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SDG&E Power Source Disclosure (AB 1110) Workshop Comments

Additional submitted attachment is included below.



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California Energy Commission
Docket Office
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1516 Ninth Street
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RE: San Diego Gas & Electric Company Comments on the Lead Commissioner Workshop on Proposed Changes to the Power Source Disclosure (PSD) Program Regulations, Docket No. 16-OIR-05

San Diego Gas and Electric Company (SDG&E) thanks the California Energy Commission (CEC) for hosting the October 7, 2019, Lead Commissioner Workshop on Proposed Changes to the Power Source Disclosure (PSD) Program Regulations, which presented and summarized revisions to the draft regulations presented earlier this year at the CEC Staff's March 6, 2019 workshop. These revisions were intended to conform the PSD to the requirements of Assembly Bill (AB) 1110, clarify existing provisions, and streamline the program. Ensuring that these revisions provide an accurate accounting of the resources that Load Serving Entities (LSEs) actually rely on when serving customers is critical, as the end product of the PSD is the Product Content Label (PCL), which is provided to customers each year.

SDG&E appreciates the effort put forth by CEC Staff, but notes that the proposed regulations fail to address several key shortcomings that, if left unattended, will impact the PCL's accuracy and usefulness to customers. SDG&E's comments focus on improving PCL reporting by ensuring transparency and avoiding customer confusion, specifically through: (i) a more granular and accurate calculation of the energy sources relied upon by each LSE; (ii) consistency between California Public Utilities Commission (CPUC) and CEC rules; (iii) utilization of complete emissions data; and (iv) updated emissions data.

Comments

The Clean System Power (CSP)¹ Methodology Should be Implemented for the PCL

Stakeholders have recommended the use of an hourly calculation (the CSP) for the PCL, which SDG&E supports, as an hourly calculation would be consistent with statewide planning and provide an accurate accounting of the resources relied upon by each LSE, even under a load

¹ Formerly known as the Clean Net Short (CNS).

departure scenario. CEC staff has rejected this recommendation by stating that AB 1110 requires an annual calculation. However, most “annual” mentions in the bill reference “annual sales” or describe the reporting frequency, not the calculation granularity. AB 1110 does not **require** an annual calculation for the PCL. The only relevant mention of “annual” is in the definition of “Purchases of electricity from specified sources,” where AB 1110 states that “[r]etail suppliers **may** rely on annual data to determine whether a transaction meets this definition, rather than hour-by-hour matching of loads and resources.”

As the bill does not require an annual calculation, and for public policy reasons, SDG&E requests that the CEC adopt the CSP. The CEC’s current proposal (annual netting) does not identify an LSE’s actual generation mix and associated emissions; and if used, the incorrect data will result in an inaccurate PCL, which is contrary to the public interest. Specifically, the annual netting process: (i) allows an LSE that relies on system power to claim 100 percent renewable energy and zero emissions, which is both inaccurate and misleading;² (ii) undercounts greenhouse gas (GHG) emissions, resulting in a disconnect between PCL and California Air Resources Board (CARB) emissions accounting; and (iii) creates a mismatch between the reporting of GHG-free resources and emissions under a high load departure scenario.³

California Public Utilities (PU) Code Section 398.4(k)(2)(A) requires that the CEC “[a]dopt a methodology, in consultation with the State Air Resources Board, for the calculation of greenhouse gas emissions intensity for **each purchase** of electricity by a retail supplier to serve its retail customers.” Purchases are not made all at once at the end of each year, as an annual netting process would have to assume, but rather are made throughout the year. An hourly calculation would capture nuances that the annual netting process will miss. Assessing an LSE’s generation mix and associated emissions on an hourly basis via the CSP would identify the resources **actually used** to serve that particular LSE’s customers. The CSP is used under the Integrated Resource Plan (IRP) process to determine an LSE’s emissions, and the resources that need to be added to its portfolio on a going-forward basis to meet the State’s GHG goals. The CSP evaluates both load and energy sources on an hourly basis for each LSE, and ultimately determines the volume of system power (resources dispatched by the California Independent System Operator (CAISO)) used to serve each LSE’s load in each specific hour. Each LSE is then allocated the emissions from the system power used to serve its load, together with the emissions from its must-take emitting resources.

The CSP methodology is an equitable process that captures what actually happens throughout a calendar year, and it should be used to calculate the PCL. It would make little sense to use one calculation to meet statewide emission reduction targets, and another to report progress to customers – particularly when the method used to inform customers is inaccurate and unable to respond appropriately to changes in the market, such as load departure. Moving forward with the currently proposed annual netting process would mislead customers and undermine the IRP process. In contrast, adopting the CSP’s hourly method would enable the identification of the actual resources on which LSEs rely. Moreover, using the CSP would be

² For example, an LSE’s PCL could give the appearance that the LSE is compliant with IRP and SB 100 goals, when in reality the LSE’s emissions are much larger than the volume shown on the PCL.

³ As the PCL is currently designed, should an LSE experience a large volume of load departure, the renewable energy and emissions volumes on the PCL could become skewed. For example, an IOU that has procured renewable resources to meet 50 percent of its load would correctly show 50 percent renewable without load departure. However, should this IOU experience a high volume of load departure, the new PCL could eventually show a renewable percentage in excess of 100 percent and a GHG emissions intensity near zero, thereby providing an inaccurate and confusing picture to customers.

consistent with the direction provided by AB 1110 that the PCL be accurate, reliable, and simple-to-understand. SDG&E recommends that the CEC revise its regulations to utilize the CSP method, to ensure that an LSE's resources are properly accounted for and communicated to customers under all scenarios.

The Definition of Delivered Electricity Should Include Grandfathered Generation

To ensure that all resources count in full, as required, SDG&E recommends that the CEC rely on the full description of the Product Content Categories (PCCs) within the California Public Utilities Code (PU Code), not just three of the four applicable categories. SDG&E therefore proposes that the CEC revise the definition of "delivered electricity"⁴ (which mirrors PU Code Section 399.16(b)(1)), to also include the entirety of 399.16(d) (which describes the grandfathering rules for those contracts executed prior to June 1, 2010). This will enable all grandfathered products to count in full by including the volume within the "Renewable Procurements" rows and by utilizing the relevant renewable energy source (wind, solar, etc...) to determine the emissions factor.

Consistent with the PU Code, the CPUC utilizes four PCCs to categorize renewable generation and to enforce Renewables Portfolio Standard (RPS) program regulations. For RPS program purposes, PCC0 products, or generation from "grandfathered" contracts (those executed prior to June 1, 2010), count in full towards all requirements as required by law.⁵ This is in recognition of the fact that these resources were procured prior to the current RPS regime, and the rules established today could not reasonably have been known at the time of contract execution. In contrast, the PCL regulations utilize only three of the four PCCs,⁶ omitting PCC0 products. In practice, for PCL purposes, all grandfathered contracts will need to be parceled out into one of the three categories (delivered, firmed-and-shaped, or renewable energy credits (RECs)), which could result in a disconnect between RPS compliance data and the data displayed on the PCL.

This discrepancy is problematic, in that what counts in full towards RPS requirements may not count as renewable within the PCL. However, these contracts were procured in good faith at a time when the current regulations were not yet known, and it would not be appropriate to cherry pick a portion of the relevant statute and disregard the rest. In fact, PU Code Section 398.4(h)(5), which references the renewable energy portion of statute, does not require such distinction. Therefore, to remedy this disconnect SDG&E recommends including PCC0 products in the PCL.

The PCL Should Reflect Emissions Associated with an LSE's Designated Cost Allocation Mechanism (CAM) Facilities

The currently proposed regulations would not allocate the CAM resources to all benefiting LSEs, but rather only to the purchasing IOU based on its proportionate share. This is

⁴ Express Terms, p. 2.

⁵ PU Code Section 399.16(d).

⁶ PCC1 (delivered), Express Terms, p. 2.

PCC2 (firmed-and-shaped), Express Terms, p. 3.

PCC3 (REC), Express Terms, p. 5.

neither equitable nor accurate and must be corrected.⁷ The CPUC has statutory authority under PU Code Section 365.1(c)(2) to authorize investor-owned utilities (IOUs) to procure generation resources on behalf of all LSEs to meet reliability needs:

(A) Ensure that, in the event that the commission authorizes, in the situation of a contract with a third party, or orders, in the situation of utility-owned generation, an electrical corporation to obtain generation resources that the commission determines are needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation's distribution service territory, the net capacity costs of those generation resources are allocated on a fully nonbypassable basis consistent with departing load provisions . . .

(C) The resource adequacy benefits acquired by an electrical corporation pursuant to subparagraph (A) shall be allocated to all customers who pay their net capacity costs. Net capacity costs shall be determined by subtracting the energy and ancillary services value of the resource from the total costs paid by the electrical corporation pursuant to a contract with a third party or the annual revenue requirement for the resource if the electrical corporation directly owns the resource . . .

The CPUC's CAM methodology was originally adopted in Decision (D.) 06-07-029 and later modified in D.07-09-044, D.11-05-005, and D.14-02-040. Under the CAM methodology, the CAM provides the mechanism to allocate both costs and benefits associated with the CAM resources to all benefiting customers in the IOU's service territory, where the CPUC directs the IOU to procure a resource needed for system or local reliability for the benefit of all customers in the service territory (i.e., not solely for the benefit of bundled service customers). Since, by definition, CAM resources are procured on behalf of all LSEs in an IOU's service territory, an LSE's PSD/PCL should properly reflect the CAM resources that were procured on behalf of such LSE's customers by the IOU.

Additionally, SDG&E notes that the issue of resource allocation will only become more important as the procurement landscape evolves, specifically due to: (i) the CPUC's implementation of the results of Phase II of the Power Charge Indifference Amount (PCIA)

⁷ In order to facilitate reporting of the actual generation output and GHG emissions attributable to other LSEs, SDG&E proposes the following steps:

1. IOUs submit the actual generation output for each CAM resource to the CEC by March 31.
2. The CEC shall calculate each LSE's share of the generation output based on the LSE's peak load ratio share, using the local load forecast submitted to the CEC as part of the load forecast process. The CEC's final forecast for each LSE should be used rather than the forecasts submitted by each LSE.
3. By May 1, the CEC shall provide the proportionate CAM output information to all LSEs, including the IOUs, in order to have LSEs incorporate the data into their respective PSD/PCL submissions to the CEC on June 1. Each LSE's incorporation of their share of the CAM output into their PSD will necessarily calculate the appropriate GHG share associated with their portion of the CAM. Depending on the format, IOUs would net out the amount that is allocated directly to other LSEs in aggregate or replace the actual generation data in total and only use the CEC-provided data related to CAM.

SDG&E envisions this process to be resource-specific rather than a singular value in order to accurately account for different resource types that qualify for CAM treatment.

proceeding, which includes optimization of IOU portfolios; and (ii) the eventual creation of a Central Buyer (CB). As is the case with the CAM, both the PCIA and CB frameworks will involve resource allocation, and it is critical that allocation of emissions under the PCL for CAM, PCIA, CB, and any other future resource allocation is based on the need to ensure an accurate and equitable outcome.

The PCL Should Utilize A Separate In-State Unspecified Emissions Factor

SDG&E recommends using the RESOLVE model from the CPUC's IRP proceeding, which can produce a reasonable estimate of an in-state emission factor.⁸ The CEC should make this calculation and publicly post the result for PCL reporters to use in their reporting. Section 1393(c)(3) of the PCL's Final Statement of Reasons is outdated, in stating that no data exists for distinguishing between sources of unspecified power:

CARB calculated the default emissions factor for unspecified power based on marginal fossil fuel emissions of generators located outside California. However, the CEC understands that the average GHG emissions factor of current in-state marginal generation does not substantially deviate from CARB's GHG default emissions for imported sources of unspecified power. Furthermore, the CEC is not aware of a simple and reliable method for distinguishing between in-state and imported sources of unspecified power purchased through open market transactions. Therefore, the CEC concluded that it is appropriate to **apply CARB's default emissions factor to all sources of unspecified power.** [Emphasis added.]

This statement is simply inaccurate. Not only is CARB's default emissions factor stale, reliable data also exists to replace it.

CARB's unspecified rate of 0.428 MT/MWh was calculated using 2006 – 2008 average emission factors for power plants outside of California located in the Western Electricity Coordinating Council (WECC) that are available on the margin, i.e., they are not dedicated to serving baseload⁹. While it may be arguable that neighboring states have cleaner power than they did in years 2006 – 2008, it is a fact that California's 2019 generation is substantially cleaner than in 2006 – 2008. Using an emissions factor that is known to be stale and incorrect has reporting and compliance consequences and could cause financial impacts. Using the RESOLVE model would improve the accuracy of the PCL, consistent with the goal of providing accurate, reliable, and simple-to-understand information to customers, which will become increasingly important as LSEs make efforts to reach GHG targets under the IRP proceeding.

⁸ <https://www.cpuc.ca.gov/General.aspx?id=6442457210>.

⁹ CARB Mandatory Reporting of Greenhouse Gas Emissions Final Statement of Reasons October 28, 2011, <https://ww3.arb.ca.gov/regact/2010/ghg2010/mrrfsor.pdf>

Conclusion

SDG&E looks forward to further progress on the CEC's efforts to implement changes to the PSD.

Sincerely,

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