PREPARED PHASE 2 REPLY TESTIMONY OF
SAN DIEGO GAS & ELECTRIC COMPANY
REGARDING SUPPLY-SIDE PROPOSALS
FOR INCREASING PEAK AND NET PEAK
SUPPLY RESOURCES IN 2022 AND 2023

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

September 10, 2021
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I. INTRODUCTION

The purpose of this reply testimony is to respond to parties’ opening testimony regarding supply-side issues submitted in Phase 2 of the instant proceeding.

SDG&E commends the Commission for its continued leadership in promoting grid reliability. SDG&E believes that the Commission must be practical and solution-focused, and seek to identify options that are effective and implementable in the near-term, and in particular in Summer of 2022 since that period was specifically identified in the California Energy Commission (CEC) Workshop on Midterm Reliability Analysis as being potentially problematic from a reliability perspective.\(^1\) Given the limited time available to act and the broad scope of this proceeding, the Commission should focus in this proceeding only on near-term solutions that are not being addressed in other proceedings. Thus, for example, issues related to new Resource Adequacy (RA) requirements should be addressed in the Commission’s RA proceeding; likewise issues related to the Renewable Portfolio Standard (RPS) framework (e.g., Green Power Institute’s proposed revisions to the Renewable Market Adjusting Tariff [ReMAT] program and proposal to add a new Renewable Auction Mechanism [RAM] procurement mandate\(^2\)) should be

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1. CEC Presentation, August 30 Lead Commissioner Workshop on Midterm Reliability Analysis, Slide 33. Available at: https://efiling.energy.ca.gov/Lists/DocketLog.aspx?docketnumber=21-ESR-01

2. While SDG&E believes that these proposals are outside the scope of the instant proceeding and should be considered in the RPS proceeding, if at all, it notes that the proposals are also substantively problematic inasmuch as they would not provide incremental supply opportunities or increase supply in 2022 and 2023.
addressed in the RPS proceeding rather than diverting attention from potential solutions that are not before the Commission in other proceedings and must be addressed in the instant proceeding.

As discussed in more detail below, SDG&E does not support the proposal by the California Independent System Operator (CAISO) regarding setting an additional Resource Adequacy (RA) program requirement for the 8:00 PM net peak. SDG&E also disagrees with the proposal by the Public Advocates Office (Cal Advocates) to impose penalties on load-serving entities (LSEs) for project delays that impact resources procured in compliance with Decision (D.) 19-11-016. If such penalties are adopted, however, SDG&E submits that a more robust waiver process would be necessary and agrees with Cal Advocates that such penalties should be allocated to both bundled service customers and customers of opt-out LSEs who voluntarily elected to have the investor-owned utilities (IOUs) procure on their behalf.

II. THE CAISO’S RECOMMENDATION TO SET AN ADDITIONAL RESOURCE ADEQUACY REQUIREMENT SHOULD BE REJECTED

The CAISO proposes to set an additional RA requirement to meet the 8:00 PM net peak for monthly RA showings for June through October 2022, and for 2023 to apply the same requirement for monthly and annual RA for at least June through October but preferably for the entire year. 3 Concerns that the CAISO may have regarding the RA program warrant consideration but are properly addressed in the context of the RA proceeding. The CAISO’s proposal for an additional RA requirement, for example, should be considered in the context of the ‘Slice of Day’ model currently being developed by parties in that proceeding. 4 Any changes to the Commission’s RA requirements implemented outside of the RA proceeding will only

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4 See D.21-07-014.
confuse market participants and undermine regulatory certainty. Put simply, rather than
addressing issues that can be resolved in other active Commission proceedings, the Commission
should focus in this proceeding on potential reliability solutions that are only before the
Commission here.

Moreover, the Commission’s attention in this proceeding should, first and foremost, be
on solutions that help to actually increase supply. Merely setting an additional RA target fails to
get at the root of the reliability problem the State is currently facing. In the absence of the new
resources required to meet that reliability target, setting a new compliance target accomplishes
little. CAISO’s purported solution ignores the true problem and will do nothing to actually
increase the supply of resources available to meet the 8:00 PM net peak demand. To accomplish
an increase in supply resources, the Commission should consider ‘low hanging fruit’
opportunities such as those outlined by SDG&E in its Phase 2 opening testimony. For example,
clarifying cost recovery for resources that are not RA-eligible but are capable of providing
reliability benefits could lead to an actual increase in available supply.\(^5\) Similar proposals
regarding facilitating availability of reliability benefits provided by resources that are not RA-
eligible were offered by the California Energy Storage Association (CESA)\(^6\) and LS Power
Development LLC (LS Power)\(^7\) Proposals of this sort offer a meaningful opportunity to increase
supply resources and preserve grid reliability, which directly furthers the goals articulated in the

\(^{5}\) Prepared Phase 2 Testimony of San Diego Gas & Electric Company Regarding Supply-Side
Proposals for Increasing Peak and Net Peak Supply Resources in 2022 and 2023 and Comments on
Energy Division Staff Concept Paper, dated September 1, 2021 (Phase 2 Opening Testimony of

\(^{6}\) Opening Testimony of Jin Noh on Behalf of the California Energy Storage Alliance, dated September
1, 2021 (Phase 2 Opening Testimony of CESA), pp. 27-34.

\(^{7}\) Prepared Phase 2 Opening Testimony of Sandeep Arora on Behalf of LS Power Development, LLC,
dated September 1, 2021 (Phase 2 Opening Testimony of LS Power), pp. 5-6.
Governor’s July 30, 2021 Emergency Proclamation\(^8\) and the Commission’s \textit{Assigned Commissioner’s Amended Scoping Memo and Ruling for Phase 2} issued in the above-referenced proceeding on August 10, 2021 (Amended Scoping Memo).

As a practical matter, if opportunities to increase supply are adopted by the Commission in this proceeding, the rationale supporting the CAISO’s proposal for an additional RA requirement may not be present for 2022. Similarly, the mid-term reliability procurement ordered in the Commission’s mid-term reliability decision (MTR Decision)\(^9\) issued in the Commission’s Integrated Resource Plan (IRP) proceeding may obviate the need for additional reliability procurement in 2023. The CEC’s August 30 presentation on Mid Term Reliability showed that for all scenarios (except the no build scenario) the Loss of Load Expectation (LOLE) is below the .1 limit for 2023;\(^{10}\) this analysis proves that under either a scenario where LSEs procure based on the MTR Decision or if they procure based on their individual IRP plans, there is no reliability concern. Finally, as the CAISO points out, it can always trigger the capacity procurement mechanism (CPM) to “address net peak capacity insufficiencies.”\(^{11}\)

Accordingly, the Commission should not adopt in this proceeding the CAISO’s proposal regarding an additional RA requirement to meet the 8:00 PM net peak.

\begin{footnotesize}
\begin{enumerate}
\item D.21-06-035.
\item CEC Presentation, August 30 Lead Commissioner Workshop on Midterm Reliability Analysis, \textit{supra} note 1, Slide 33.
\item Phase 2 Opening Testimony of CAISO, p. 8.
\end{enumerate}
\end{footnotesize}
III. THE COMMISSION SHOULD NOT ADOPT CAL ADVOCATES’ PROPOSAL TO IMPOSE PENALTIES RELATED TO D.19-11-016 PROCUREMENT

The Energy Division Staff Concept Paper dated August 16, 2021 (Staff Paper) discusses the concept of introducing penalties for delays in the project development process for new resources procured in accordance with D.19-11-016. Specifically, the Staff Paper suggests that the Commission could place LSEs on notice that it will impose fixed penalties on “any LSE that fails to achieve commercial online dates” consistent with D.19-11-016.\footnote{Staff Paper, pp. 21-22. The Staff Paper separately discusses a potential increase in RA non-compliance penalties (p. 22).} As SDG&E (and many other parties\footnote{See, e.g., Phase 2 Opening Testimony of LS Power, p. 7; Pacific Gas and Electric Company Emergency Reliability Order Instituting Rulemaking Errata Testimony, dated September 1, 2021, Chapter 9, pp. 1-3; Direct Testimony of Southern California Edison Company – Phase 2, dated September 1, 2021, pp. 76-78; Direct Testimony of Lauren Carr, Fred Taylor-Hochberg, Marie Y. Fontenot on Behalf of California community Choice Association, dated September 1, 2021, p. 12.} pointed out in opening testimony, LSEs can exercise control over the contracting process and procurement of resources, but generally do not have control over the development process or commercial availability of procured resources. Thus, imposing penalties on LSEs for a project developer’s failure to achieve an expected commercial online date is ill-conceived and would likely have unintended negative consequences that could chill development of new reliability resources within the State.\footnote{See Phase 2 Opening Testimony of SDG&E – DeTuri/Maiga, pp. 6-8.}

Cal Advocates articulates support for the penalty concept included in the Staff Paper, but the discussion in Cal Advocates’ opening testimony raises a question as to what it is actually proposing. Cal Advocates indicates that it “agrees with the Staff Proposal that applying penalties to LSEs’ obligations under D.19-11-016 may enhance reliability,” and that “[p]enalties
incentivize LSEs to meet their **procurement obligations** in a timely manner.”\textsuperscript{15} However, the Staff Paper concept would impose penalties not for the failure to procure (\textit{i.e.}, contract for) adequate resources, which is the obligation imposed by D.19-11-016, rather it would impose penalties in circumstances where procured (\textit{i.e.}, contracted) resources are delayed and fail to “achieve commercial online dates” on the timeline expected.\textsuperscript{16} Thus, it is not clear whether Cal Advocates supports the concept of penalties for LSEs who fail to procure/contract for resources in compliance with D.19-11-016 (a circumstance where penalties could be warranted, depending on the circumstances) or instead supports the notion of penalties being imposed on LSEs in circumstances where a resource is procured (contracted for) in a reasonable and timely manner in compliance with the requirements of D.19-11-016, but fails to come online when expected due to project delays outside the control of the LSE. These are plainly two very different scenarios.

SDG&E notes further that Cal Advocates’ waiver proposal, while a good idea in theory, is poorly articulated and could prove challenging to implement. Cal Advocates proposes that the Commission adopt a Tier 1 advice letter penalty waiver process that would allow LSEs “to demonstrate that any delay came despite its best efforts to meet its obligations,” and would allow Commission staff to waive the associated penalty. First, it is not clear how a “best efforts” standard would be applied in this context; this is not a recognized or defined standard and is overly vague. If adopted, the waiver process should apply a reasonableness standard. Second, the waiver appears to be applicable only to “pandemic-related disruptions,” which is unreasonably narrow and could be difficult to prove. Would permitting delays caused by

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\textsuperscript{15} Public Advocates Office Prepared Testimony in R.20-11-003, dated September 1, 2021 (Phase 2 Opening Testimony of Cal Advocates), pp. 4-1 – 4-2 (emphasis added).
\textsuperscript{16} Staff Paper, pp. 21-22. The Staff Paper separately discusses a potential increase in RA non-compliance penalties (p. 22).
\end{flushright}
reduced staff resulting from staff turn-over due in part to the COVID-19 pandemic satisfy the “pandemic-related” criterion? The question should be the LSE’s degree of control over (or culpability for) the delay, not the extent to which a delay can trace its roots to the pandemic. Finally, allowing Commission staff to impose/waive penalties, particularly in the absence of clear criteria for doing so, gives rise to due process concerns. If a waiver process is adopted, a Tier 3 process should apply.

Finally, while SDG&E does not support imposition of penalties for delays in achieving commercial online dates for new resources procured to meet D.19-11-016, SDG&E does agree with Cal Advocates that any such penalties should be shared between bundled service and unbundled customers. As Cal Advocates correctly points out, IOUs are procuring both for their own bundled service customers and also for the unbundled customers of LSEs who voluntarily opted out of self-procurement in favor of having the IOUs undertake this effort on their customers’ behalf. While the Western Power Trading Forum (WPTF) argues that LSEs who elected to have the IOUs procure to meet their D.19-11-016 obligations should not be subject to penalties for an IOU’s failure to meet those obligations, such a policy would be unlawful and inequitable. It would impermissibly shift cost to bundled service customers in violation of statutory cost indifference principles and would allow direct access (DA) providers and other non-IOU LSEs to improperly deflect procurement risk to the IOUs, unreasonably exacerbating the burden imposed on the IOUs related to backstop procurement. Opt-out LSEs voluntarily elected to impose their procurement obligation on the IOUs rather than fulfilling them on their own; thus, the “in for a penny, in for a pound” approach proposed by Cal Advocates is reasonable and appropriate.

IV. CONCLUSION

This concludes SDG&E’s reply testimony.