurement Obligations for the 2019 and 2020 Compliance Years

Rulemaking 17-09-020
(Filed September 28, 2017)

SAN DIEGO GAS & ELECTRIC COMPANY
(U 902 E) TRACK 3 PROPOSAL

AIMEE M. SMITH
8330 Century Park Court, CP32
San Diego, California 92123
Telephone: (858) 654-1644
Facsimile: (858) 654-1586

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

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I. INTRODUCTION

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (the "Commission" or "CPUC"), the *Amended Scoping Memo and Ruling of Assigned Commissioner* ("Amended Scoping Memo") issued in the above-captioned proceeding on January 29, 2019, and the February 22, 2019 ruling by Administrative Law Judge ("ALJ") Chiv extending the filing deadline, San Diego Gas & Electric Company ("SDG&E") submits this proposal for an additional issue to be included within the scope of Track 3 of the instant proceeding.

The Amended Scoping Memo identifies the issues that will be considered by the Commission in Track 3, including "[c]onsideration of other modifications and refinements to the [Resource Adequacy ("RA")] program as identified in proposals by Energy Division or by parties,"[1/] and solicits proposals for additional issues to be considered in Track 3. As discussed below, SDG&E proposes that Track 3 also consider refinements to the current process for evaluating RA waiver requests.

1/ Amended Scoping Memo, p. 3.

II. TRACK 3 PROPOSAL

The Commission's current rules regarding Local RA waivers are established in Decision ("D.") 06-06-064 and D.07-06-029. As a rationale for adopting its waiver process, the Commission found that "a waiver process is necessary as a market power mitigation measure . . ."[2/] The Commission adopted a $40 per kW-year capacity cost "trigger" that could lead to the granting of a Local RA waiver, while clarifying that $40 per kW-year value was not intended to operate as a price cap on what load-serving entities ("LSEs") might be willing to pay. The Commission made clear that "[t]he trigger price is not the sole factor the Commission will consider in determining whether a waiver request is granted, since a contract's terms and conditions could possibly make a contract whose price is below the trigger price unreasonable for the LSE, or make a contract whose price is above the trigger price reasonable despite the higher price."[3/] Waiver requests must include:

(i) A demonstration that the LSE reasonably and in good faith solicited bids for its RA capacity needs; and

(ii) a demonstration that despite having actively pursued all commercially reasonable efforts to acquire the resources needed to meet the LSE's local procurement obligation, the LSE either

  a) received no bids, or

  b) received no bids for an unbundled RA capacity contract of under $40 per kW-year or for a bundled capacity and energy product of under $73 per kW-year, or

[2/] D.06-06-064, p. 71.
[3/] *Id.*, p. 72.

c) received bids below these thresholds but such bids included what the LSE believes are unreasonable terms and/or conditions, in which case the waiver request must demonstrate why such terms and/or conditions are unreasonable.[4]

The Commission made clear that granting a RA waiver request is a discretionary action that would require a measure of subjective analysis: "An LSE's waiver request that meets these requirements is a necessary but not a sufficient condition for the grant of such waiver. The Commission will also consider other information brought to its attention regarding the reasonableness of the waiver request."[5]

In establishing the "trigger" that could lead to grant of a Local RA waiver request, the Commission focused on the **kW-yr** capacity cost trigger and elected not to establish a **kW-month** capacity cost trigger. It further emphasized that "we are not adopting a trigger price of one-twelfth of the yearly price trigger ($3.33 per kW-month), as we would not expect RAR prices to be uniform throughout the year."[6] As a practical matter, this creates a challenge in determining the reasonableness of RA waiver requests since Local capacity can be procured on a monthly basis. Thus, in order to evaluate the reasonableness of a monthly RA offer, SDG&E proposes that the Commission adopt a mechanism that compares an "equivalent" annual RA offer to the kW-year capacity cost trigger. This would provide greater certainty to LSEs concerning what monthly price the Commission would generally consider to be too high, while still retaining the Commission's ability to exercise its judgement to determine what is reasonable in the specific instance.

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[4] *Id.*, pp. 72-73.
[5] *Id.*, p. 73.
[6] D.06-06-064, p. 72.

SDG&E proposes that for capacity offers that provide only partial-year delivery terms, the LSE would insert the monthly weighted average price of the relevant Local area from the most recent CPUC RA report for the months of the delivery year not offered by the seller. Through this approach, an "equivalent" full year capacity cost would be developed to compare against the $40/kW-year capacity cost trigger, as illustrated in Table 1.

Table 1

San Diego - IV													
($/kW-mo)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total ($/kW-yr)
Offer A	$0.00	$0.00	$0.00	$0.00	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$0.00	$0.00	$36.00
Equivalent Annual Offer A	$3.18	$3.18	$3.18	$3.18	$6.00	$6.00	$6.00	$6.00	$6.00	$6.00	$3.18	$3.18	$55.08

In the above example, while Offer A is ostensibly below the $40 kW-yr trigger price because the per-month prices for the offered six months add up to less than $40 kW-yr, the equivalent annual offer is greater than the established $40 kW-yr trigger price.

The proposed approach will provide a more accurate metric for evaluating monthly RA pricing than simply dividing the kW-year trigger price by 12. This methodology would provide helpful guidance that would offer LSEs a greater measure of certainty regarding the waiver process. Indeed, the need for a mechanism to compare monthly RA offers to the kW-year capacity cost trigger is particularly important now given the Commission's new multi-year Local RA program.[7/] It is reasonable to anticipate that certain resources may offer only partial-year contracts beyond the first year. In such cases, LSEs and Commission staff will benefit from greater certainty regarding the applicability of the waiver process.

While the Commission has recently expressed concern regarding the number of RA waivers granted within the past year,[8/] the fact remains that there are instances where grant of a

[7/] *See* D.19-02-022.

[8/] See comments during February 21, 2019 Commission Meeting related to Agenda Item # 32 (Refinements to the Resource Adequacy Program).

RA waiver request is appropriate (as well as circumstances where grant of such requests is not appropriate). It is still the case that a waiver process is necessary as a market power mitigation measure. Moreover, fragmentation of the market due to departing load and the increasing number of LSEs means that certain LSEs could be deficient even where no deficiency is identified in the Local capacity area by the California Independent System Operator ("CAISO"). Thus, there is likely to be a continued need for an RA waiver process, and the public interest is served by ensuring the clarity of that process.

III. CONCLUSION

For the reasons set forth herein, SDG&E respectfully requests that the Commission adopt in Track 3 the proposal for refinement of the current process for evaluating RA waiver requests described above.

Respectfully submitted this 4th day of March, 2019.

/s/ Aimee M. Smith
AIMEE M. SMITH

8330 Century Park Court, CP32
San Diego, California 92123
Telephone: (858) 654-1644
Facsimile: (858) 654-1586
E-mail: amsmith@semprautilities.com

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY