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California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

Dear Commissioners:

RE: Comments in Response to "Proposed Changes to the Renewable Portfolio Standard Guidelines and Procurement Verification Report" Docket Numbers No. 03-RPS-1078 and No. 02-RPS-1038

San Diego Gas & Electric ("SDG&E") appreciates the opportunity to provide comments concerning the "Proposed Changes to the Renewable Portfolio Standard Guidelines and Procurement Verification Report" prepared by the California Energy Commission ("CEC"). SDG&E supports the efforts of the CEC in establishing the Renewable Portfolio Standard ("RPS") guidelines for; i) certifying renewable resources for California's RPS; ii) allocation of Supplemental Energy Payments ("SEP") to cover above-market costs of renewable energy; and iii) design and implementation of a tracking system to verify compliance with the RPS program. However, SDG&E notes with concern that certain verification methodology described in the Guidebooks regarding the accounting of incremental procurement disadvantages SDG&E in its ability to bank excess incremental procurement in future years. Also, SDG&E notes with concern the proposed disclosure of confidential information associated with SEP awards that could arm market participants with pricing information that could harm the competitive nature of bid solicitations.

Background

SB 1078 established specific roles for the CEC and CPUC in implementing the RPS. As part of the collaborative process between the two agencies, the CEC is responsible for certifying renewable generating facilities as eligible for California's RPS. The CEC began certifying facilities in 2004.

The CEC is responsible for administering the funds available for SEP awards as well as developing the process for allocating the SEPs to cover above-market costs of renewable energy. To date, no SEP awards have been allocated.

The CEC is also responsible for designing and implementing a tracking system to verify compliance with the RPS program and to ensure that the renewable energy procured to meet California's RPS is counted only once and is not counted towards meeting other renewable energy retail claims. To verify RPS procurement for the Verification Report, the CEC developed and applied an Interim Tracking System that ensured procurement claims met the RPS eligibility requirement and to the extent possible was

counted only once. Future Verification Reports will be based on findings by the Western Renewable Energy Generation Information System ('WREGIS"), expected to be operational in 2007.

The Overall Program Guidebooks were developed as elements of the RPS collaborative process between the CEC and the CPUC. The Guidebooks are revised and updated periodically to reflect statutory, market, and regulatory developments and to respond to lessons learned as the RPS is implemented, as authorized by Public Resources Code Section 25747, Subdivision (a).

Incremental Procurement for Compliance Verification

As part of the accounting for RPS eligible procurement, it is necessary to categorize specific purchases as accounting toward either the incremental procurement target or baseline. Renewable facilities existing prior to 2003 along with other specific technologies with specific online dates such as geothermal, small hydro, and municipal solid waste facilities located in Stanislaus, are considered baseline procurement. New RPS eligible renewable facilities under contract in 2003 or later are considered incremental procurement. The CEC Guidebooks describing how incremental procurement is counted as part of RPS compliance verification are proposing to only count this procurement in the first year the utility procures energy from the facility. In the second and subsequent years, the procurement from that facility counts toward the retail seller's baseline. This proposed verification methodology disadvantages SDG&E in its ability to bank excess incremental procurement in future years and is in conflict with the rules for flexible compliance established by the CPUC in Decision 03-06-071. Incremental procurement should not only count in the first year but subsequent years as well. SDG&E requests that the CEC not adopt this methodology and recommends that the CEC follow the same RPS compliance verification methodology established by the CPUC.

Disclosure of Confidential Information with SEP Awards

As part of the SEP award process described in the New Renewable Facilities Program Guidebook, the proposed guidelines require utilities to provide certain information pertaining to the "short list" of bidders with whom the utility may be interested in pursuing contract negotiations. For short-list bids priced under the Market Price Referent ("MPR"), the utility must submit aggregated information on the bids. This data includes: the total number of facilities; the weighted average price of bids; the amount of generation bid; the percentage of the utility's APT represented by the bids; and the percentage of the generation bid that would require new transmission. For each short-list bid above the MPR, the utility must report the total amount of generation per year, applicable MPR, contract term, and other specific data as required. SDG&E notes with concern the disclosure of this information, which could arm market participants with pricing information that could harm the competitive nature of an open bid solicitation. SDG&E requests that any information that could be used to determine contract pricing be held confidential for a minimum of three years from the released date.

Conclusion

In conclusion, SDG&E supports the efforts of the CEC in establishing the RPS Guidebooks. Again, however, we reiterate that the proposed verification methodology disadvantages SDG&E in its ability to bank excess incremental procurement in future years and is in conflict with the rules for flexible

compliance established by the CPUC in Decision 03-06-071. Incremental procurement should not only count in the first year, but subsequent years as well. SDG&E requests that the CEC not adopt this methodology and recommends that the CEC follow the same RPS compliance verification methodology established by the CPUC. Also, SDG&E notes with concern the disclosure of confidential information which could arm market participants with pricing information that could harm the competitive nature of an open bid solicitation. SDG&E requests that any information that could be used to determine contract pricing should be held confidential for a minimum of three years from the released date.

Sincerely,

Bernie Orozco