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July 21, 2008

DOCKET
08-IEP-1D
DATE JUL 21 2008
RECD. JUL 21 2008

California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512

RE: Docket No. 08-IEP-1D: San Diego Gas & Electric Company's Comments on the Procurement Review Group (PRG) Workshop

Dear Commissioners:

San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to offer these comments on the Integrated Energy Policy Report (IEPR) Procurement Review Group (PRG) workshop held on July 14, 2008. At the workshop, SDG&E presented brief oral comments regarding a set of nine questions posed by the California Energy Commission (CEC) prior to the workshop. Below, we expand upon those comments, as well as offer additional comments.

I. CEC Questions Regarding PRG Issues And SDG&E's Responses

1. How do the utilities decide what subjects to bring up with the Procurement Review Groups? To what extent do discussions include items that are not specifically required by the CPUC to be presented to the PRG?

The California Public Utilities Commission (CPUC) has identified broad categories of items for PRG review:

D.02-08-071:
1) each utility's overall interim procurement strategy;
2) proposed procurement contracts; and
3) proposed procurement processes, including, but not limited to, "Requests For Offers"

D.02-12-074:
1) positions, with reporting triggers on certain risk metrics; and
2) all transaction >3months)

Generally SDG&E interprets the CPUC's direction to be review of SDG&E's procurement process and strategy, portfolio positions and specific transactions with the non-market participant members of the PRG. This expansive subject matter consumes the vast majority of PRG time, but SDG&E also expands this scope from time-to-time to include: (1) items requested by the PRG (such as a recent request to discuss the impact of Market Redesign and Technology Upgrade (MRTU), discussion of certain

regulatory proceedings); and (2) including the PRG in the screening of Emerging Renewable Resource Program (ERRP) expenditures.

2. The PRGs were originally established as an interim measure to speed up evaluation of utility procurement requests. How has that role evolved over time, and what is the current role played by the PRGs in the resource planning and procurement processes?

The PRG's role has evolved to include broader advisory consultations beyond the initial procurement being addressed when the PRG was first established shortly before the utilities resumed their procurement duties at the beginning of 2003. The PRG has served its original purpose well, streamlining the regulatory approval process by allowing non-market participant parties to better understand IOU procurement activities and avoiding time-consuming and more costly litigation that might otherwise ensue. SDG&E has also gained a better understanding of PRG members' views and concerns.

3. How well are the PRGs serving the purpose(s) for which they were created and for which they are currently being used?

The PRG is serving its original and evolving purposes well. Where there are objections to the utility's actions or proposals, differences of opinion can be debated in a productive manner. The normal litigation process is also still available to PRG participants and SDG&E, if necessary, to resolve differences given that the PRG's role is strictly advisory.

4. Are there unique characteristics of the planning and procurement process in California that might require more confidentiality here than in other states?

SDG&E is not prepared to answer for other states' sensitivity regarding confidential procurement information. However, California may have a greater need for confidentiality due to its greater reliance in the market for its supply resources.

5. Does the current set of information that is held to be confidential in planning and procurement settings adequately and accurately balance the need to protect market-sensitive data with the need to protect the public interest in securing efficient outcomes? Is there information that is held confidential that should be made public? If so, why, and if not, why is it confidential?

While not perfect, the CPUC confidentiality decision (D.06-06-066) strikes a reasonable balance between protection of ratepayers' interests and transparency in the procurement process. At the workshop, the need for confidentiality was further underscored by two consumer advocate PRG members, TURN and DRA. It would not be prudent or in the best interests of ratepayers to reveal any further data. Moreover, SDG&E notes that the current confidentiality framework was developed after a lengthy regulatory process was undertaken in an effort to strike the proper balance between disclosure to ensure robust participation in Commission proceedings and the need to protect ratepayers' from potentially increased procurement costs should their sensitive data become available to market participants.

6. Are there alternatives to the PRGs for considering confidential material that would serve the public interest equally or more effectively? That would provide greater transparency? If not, are

there steps that can be taken to increase the transparency of PRG activities within the existing framework?

The PRG already represents an expansion of the transparency (and, hence, public interest in reviewing procurement processes of the IOUs) that existed prior to the PRG's creation, when only the Commission and its staff reviewed the types of material that is now fully vetted with stakeholder groups. SDG&E encourages this Commission (CEC) to renew its participation in the PRG meetings and processes. Staff's inclusion in the process of IOU procurement could only be beneficial in the important day-to-day work that they perform in the areas of siting/permitting, renewables and GHG analysis and certification and IEPR policy work.

The Commission, in its recent Long-Term Procurement Planning (LTPP) decision (D.07-12-052) has taken steps to increase transparency into the PRG process, such as posting PRG meetings summaries, a calendar of meetings and meeting agendas.

7. What effect has the inclusion of an Independent Evaluator (IE) had on the PRG process? Are there additional steps that should be taken beyond those outlined in CPUC Decision 04-12-048 and subsequent CPUC decisions to guarantee outcomes that are fair? In general, how might the PRG process be modified to increase confidence in its contribution to the decision-making process?

The IE and PRG serve different functions. The IE is charged with "how" procurement solicitations are conducted – that is, overseeing the "fairness" of the solicitation process and ensuring that all parties are treated equally by the IOU when it designs, issues and reviews offers in a competitive solicitation. The PRG's role is broader – "what" and "why" - in scope (including bilaterals, financial transactions, hedging strategy, review of positions, etc.) and is meant to include opinions on "what" the utility does rather than a review of "how" it conducts competitive solicitations. The IE is available to the PRG, however, for consultation at PRG meetings, and the IE regularly briefs the PRG on its work.

8. The successes and failures of the procurement process are frequently obscured by confidentiality concerns. For example, broad claims have been made by utilities regarding both the low costs of renewables relative to the Market Price Referent, and the high costs of renewables relative to other resources. These claims have not been and cannot be verified by other parties in a public setting. How can such developments be brought to the attention of both the public and policymakers without divulging confidential information from the PRGs, yet still provide adequate data upon which to base conclusions and decisions?

Ratepayer interests need to be balanced against full disclosure. Both considerations are important, and the CPUC settled the matter in D.06-06-066. Additionally, SDG&E does not concur that there are significant prejudices to market participants who do not participate in the PRG. Accordingly, SDG&E does not accept in the premise of this question. In fact, in many cases, SDG&E has been able to work with the Commission to aggregate data to a high enough level to protect individual entity data, but still provide insight into what is taking place in the market. Ultimately, market participants should not be granted access to information that would unfairly advantage their position in the market, to the detriment of ratepayers.

9. How can public discussion of significant issues that first surface in the PRGs take place without violating confidentiality considerations? How do or would parties decide what should be made public in this fashion?

PRG issues tend to be related to specific transactional considerations that are entered into in the context of, or are a reflection of, adopted (or proposed) policy. Therefore, all parties have ample ability to participate in the process that sets these policies, such the CEC IEPR process and the CPUC Long-Term Procurement Planning process. The policy discussions are not constrained by confidentiality. The transaction level issues are appropriately protected by confidentiality. Revelation of the transactional issues has not been required to allow all parties effective participation in policy making. Once again, aggregation can be used for policy level discussions.

Again, the decision as to what is made public has been settled in D.06-06-066. This policy on confidentiality was made after considerable input by all parties and has worked well in the two years since its adoption.

II. Conclusion

SDG&E appreciates the opportunity to comment on the July 14 workshop on the use of PRGs in electricity procurement, and we look forward to working further with the Commission and its staff on this issue.

Yours sincerely,

Bernie Orozco