

Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2024 General Rate Case
Application: A.22-05-015/-016 (cons.)
Exhibit: SDG&E-210

**REBUTTAL TESTIMONY
OF CHRISTOPHER A. SUMMERS
(ENERGY PROCUREMENT)**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



May 2023

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**REBUTTAL TESTIMONY OF
CHRISTOPHER A. SUMMERS
(ENERGY PROCUREMENT)**

I. SUMMARY OF DIFFERENCES

| TOTAL O&M - Constant 2021 (\$000) | | | |
|--|---------------------------|---------------------------|---------------|
| | Base Year 2021 | Test Year 2024 | Change |
| SDG&E | 7,911 | 9,377 | 1,466 |
| CAL ADVOCATES | 7,911 | 8,712 | 801 |

II. INTRODUCTION

This rebuttal testimony addresses the following opening testimony regarding the request by San Diego Gas & Electric Company (SDG&E) to recover costs necessary to support the Energy Procurement (EP) function:

- The Public Advocates Office of the California Public Utilities Commission (Cal Advocates) as submitted by Monica Weaver (Ex. CA-05 (Weaver)), dated March 2023.
- Utility Consumers Action Network (UCAN), as submitted by Dr. Eric Charles Woychik (Ex. UCAN (Woychik)), dated March 2023.

As a threshold matter, SDG&E notes that the absence of a response in this rebuttal testimony to any particular issue raised or statement or proposal made by any party to this proceeding does not imply or constitute agreement by SDG&E with the proposal or contention made by such part(ies).

As discussed in greater detail below, Cal Advocates' proposed reductions to SDG&E's forecasted labor costs for its Origination and Portfolio Design (O&PD) and Resource Planning functions are based on flawed analysis and should not be adopted. Cal Advocates' recommendation related to O&PD labor costs relies on stale data that fails to properly account for the fact that O&PD's transactional and administrative activities continue to increase in volume and complexity, driven by factors such as grid modernization, increased procurement requirements, expansion of distributed energy resources (DER) including energy storage, increasingly specialized procurement of specific resources (renewables paired with storage, long-duration storage, etc.), portfolio optimization mandates, greenhouse gas (GHG) emissions

1 reduction targets, cap-and-trade compliance and the evolving role of investor-owned utilities
2 (IOUs) in the energy market resulting from the state's policy in favor of customer choice.

3 Cal Advocates' recommendation related to Resource Planning's forecasted labor costs is
4 similarly defective as it does not properly account for staff turnover that artificially depressed the
5 level of full-time equivalent (FTEs) over previous years. SDG&E submits that incremental
6 funding above Base Year (BY) 2021 to account for vacancies during that year, and previous
7 years, is appropriate to ensure that the Resource Planning function has the level of FTEs
8 necessary to handle its workload.

9 UCAN's challenge to SDG&E's request to recover capital costs for software and
10 technology/system upgrades is, likewise, without merit. The proposed upgrades are necessary to
11 allow SDG&E to provide scheduling services within the California Independent System
12 Operator (CAISO) market and to ensure SDG&E's ability to comply with various regulatory
13 requirements imposed by the California Public Utilities Commission (Commission or CPUC),
14 the California Energy Commission (CEC), the California Air Resources Board (CARB), and the
15 Federal Energy Regulatory Commission (FERC). The upgrades are also necessary to support
16 SDG&E's ability to monitor its portfolio and prepare mandated regulatory filings. Accordingly,
17 UCAN's suggestion that the Commission deny SDG&E's recovery request is unreasonable and
18 should be rejected.

19 **A. CAL ADVOCATES**

20 The following is a summary of Cal Advocates' positions regarding SDG&E's request to
21 recover expenses related to its EP function:¹

- 22 • Cal Advocates recommends using a 5-year average methodology for
23 O&PD's labor costs instead of using SDG&E's proposed forecast
24 methodology of BY 2021 plus incremental costs. It asserts that this
25 approach will smooth out annual fluctuations. Cal Advocates also argues
26 that SDG&E's proposal to back fill vacant positions and partial vacancies
27 within O&PD is not justified since SDG&E has been able to perform the

¹ Ex. CA-05 (Weaver) at Section IV, Part 1.

necessary work with current staff and the number of contracts SDG&E will handle going forward is unknown.

- Cal Advocates recommends using 3-year average methodology for Resource Planning’s labor costs instead of using SDG&E’s proposed forecast methodology of BY 2021 plus incremental costs. Cal Advocates claims that this approach will reflect the most current recorded information and low fluctuation of costs and FTEs during recent years.

B. UCAN

The following is a summary of UCAN’s position regarding SDG&E’s proposal to recover the cost of software procurement and technology/system upgrades related to its 2024 CAISO Mandates project:²

- UCAN asserts that the proposed upgrade does not account for the need to integrate higher levels of DER and that if the software is approved by the Commission, it will be quickly replaced to respond to increasing level of interactive transactions and customer side of the meter (CSOM) DERs on the grid.
- UCAN suggests that SDG&E delay the software procurement, work to anticipate massive community choice aggregator (CCA) procurement and CSOM DERs and obtain more forward-looking solutions. It further recommends that the Commission deny SDG&E’s cost recovery request and require SDG&E to file a new funding request by providing solutions for CSOM DERs, CCAs and proactive risk management.

III. REBUTTAL TO PARTIES’ OPERATIONS AND MAINTENANCE (O&M) PROPOSALS

A. Non-Shared Services O&M

| NON-SHARED O&M - Constant 2021 (\$000) | | | |
|---|---------------------------|---------------------------|---------------|
| | Base Year 2021 | Test Year 2024 | Change |
| SDG&E | 7,911 | 9,377 | 1,466 |
| CAL ADVOCATES | 7,911 | 8,712 | 801 |

² Ex. UCAN (Woychik) at Section IX., M.

1 **1. Disputed Cost – Non-Shared Services O&M**

2 **a. Cal Advocates**

3 Cal Advocates takes issue with the Test Year (TY) 2024 O&M forecasts for O&PD and
4 Resource Planning, respectively. Cal Advocates challenges SDG&E’s forecasted labor costs for
5 O&PD and Resource Planning, and recommends an overall \$0.665 million decrease in SDG&E’s
6 TY 2024 forecast.

7 **Origination & Portfolio Design**

8 To develop its labor cost forecast of \$2.187 million for O&PD, SDG&E used a recorded
9 BY of \$1.485 million and applied an adjustment increase of \$702,000 for TY 2024. The
10 \$702,000 adjustment increase accounts for partial vacancies that occurred in 2021 and expected
11 incremental staff position to support increasing demands and workload, which increases FTEs
12 from 10.3 in BY 2021 to 15.4 in TY 2024.³

13 Cal Advocates recommends approval of \$1.878 million for O&PD labor costs, which is a
14 reduction of \$600,000 from SDG&E’s request.⁴ To arrive at this \$1.878 million labor forecast,
15 Cal Advocates uses a 5-year average of 2017-2021 costs rather than SDG&E’s proposed
16 methodology of BY 2021 plus forecasted incremental costs. Cal Advocates asserts that use of
17 the 5-year average methodology is appropriate because it will “smooth out the annual
18 fluctuations in this expense category.”⁵ Cal Advocates further claims that the anticipated
19 increase in the number of contracts handled by the O&PD function between BY 2021 and TY
20 2024 is not significant and does not warrant an increase in labor costs.⁶ Finally, it argues that
21 because SDG&E has been “able to perform the necessary work with the staff it currently has,”
22 no incremental labor costs are justified.⁷ Cal Advocates analysis is flawed and its conclusions
23 are erroneous and should be rejected.

24 Cal Advocates offers little in the way of explanation for its proposal to use 5-year
25 average of 2017-2021 costs rather than SDG&E’s forecasted incremental TY 2024 costs to

³ Ex. SDG&E-10 (Summers) at CAS-10 – CAS-11.

⁴ Ex. CA-05 (Weaver) at 8.

⁵ Ex. CA-05 (Weaver) at 9.

⁶ *Id.*

⁷ *Id.*

1 develop the O&PD labor cost forecast. Its sole justification for reliance on the 5-year average
2 appears to be that it will “smooth out” the costs recorded beginning in 2017 through BY 2021.
3 While Cal Advocates’ claim is mathematically correct – the sum of values divided by the
4 number of values will produce a single number that represents a larger set of numbers – this fact
5 alone can hardly serve as a policy justification for use of a methodology that relies on backward-
6 looking data to forecast future needs. Practically speaking, the goal of the forecasting process is
7 to seek to anticipate and plan for conditions that will exist in TY 2024. Given the significant
8 changes in the energy landscape that have occurred since 2017, described in more detail in my
9 direct testimony (Ex. SDG&E-10), it is difficult to see how the period prior to BY 2021 offers
10 any sort of reliable prediction of what labor needs will be looking ahead to TY 2024.

11 In arguing that the trajectory of existing contracts during the 2017-2021 period, and
12 SDG&E’s estimate of expected contracts in 2022, is relatively consistent and therefore that
13 incremental TY 2024 labor costs are not justified, Cal Advocates ignores the increasing volume
14 and complexity of transactions arising from the current regulatory and market environment and
15 presents an overly myopic view of the scope of O&PD’s functional responsibilities. As
16 discussed in my direct testimony (Ex. SDG&E-10), O&PD is navigating an unprecedented level
17 of mandated procurement necessary to maintain grid reliability and meet the state’s clean energy
18 goals while at the same time dealing with challenges associated with load departure and portfolio
19 optimization. For example, in 2022 SDG&E sought approval of 235 MWs of incremental
20 capacity to meet procurement requirements established in the Commission’s Emergency
21 Reliability proceeding (Rulemaking (R.) 20-11-003) and Integrated Resource Plan (IRP)
22 proceeding (R.20-05-003)⁸ and just recently requested approval of 402 MWs of nameplate
23 capacity to meet IRP requirements.⁹ Additional procurement of new reliability resources is
24 needed to meet obligations between 2024 – 2028, as established in Decision (D.) 21-06-035 and
25 D.23-02-040.

⁸ Advice Letter (AL) 4010-E filed June 13, 2022, approved and effective June 25, 2022; AL 4096-E filed October 27, 2022, approved January 26, 2023, and effective January 12, 2023.

⁹ AL 4189-E, filed April 14, 2023.

1 Moreover, despite the unprecedented amount of procurement ordered in recent years,¹⁰
2 the state is not yet done; SDG&E’s “Path to Net Zero” study estimates the need for significant
3 additional procurement of new resources by 2045.¹¹ SDG&E must also procure to meet the
4 Commission’s Resource Adequacy (RA) program requirements and the recent adoption of the
5 “slice of day” RA construct will create new complexities in RA portfolios and associated
6 transactions,¹² which will place added pressure on the O&PD function. SDG&E may be required
7 to take on additional procurement to meet these new RA program requirements.

8 At the same time, the volume of SDG&E’s sales transactions has increased in response to
9 load departure in its region and new portfolio optimization requirements established by the
10 Commission in the Power Charge Indifference Adjustment (PCIA) proceeding (R.17-06-026),
11 including the Voluntary Allocation Market Offer (VAMO) process for transfer of Renewable
12 Portfolio Standard (RPS) products and separate requirements related to offering capacity to load-
13 serving entities (LSEs) for use in RA compliance.¹³ Thus, SDG&E’s O&PD is now
14 simultaneously engaged in *both* purchase and sales transactions in order to comply with the
15 myriad Commission mandates that currently exist related to procurement.

16 Thus, while Cal Advocates is correct that there is currently an “unknown amount of the
17 potential expected contracts” in TY 2024, it is safe to assume that the number will increase rather
18 than decrease.¹⁴ Importantly, the conditions that are contributing to the escalation in demand and
19 need for incremental labor resources in O&PD – *i.e.*, numerous new procurement mandates in
20 response to substantial increases in electricity demand (with demand expected to continue to
21 increase beyond TY 2024)¹⁵ and significant load departure in SDG&E’s region – have developed
22 only relatively recently and were essentially non-existent in 2017. Accordingly, Cal Advocates’
23 reliance on backward looking data to support its O&PD labor cost forecast is inapposite.

¹⁰ See, e.g., D.19-11-016, D.21-06-035, D.23-02-040.

¹¹ SDG&E, The Path to Net Zero: A Decarbonization Roadmap for California, (April 2022) available at https://www.sdge.com/sites/default/files/documents/path_to_net_zero.pdf?nid=21961.

¹² D.23-04-010 at Appendix A.

¹³ See D.21-05-030.

¹⁴ Ex. CA-05 (Weaver) at 10.

¹⁵ SDG&E, The Path to Net Zero: A Decarbonization Roadmap for California, (April 2022) available at https://www.sdge.com/sites/default/files/documents/path_to_net_zero.pdf?nid=21961.

1 In addition, Cal Advocates' focus on the number of existing contracts, and its attempt to
2 establish the "average cost per contract"¹⁶ concept as a metric for determining the reasonableness
3 of its recommendation, fails to consider the increased complexity of current transactions and the
4 corollary work effort involved in each. The state has moved beyond reliance on traditional gas-
5 fired generation and standard renewable resources to focus instead on energy storage, hybrid
6 contracts, long duration storage and geothermal.¹⁷ With the introduction of new technologies,
7 O&PD must develop new terms and conditions appropriate to the relevant technology and
8 become familiar with new processes, in addition to the standard work of preparing solicitations,
9 analyzing results, interacting with Independent Evaluators (IE), responding to discovery
10 requests, presenting to SDG&E's Procurement Review Group (PRG) and ultimately seeking
11 Commission approval.

12 More broadly, Cal Advocates fails to recognize that issuing solicitations, conducting
13 negotiations and seeking approval of contracts is only one aspect of the work done by O&PD, as
14 explained in my direct testimony (Ex. SDG&E-10):

15 In addition to transactional activities, O&PD is responsible for developing
16 and implementing regulatory and commercial strategies related to the
17 energy portfolio in coordination with the Resource Planning function . . .
18 O&PD is actively involved in providing analysis and recommendations on
19 matters related to public policy in California. O&PD subject matter
20 experts (SMEs) regularly participate in regulatory proceedings related to
21 energy procurement issues and interface with numerous government
22 agencies, including the CPUC, the CEC, CARB and the California
23 Legislature. For example, O&PD SMEs are involved in active CPUC
24 proceedings including, but not limited to, the IRP proceeding, the RPS
25 proceeding, the Resource Adequacy (RA) proceeding, the Power Charge
26 Indifference Adjustment (PCIA) proceeding, the Integrated Distributed
27 Energy Resources (IDER) Program proceeding, the Green Tariff Shared
28 Renewables (GTSR) Program proceeding, the Provider of Last Resort
29 (POLR) proceeding, and various other procurement related proceedings
30 targeting energy storage, demand response, biogas, and small-scale
31 renewables. O&PD provides analysis, written testimony, comments and
32 other materials to support SDG&E's positions and proposals in these
33 regulatory proceedings and performs similar functions at CAISO, the
34 CEC, CARB and the Legislature, as applicable. O&PD also provides input
35 into long-range resource planning models and regularly addresses data

¹⁶ Ex. CA-05 (Weaver) at 10.

¹⁷ See D.21-06-035.

1 requests pertaining to EP's resource valuation approach, RPS position, and
2 a variety of other topics.¹⁸

3 Put simply, O&PD is far more than a "contracting" group, which makes Cal Advocates'
4 narrow focus on the number of contracts handled by O&PD inappropriate. Even assuming
5 *arguendo* that Cal Advocates' focus on contracts was appropriate, SDG&E's request is more
6 than reasonable given the actual increase in the number of contracts, complexity and the obvious
7 need for more procurement in the future.

8 Finally, Cal Advocates' claim that "[t]here is no need for additional FTEs when SDG&E
9 is able to perform the necessary work with the staff it currently has,"¹⁹ is puzzling given the
10 concern it has raised in other proceedings regarding O&PD staff being stretched thin and the
11 resulting impact on SDG&E's contracting process. For example, in SDG&E's 2021 Energy
12 Resource Recovery Account (ERRA) Compliance proceeding, Cal Advocates complained that it
13 had "observed a concerning and deteriorating trend in the quality of SDG&E's contract
14 procurement activities and results over the 2021 Record Period."²⁰ It asserted that "SDG&E's
15 contract procurement activities lacked urgency," that SDG&E "was slow in releasing requests
16 for offers (RFO) and evaluating offers that were submitted," and that SDG&E "mismanaged its
17 contracting timeline so that it did not conform to, and correspond with, the Commission's
18 contract approval process."²¹ Cal Advocates took note of the explanation offered by the IE for
19 SDG&E's first Mid-term Reliability solicitation, presented in SDG&E's Advice Letter 4096-E.
20 The IE observed:

21 Relative to the other two IOUs, SDG&E was slow in issuing its RFP,
22 and appears to have taken a more casual approach to bid evaluation.
23 That may not be an entirely fair characterization. **SDG&E likely has a**
24 **smaller staff to start with, and PA has observed significant lateral**
25 **mobility within that staff. During Summer 2021 the same small**
26 **group that ran the Mid-term Reliability RFO was very busy**
27 **concluding the Emergency Reliability procurement.** On the other
28 hand, SDG&E's late RFO release probably lengthened its bid

¹⁸ Ex. SDG&E-10 (Summer) at CAS-9.

¹⁹ Ex. CA-05 (Weaver) at 9.

²⁰ Application (A.) 22-06-001, Opening Brief of the Public Advocates, filed April 14, 2023 at 6; *see also* Cal Advocates' November 16, 2022, CONFIDENTIAL Protest to SDG&E AL 4096-E, Request Approval of Tranche 1 Mid-Term Integrated Resource Planning Contracts Resulting from SDG&E's Request for Offers under D.21-06-035.

²¹ *Id.*

1 evaluation, as attractive offers dropped out to take offers (or at least
2 accept shortlist positions) from other utilities.²²

3 Cal Advocates warned that “[t]he Independent Evaluator report suggests that SDG&E’s
4 procurement problems may be systemic and could persist beyond the scope of the 2021 Record
5 Period,” and suggested that “SDG&E’s inadequate contract procurement patterns risk exposing
6 its ratepayers to unreasonably high rates relative to other IOU customers.”²³ It further asserted
7 that SDG&E’s contracting procedures “lack[ed] the requisite urgency to meet the current
8 capacity needs and capacity timeline,” and that SDG&E’s solicitation process “stood in contrast
9 to the more proactive approach utilized by other IOUs that resulted in significantly better
10 results”²⁴

11 While SDG&E does not fully endorse the characterization offered by Cal Advocates,
12 there is no doubt that staff retirements and turnover within O&PD have created significant
13 challenges to SDG&E’s ability to respond to the increase in transactional activity and inundation
14 of procurement orders experienced over the past few years. As the IE correctly observed,
15 vacancies within the O&PD function coupled with the pressures of simultaneous procurement
16 demands have contributed to the problems identified by Cal Advocates.²⁵ SDG&E cannot
17 unilaterally reduce its procurement contracting activity, thus the remedy to the issues identified
18 by Cal Advocates would appear to be addressing the current staffing needs of the O&PD
19 function. Indeed, the IE for SDG&E’s Tranche 2 Mid-Term IRP procurement noted that
20 “dedicating more staff to preparing for the request for offers (RFO) process as well as executing
21 it may help SDG&E launch solicitations more quickly, complete evaluations expeditiously, and
22 push negotiations forward faster...”²⁶ That is the rationale supporting SDG&E’s proposal in this
23 proceeding for increased staffing of the O&PD function.

²² *Id.* (emphasis added, internal citations omitted).

²³ *Id.*

²⁴ *Id.*

²⁵ See A.22-06-001, Opening Brief of the Public Advocates, filed April 14, 2023 at 6; see also Cal Advocates’ November 16, 2022, CONFIDENTIAL Protest to SDG&E AL 4096-E, Request Approval of Tranche 1 Mid-Term Integrated Resource Planning Contracts Resulting from SDG&E’s Request for Offers under D.21-06-035 at 9.

²⁶ See Advice Letter 4189-E, Attachment B (“Report of the Independent Evaluator”) at 14.

Resource Planning

SDG&E's TY 2024 forecast for Resource Planning includes labor costs of \$0.938 million with 6.9 FTEs. The labor cost forecast is based on the BY 2021 plus incremental activities;²⁷ specifically, SDG&E requests incremental funding of \$0.096 million above BY 2021 to fill vacancies that will be needed to bring the level of FTEs to 6.9 in order to support the activities of the Resource Planning group.²⁸ Cal Advocates recommends \$0.874 million for the labor portion compared to SDG&E's request, which is a difference of \$0.064 million. Cal Advocates reasons that while SDG&E identifies 6.9 FTEs as the level required to perform the tasks assigned to this function, "the FTE has not exceeded 6.4 in the last five years."²⁹ Cal Advocates also recommends use of a 3-year average methodology to reflect recent recorded costs associated with the Resource Planning labor section.

SDG&E first notes that while Table 5-8 of Cal Advocates' testimony does show that Resource Planning's FTE count has consistently fallen below the 6.9 FTE level,³⁰ the table does not provide the full context. During the 5-year period depicted in Cal Advocates' Table 5-8 (2017-2021), the Resource Planning group experienced an increase in workload at the same time that it was managing staff turnover, such that it was continuously not fully staffed to the level necessary to properly match workload with personnel. As described in my workpapers,³¹ there was an increase in FTEs between 2018 and 2019, which was relatively constant, minus small variances, from 2019-2021. However, periodic vacancies during that period prevented SDG&E from meeting its targeted number of FTEs.

The group faced similar issues with vacancies in 2021 that prevented it from reaching its 6.9 FTE target. Based on anticipated future workload, the Resource Planning group believes that, but for the vacancies, there are sufficient positions within the group to fulfill future needs; work within the group continues to evolve and grow, thus full staffing at the 6.9 FTE level is needed. Accordingly, SDG&E adjusted its BY 2021 costs to include the incremental partial unfilled FTE, thus yielding 6.9 FTEs. Said another way, SDG&E believes that staffing levels in

²⁷ Ex. SDG&E-10 (Summers) at CAS-22.

²⁸ Ex. SDG&E-10 (Summers) at CAS-23.

²⁹ Ex. CA-05 (Weaver) at 9.

³⁰ Ex. CA-05 (Weaver) at 11.

³¹ Ex. SDG&E-10-WP-R (Summers).

2021 are appropriate for future years assuming no partial year vacancies, and is requesting the incremental funding to ensure this outcome.

IV. REBUTTAL TO PARTIES' CAPITAL PROPOSALS

1. Disputed Cost - 2024 CAISO Mandates

a. UCAN

UCAN takes issue with the TY 2024 capital forecast for the 2024 CAISO Mandates project. UCAN asserts that the software will need to be replaced within a short period and that the proposal to recover upgrade costs presents unmitigated risk; it argues on these grounds that the \$1.456 million cost proposed for the software procurement should be denied.³² UCAN's claims lack merit. While it may be true that technology evolves rapidly and that technology investments have a lifespan, it does not follow that the software will become obsolete during the General Rate Case (GRC) period. As demonstrated below, the requested funds are needed to ensure that SDG&E can continue to operate in the CAISO market in a safe, effective manner.

SDG&E provides further business justification for the capital costs associated with the 2024 CAISO Mandates project in the direct and rebuttal testimony of Jamie Exon (Exhibit SDG&E-25, Ex. SDG&E-225). The IT capital costs for technology or system upgrades/enhancements include (but are not limited to) mandated compliance activities for the CPUC, CEC, CAISO, CARB, FERC, and critical SDG&E regulatory filings. Technology or system upgrades/enhancements are necessary to ensure compliance with various regulatory requirements from the aforementioned regulatory bodies, SDG&E's CAISO scheduling coordinator mandates and obligations, and to monitor SDG&E's portfolio.

It is critical that SDG&E maintain its contractual status as a scheduling coordinator for various resources and continue to actively participate in the CAISO market. To do so, SDG&E is required to remain compliant with CAISO initiatives and mandates. Absent the proposed upgrades, SDG&E would not be able to properly participate and/or function in the CAISO market. This would cause SDG&E to be in breach of its contractual agreements, in addition to not being able to properly schedule its assets as required by the obligation of the scheduling coordinator for these resources. If SDG&E is unable to fulfill its scheduling coordinator obligations and unable to bid resources into the CAISO market, the resources for which it serves

³² Ex. UCAN (Woychik) at 301.

1 as scheduling coordinator will not receive CAISO revenues that are used to offset the costs of its
2 portfolio, resulting in lower costs being passed to ratepayers. Further, many Energy Procurement
3 activities are subject to fines, penalties, and disallowances if not completed accurately and in
4 accordance with all compliance standards/metrics, and on time.

5 Many of the regulations that coincide with CAISO Mandates require changes to enhance
6 security and software functionality. These updates typically occur in the Spring and the Fall, and
7 coincide with various market initiatives which include the following for 2023: (1) ancillary
8 services charge constraints; (2) energy storage enhancements; and (3) Energy Imbalance Market
9 (EIM) enhancements, amongst others.³³ The 2024 CAISO Mandates initiative includes
10 congestion revenue rights systems upgrades.³⁴ In addition to those already listed on CAISO's
11 Release Planning page, material changes are anticipated in 2024 related to the following
12 initiatives: (1) Extended Day-Ahead Market (EDAM) enhancements; (2) day-ahead market
13 enhancements; (3) transmission services and market scheduling priorities; and (4) price
14 formation enhancements. These initiatives are interrelated, and support market changes required
15 for implementation of EDAM, which will extend the day-ahead market to participants outside of
16 the CAISO Balancing Authority Area (BAA) similar to what EIM has done for CAISO's real-
17 time market. These initiatives are in their final stages of board and FERC approvals and
18 technology impacts are expected to be provided in late 2023 and throughout 2024.

19 SDG&E currently has four major software applications in place to assist with various
20 functionalities needed to support CAISO interactions. These include: (1) Power Costs System
21 Inc. (PCI) Suite of Applications, which is SDG&E's system for communication with the CAISO
22 for bidding and scheduling; (2) Energy Trading and Risk Management (ETRM) system of record
23 for commodity trading, risk management and accounting and settlement function; (3) Versify,
24 which is SDG&E's RA planning, operations, and analytics system; and (4) Meter Data
25 Processing System (MDPS), which is SDG&E's meter and data management and reporting
26 system.

³³ See CASIO, Release planning analyzes the impact of initiatives, available at
<http://www.caiso.com/informed/Pages/ReleasePlanning/Default.aspx>.

³⁴ *Id.*

1 Upcoming market structure changes will impact SDG&E's portfolio and require system
2 enhancements. In particular, the new "slice of day" RA requirement ordered in D.23-04-010 will
3 dramatically change the way RA portfolios are constructed, requirements are identified, and
4 compliance is tracked. SDG&E's software/programs will require enhancements to help manage
5 the portfolio and keep track of compliance. Reporting and system changes are anticipated in late
6 2023 for implementation during the TY 2024, which may include impacts to how SDG&E
7 reports its supply plan to CAISO.

8 This concludes my prepared rebuttal testimony.

APPENDIX A
GLOSSARY OF TERMS

| ACRONYM | DEFINITION |
|----------------|---|
| AL | Advice Letter |
| BAA | Balancing Authority Area |
| BY | Base Year |
| CARB | California Air Resources Board |
| CEC | California Energy Commission |
| CAISO | California Independent System Operator |
| CPUC | California Public Utilities Commission |
| CSOM | Customer Side of the Meter |
| DER | Distributed Energy Resources |
| EDAM | Extended Day-Ahead Market |
| EIM | Energy Imbalance Market |
| EP | Energy Procurement |
| ERRA | Energy Resource Recovery Account |
| ETRM | Energy Trading and Risk Management |
| FERC | Federal Energy Regulatory Commission |
| FTE | Full-Time Equivalent |
| GHG | Greenhouse Gas |
| GRC | General Rate Case |
| IE | Independent Evaluator |
| IOU | Investor-Owned Utility |
| IRP | Integrated Resource Plan |
| LSE | Load-Serving Entity |
| MDPS | Meter Data Processing System |
| MTR | Mid-Term Reliability |
| O&PD | Origination and Portfolio Design |
| PCI | Power Costs System Inc. |
| PRG | Procurement Review Group |
| Cal Advocates | Public Advocates Office of the California Public Utilities Commission |
| RFO | Request for Offer |
| RA | Resource Adequacy |
| SDG&E | San Diego Gas & Electric |
| TY | Test Year |
| UCAN | Utility Consumers Action Network |
| VAMO | Voluntary Allocation Market Offer |

Appendix B

Excerpt of AL-4189-E, Independent Evaluator Report

San Diego Gas & Electric Advice Letter 4189-E
April 14, 2023

ATTACHMENT B

PUBLIC

REPORT OF THE INDEPENDENT EVALUATOR



SAN DIEGO GAS & ELECTRIC

INDEPENDENT EVALUATOR REPORT –
2023-2026 MID-TERM RELIABILITY RFO,
TRANCHE 2

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Executive Summary

NOTE ON STRUCTURE AND FORMATTING OF THIS DOCUMENT

This document is an expanded version of the previous Tranche 1 Independent Evaluator report, which was dated October 26, 2022. For the convenience of those who have previously read the Tranche 1 report, which makes up the bulk of this document, the text of the earlier report is shown in grey font, and only the new content is shown in the normal, darker color.

PA Consulting Group, Inc. (PA) served as the Independent Evaluator (IE) for the San Diego Gas & Electric (SDG&E) 2023-2026 Mid-term Reliability Request for Offers (Mid-term Reliability RFO or the RFO) solicitation. This report provides PA's evaluation of the process from the drafting of the Mid-term Reliability RFO documents through the negotiation of contracts for bids with online dates in 2025 and 2026. SDG&E intends to launch an additional phase of the Mid-term Reliability RFO to address remaining procurement needs, including for long duration storage and long lead time resources, which will be addressed in a future IE report.

Overview of Solicitation

SDG&E issued its Mid-term Reliability RFO on September 30, 2021, in accordance with Decision (D.) 21-06-035 – Decision Requiring Procurement to Address Mid-term Reliability for 2023-2026.

Through this solicitation, SDG&E requested offers for the following types of resources:

- Demand Side Resources
- Distributed Energy Resources
- Energy Storage
- Renewable Generation
- Geothermal
- Pumped Storage
- Hybrid Energy Storage Systems

SDG&E's RFO included two specific protocol documents, an energy storage and hybrid resource protocol document as well as a demand side and resource capacity protocol document. The energy storage and hybrid resource protocol document provided the terms and conditions for energy storage offers, energy storage hybrid offers, energy storage-related firm energy import offers, energy storage hybrid-related firm energy import offers, and capacity (RA) offers from energy storage or hybrid resources. The demand side and resource capacity protocol document provided the terms and conditions for demand side and resource capacity offers including renewable offers, distributed energy resource offers, demand response offers, and energy import offers.

For the resource types listed above with the exception of energy storage systems (ESS), SDG&E solicited only third-party owned, contracted resources. For the energy storage and hybrid system resource type, SDG&E solicited both third-party owned, contracted resources and energy storage systems to be owned by SDG&E as summarized below:

- Offers from owners and operators of energy storage systems to enter into an ESS Power Purchase Agreement (ESSPPA); or
- Offers from ESS developers to enter into an Energy Storage System Turn-Key Build, Own, Transfer Agreements (ESSBOT) under which the ESS developer would site and construct an ESS project and SDG&E would acquire the ESS project from the ESS developer upon project completion; or
- Offers from ESS developers/contractors/equipment suppliers to negotiate and enter into an Energy Storage System Turn-Key Engineering, Procurement and Construction Agreements (ESSEPC) under which the bidder would construct an ESS facility on SDG&E land.

In total, the CPUC decision required SDG&E to procure a minimum of 361 MW of additional net qualifying capacity (NQC). These MWs are to come online between August 1, 2023, and June 1, 2026. Within this time period, SDG&E is required by D. 21-06-035 to procure and have operational 63 MW by August 1, 2023; 188 additional MW by June 1, 2024; 47 additional MW by June 1, 2025; and 63 additional MW by June 1, 2026. The 361 MW procurement requirement was further specified amongst different types of resources. SDG&E also sought an additional 78 MW from zero-emitting resources which are required to replace the production of the Diablo Canyon Power Plant. This brought SDG&E's procurement requirement NQC to 439 MW of NQC as broken down in Table 1

below. NQC was estimated using marginal ELCCs calculated by the CPUC for each resource type for each future online year. Capacity had to be additional relative to a Sept. 2021 baseline¹.

Table 1: SDG&E's Minimum Mid-term Reliability RFO Procurement Requirements (in NQC MW)

| Type of Resource | 2023 | 2024 | 2025 | 2026 | Total |
|---|-----------|------------|-----------|-----------|------------|
| Firm zero-emitting resources | - | - | - | 31.5 | 31.5 |
| Long-duration storage resources ² | - | - | - | 31.5 | 31.5 |
| Any type of non-fossil fueled resources | 63 | 188 | 47 | - | 298 |
| Zero-emitting resources required by no later than 2025 | - | - | 78 | - | 78 |
| Total (without zero-emitting resource need) | 63 | 188 | 47 | 63 | 361 |
| Total (with zero-emitting resource need)³ | - | - | - | - | 439 |

After the Mid-term Reliability RFO launched, because of San Diego Community Power's (SDCP) reallocation, SDG&E's annual procurement targets increased with a total procurement requirement of 578 MW of NQC, including zero-emitting resources. This target is outlined in Table 2 below.

¹ CPUC September 2021 baseline resources: https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/integrated-resource-plan-and-long-term-procurement-plan-irp-ltpp/d2106035_baseline_gen_list.xlsx

² Long lead-time resource requirements were divided in half between long-duration storage resources and firm zero-emitting resources.

³ Zero-emitting resources that are required to replace Diablo Canyon needed to be procured by 2025 but could come online anytime between 2023-2025; therefore, the zero-emitting resource need is not included in the yearly total in the table.

Table 2: SDG&E's Minimum Mid-term Reliability RFO Procurement Requirements – Increased to Account for the SDCP Reallocation (in NQC MW)

| Type of Resource | 2023 | 2024 | 2025 | 2026 | Total |
|--|-----------|------------|-----------|-----------|------------|
| Firm zero-emitting resources | - | - | - | 41 | 41 |
| Long-duration storage resources | - | - | - | 41 | 41 |
| Any type of non-fossil fueled resources | 83 | 247 | 62 | - | 392 |
| Zero-emitting resources required by no later than 2025 | - | - | 103 | - | 103 |
| Total (without zero-emitting resource need) | 83 | 247 | 62 | 82 | 475 |
| Total (with zero-emitting resource need) | - | - | - | - | 578 |

During negotiations for agreements executed in Tranche 2, a Proposed Decision⁴ was released pushing back the compliance date for long lead time resources from 2026 to 2028. Additional procurement was also ordered in 2026 and 2027. SDG&E's updated target is outlined in Table 3 below.

⁴ The Proposed Decision was issued on January 13, 2023 and later Decision (D.) 23-02-040 was issued.

Table 3: SDG&E's Minimum Mid-term Reliability RFO Procurement Requirements – After D. 23-02-040 (in NQC MW)

| Type of Resource | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total |
|--|-----------|------------|-----------|-----------|----------|----------|------------|
| Firm zero-emitting resources | - | - | - | - | - | 41 | 41 |
| Long-duration storage resources | - | - | - | - | - | 41 | 41 |
| Any type of non-fossil fueled resources | 83 | 247 | 62 | 72 | 72 | - | 536 |
| Zero-emitting resources required by no later than 2025 | - | - | 103 | - | - | - | 103 |
| Total (without zero-emitting resource need) | 83 | 247 | 62 | 82 | - | - | 618 |
| Total (with zero-emitting resource need) | - | - | - | - | - | - | 721 |

PA's IE Report

PA's IE report generally follows the CPUC's 2014 RPS Solicitation Shortlist Report Template dated February 9, 2015. The main sections include:

- Section 1: Summary of PA's role as IE for this RFO
- Section 2: SDG&E's outreach efforts
- Section 3: SDG&E's methodology design
- Section 4: Fairness of the application of SDG&E's methodology
- Section 5: Merit of the shortlist
- Section 6: Fairness of project-specific negotiations
- Section 7: Merit of contract approval

Main Activities of Solicitation

PA's role in SDG&E's Mid-term Reliability RFO has so far spanned over 19 months from September 2021 through March 2023, when bidders executed contracts for the current shortlist⁵. The following provides a summary of PA's main activities during this solicitation:

- PA reviewed the 2023-2026 Mid-term Reliability RFO bid documents prior to SDG&E issuing the RFO.

⁵ The current shortlist is for Tranche 2. Tranche 1 was comprised of offers with CODs in 2023 or 2024. This report discusses the shortlist for Tranche 2, which included bids initially shortlisted as hybrid bids as well as bids with a COD in 2025 or 2026.

- PA monitored communications between the Bid Evaluation Team (BET) and the Utility Development Team (UDT) based on SDG&E's Code of Conduct. To PA's knowledge, no meetings were held between the UDT and BET.
- PA participated in one bidders' conference which was held by the BET for all bidders. The UDT held its own webinar, but this was before PA was engaged in its own solicitation.
- PA monitored the UDT's communication both with bidders and with the BET.
- PA reviewed all bids, including utility ownership bids submitted by the UDT, and the BET's evaluation analyses, and conformance check for top bids. PA reviewed the BET's evaluation models and suggested improvements, which SDG&E adopted. PA sampled and confirmed the inputs for the evaluation model and confirmed some of the BET's valuation calculations. PA discussed results with the BET to resolve any differences in data interpretation, evaluation methodologies, and results.
- PA reviewed all shortlisted bids and provided comments to the BET. PA conferred with the BET on solicitation of additional bids⁶. No utility ownership bids were shortlisted.
- PA monitored contract negotiations to ensure all bidders were treated equitably and that no class of bidders or projects was favored.

High Level Summary of Findings

Overall, PA confirms that SDG&E conducted a fair and equitable 2023-2026 Mid-term Reliability RFO, including the treatment of utility owned offers.

Some specific findings are noted below:

- SDG&E in no way prevented PA from observing its process and analyzing its methods and did not interfere with PA's conduct of the LCBF evaluation. SDG&E discussed its approach to the evaluation with PA, sought PA's opinion on evaluation and modeling issues and reviewed almost all changes to the methodology with PA before implementing them.
- The BET did not appear to favor utility ownership bids.
- SDG&E treated all counterparties fairly and equitably during contract negotiations and PA observed no favoritism towards utility ownership bids, as no utility ownership bids were shortlisted and contracted.
- SDG&E was in competition for offers and contracts with the other two California IOUs. SCE and PG&E had initiated their RFPs earlier than SDG&E, completed their negotiations more quickly than SDG&E, and were able to compel counterparties to commit before SDG&E had finished its shortlist. As a consequence, SDG&E had to replace high-ranking bids in its evaluation, further delaying its selection. It is understood that the other two California IOUs were filling some of their emergency procurement needs through their Midterm Reliability RFOs and needed to move more quickly to do so. At the same time, SDG&E was finishing separate emergency procurements for the summer of 2022 and 2023, which it was also using to fill gaps left from their 2019 IRP Reliability RFO. These procurement activities delayed SDG&E in launching and completing the Mid-term Reliability RFO. However, with executing Tranche 2 agreements, SDG&E has nearly met its procurement need up until 2026 and is pursuing options for filling its remaining compliance gaps in 2023 and 2024. Though SDG&E had a slower start when compared to the other two California IOUs, it doesn't appear to have had a lasting effect in respect to SDG&E now meeting its near-term compliance requirements.
 - In the future SDG&E should release its RFOs out more promptly and move with a greater sense of urgency when presented by the CPUC with a challenging procurement requirement.
- Additionally, in future solicitations with high-priority reliability-based needs, SDG&E can be more willing to overprocure somewhat in order to avoid having cascading solicitations.
- In future solicitations, SDG&E should look to decrease the evaluation and negotiation timelines in an effort to avoid price increases and refreshes by bidders. Supply chain issues and tight market conditions existed throughout this RFO but executing agreements earlier in the future could lock in prices and decrease the chances of upward repricing. SDG&E can also provide more clarity in its future RFO protocol documents on costs that bidders should expect to include in their prices.
- Contract negotiations between SDG&E and counterparties for Tranche 2 were completed and contracted executed about a year after the projects were initially shortlisted. A number of factors contributed to this, including personnel being focused on meeting obligations under a previous procurement and being focused on negotiating and executing contracts under Tranche 1 of the Mid-term Reliability RFO.

⁶ SDG&E re-opened submissions for the 2023-2026 Mid-term Reliability RFO for new and refreshed offers over a 2-week period between April and May 2022.

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1 Describe the IE's Role

This section provides a description of the role of the IE throughout the solicitation and bid selection process, including PA's specific activities for the Mid-term Reliability RFO.

1.1 IE's Key Roles and Responsibilities

The California Public Utilities Commission (CPUC) requires an IE for IOU long-term resource procurement RFOs.⁷ The role of the IE is to provide advice to the utility on the design, administration, and evaluation aspects of the RFO. The CPUC has clarified that the role of the IE is not to conduct or administer the solicitation, but to "separately evaluate and report on the IOU's entire solicitation, evaluation, and selection process."⁸

Additionally, the IE is to ensure that SDG&E treats all bidders fairly and equitably and that no technology or counterparty is favored. The IE is also expected to assure that affiliate bids are not favored. The 2023-2026 Mid-term Reliability RFO included utility ownership options for energy storage systems and hybrid systems. This required additional attention to the treatment of these bids as well as the participation of SDG&E staff assigned to these bids.

The IE also ensures that the bid selection process is transparent and is aligned with the procurement requirements. SDG&E can also call on the IE's advice as to various evaluation issues that may arise during the RFO process.

1.2 PA's Role as the IE

SDG&E engaged PG&E as the IE in mid-September, 2021. PA performed the role of IE for the Mid-term Reliability RFO and was involved from before SDG&E's issuance of the solicitation materials on September 30, 2021, through the negotiation of contracts. PA ensured that the procedure that SDG&E followed aligned with the process SDG&E established in its RFO and provided fair and equitable treatment of all bids. PA was in regular contact with SDG&E staff throughout the process, providing detailed review of and advice on evaluation methods, closely monitoring negotiations, giving its opinions to SDG&E at key junctures and providing recommendations throughout the process.

1.2.1 Solicitation Planning

The timeline for this RFO was compressed by deadlines set by the CPUC. PA and SDG&E discussed the RFO and its conduct in August 2021, prior to PA's engagement as IE. SDG&E prepared the 2023-2026 Mid-term Reliability RFO documents and provided them to PA before the RFO was released. PA provided comments to SDG&E on the solicitation documents and SDG&E updated documents with any agreed upon necessary changes.

Because the RFO would include utility ownership options, SDG&E set a code of conduct for the solicitation. Before the RFO was released, the overall RFO team was divided into six groups: the BET, which would run the solicitation, evaluate bids, negotiate PPAs with non-ownership bids, and communicate with non-ownership bidders; the Utility Development Team ("UDT") which would serve as an intermediary between the BET and utility ownership bids, setting specifications for ESSEPC and ESSBOT projects, screening bids, translating costs to revenue requirements and converting ESSEPC and ESSBOT bids into complete offers in a form that could be compared with ESSPPA bids; negotiate those contracts and communicate with utility ownership bidders; the supply management team; management staff; advisors; and oversight personnel (which included the IE). The structure, code of conduct and rules of interaction between the BET and UDT were intended to prevent any favoritism between utility and non-utility bids.

1.2.2 Solicitation Materials

The BET prepared the Mid-term Reliability RFO documents and provided them to PA before the RFO was released. PA provided SDG&E with comments on the solicitation materials. Solicitation materials provided in the Mid-term Reliability RFO included protocol documents, project description forms, offer forms, and pro forma agreement drafts across resource types. Additionally, a RA confirm template and confidentiality agreement was provide for the energy storage system and/or hybrid resource type. Lastly, SDG&E provided a credit application and a DBE subcontracting goal and reporting document.

1.2.3 Pre-Bid Conferences

SDG&E conducted one pre-bid webinar which was hosted by the BET for all bidders on October 13, 2021. PA participated remotely in the webinar.

⁷ California Public Utilities Commission, Decision (D.) 04-12-048, Dec. 16, 2004, and Decision (D.) 06-05-039, May 26, 2006.

⁸ D. 06-05-039, p. 46.

1.2.4 Bid Submittal Process

SDG&E used a platform designed and maintained by PowerAdvocate® to launch the RFO and manage offers received. There were separate PowerAdvocate® “events” for PPA and utility ownership bids. PA was provided access to the PowerAdvocate® site and events for the BET and UDT and could review the bids as they were received by SDG&E. Through this process, PA was included on all correspondence between the BET and the respondents to the “BET event” and between the UDT and the respondents to the “UDT event”.

1.2.5 Communication with Bidders

SDG&E's BET posted the RFO protocols, schedule, and frequently asked questions (FAQ) on the website (<https://www.sdge.com/2023-2026-irp-reliability-rfo>). The UDT, in turn, posted its Instruction to Bidders, supplemental technical and site specifications, and the UDT Offer Form on PowerAdvocate®. The BET and UDT communicated with bidders independently of each other and primarily through the PowerAdvocate® sites, as well as via email correspondence and in the pre-bid conference. PA had access to the BET PowerAdvocate® event from the launch of the Mid-term Reliability RFO and was able to review questions and communications as they were received. PA did not learn of the UDT's solicitation until October 2022 and as that point was able to view the UDT's communication with bidders retroactively as well as any new communication that was received once PA had access to the UDT's event.

The BET and UDT provided bidders with independent update notices through their respective PowerAdvocate® “events”. PowerAdvocate® also served as a platform for SDG&E to request additional data from bidders as required. The BET and UDT also communicated with bidders through email when requesting clarifications and additional data. PA received a copy of all of these communications.

Additionally, bidders could submit questions to SDG&E's BET or UDT independently through PowerAdvocate® events. PA received a copy of these questions directly through PowerAdvocate®. Bidders also submitted questions by email to the BET or the UDT. The BET copied PA on their email correspondence with bidders and encourage bidders to do so also. The UDT had its correspondence with bidders through PowerAdvocate, and as such PA was not copied on emails between the UDT and bidders. However, the UDT copied PA on its correspondence with the BET and correspondence between the UDT and BET primarily occurred via email. The BET provided PA an opportunity to review and comment on responses prior to posting the answers on the website or email.

1.2.6 Initial Bid Review and Conformance Check

Once the bids were received, the BET completed a high-level eligibility and conformance check against the RFO requirements. PA independently reviewed the bids and resolved any inconsistencies with the BET through clarification of methodology, exchange of files and other communications as required.

1.2.7 Evaluation Process

The BET evaluated all the bids with models developed for this RFO. PA helped clarify and correct any areas of the models that PA felt were not representative of the bids or the evaluation method. The BET took many of those suggestions. PA identified a set of bids that were not originally incorporated into SDG&E's evaluation model and SDG&E immediately incorporated these bids. PA was able to test, verify, and prepare representative analyses to confirm the BET's results.

1.2.8 Shortlist Determination

The BET provided PA a copy of the proposed shortlist, as it evolved, with the corresponding NMV results and other evaluation details. PA reviewed this information and identified any questions or comments. The BET and PA resolved any inconsistencies by clarification of methodology, file exchange, and other communications as required.

1.2.9 SDG&E's Procurement Review Group Meetings

PA participated in all the monthly and special CAM Procurement Review Group meetings from October 2021 through the date of this report. PA provided questions and additional feedback during these meetings as appropriate.

Discussion of this RFO occurred during CAM PRG meetings rather than regular PRG meetings; however, PA monitored the agendas and slides for regular PRG meetings to determine whether the RFO would be brought up in order to assure that PA would be available to answer questions and provide additional feedback if needed.

2 Adequacy of SDG&E's Outreach

This section addresses the adequacy of SDG&E's outreach as well as the solicitation materials.

2.1 Notifications and Announcements

It was a matter of public record that SDG&E would be running an open solicitation because it was mandated by a CPUC Decision (D.) 21-06-035 – Decision Requiring Procurement to Address Mid-term Reliability for 2023-2026. This Decision received significant press and stakeholder attention. SDG&E's own outreach efforts were conducted through email blasts using their distribution list, which contained over 5,838 distinct email addresses across 2,810 domains. In addition, all three California IOUs were required to conduct solicitations, so interested developers should have been following SDG&E's website expecting to see an RFO released. Finally, SDG&E provided updates about the Mid-term Reliability RFO through both emails to bidders as well as through updates to the Mid-term Reliability RFO webpage.

2.2 Solicitation Materials

SDG&E created a set of solicitation materials for each of the resource types included in the 2023-2026 Mid-term Reliability RFO. Protocol documents were created for energy storage (and energy storage hybrid) resources as well as for demand side and resource capacity resources. Additionally, SDG&E created project description forms, offer forms, and pro forma agreements for the energy storage resource, renewable resource, distributed energy resource, and demand response resource types. SDG&E did not release a proforma agreement for energy storage hybrid resources at that time. An RA confirm template and confidentiality agreement were also provided for the energy storage (and energy storage hybrid) resource type. The RFO website was set up so that the bidders could easily access the material for each resource type, pre-bid conference materials, responses to questions, as well as view the overall RFO schedule. The webpage also provided a credit application and a document related to SDG&E's DBE subcontracting goal and reporting.

In addition to the specific solicitation materials, the BET also created informational material for the bidders in the form of frequently asked questions ("FAQs") documents. These FAQ's addressed evaluation, conformance, interconnection, and general topics. The BET updated these documents with the answers to questions received from bidders up to the question deadline date. The subjects of questions that were commonly asked by potential participants to the Mid-term Reliability RFO include:

- How the firm zero emitting resource type fits into the overall 2025 procurement need
- The definition of "minimum zero-emitting resources" and the exclusion all stand-alone storage systems
- Use of the ESS PPA pro forma for tolling agreements or RA-Only agreements
- Number of projects that can be submitted to the RFO per bidder
- Qualification of stand-alone BESS resources that have a duration shorter than eight hours for the RFO under the "any other type of non-fossil fueled resource" type.
- Commercial Online Date (COD) requirements and the relation between COD and Initial Delivery Date (IDD).

The UDT created a separate set of solicitation materials to be used by ESSEPC and ESSBOT bidders. These bidders had to provide detailed information about their offers in Supplemental Offer Forms, which the UDT would then use to create Offer Forms as requirement by the Energy Storage RFO Protocol. The UDT submitted those Offer Forms to the Bid Evaluation Team as the bidder's agent. The UDT also provided a document that described the process to be followed for ESSBOT and ESSEPC bids, and how to fill out the Supplemental Offer Form.

In PA's opinion, SDG&E provided appropriate RFO solicitation materials that elicited responses which would support its evaluation. The BET attempted several times to add detail to clear confusion through the FAQs and bidder conference, but those answers may not have been internalized by all bidders. SDG&E provided prompt response to any questions received by potential bidders.

2.3 Bidder's Conference

The BET conducted one pre-bid conference, which was an overall webinar held on October 13, 2021. PA participated remotely in the pre-bid conference. SDG&E posted the pre-bid conference materials to the Mid-term Reliability RFO webpage. Additionally, the UDT held its own pre-bid conference, however it occurred prior to PA being engaged in the UDT's solicitation. PA did not participate in the UDT's pre-bid conference.

2.4 Feedback After Solicitation

SDG&E has not requested feedback from bidders at this time; however, the later tranches of the RFO have not yet closed. PA has in the past suggested that SDG&E hold a bidder "post-mortem" review after a shortlist was determined and non-selected bidders had been notified; SDG&E declined this suggestion.

2.5 Other Comments Regarding Outreach and Robustness of Solicitation

PA believes that SDG&E extended what would normally have been appropriate outreach for the 2023-2026 Mid-term Reliability RFO. However, SDG&E should investigate additional avenues to broaden the pool of likely responders, including advertising and direct contact.

SDG&E's outreach was not a detriment to the robustness of the solicitation, but SDG&E's relative tardiness was. All three IOUs were soliciting and competing for similar resources, but the two larger buyers launched their solicitations more quickly, and selected and negotiated their near-term contracts in less time than SDG&E.

SDG&E filed its first set of Mid-term RFO contracts 13 months after launching its RFO and is filing its second set of Mid-term RFO contracts 6 months after filings its first set of contracts. Southern California Edison Co. (SCE) is SDG&E's most important competitor for offers – many of the third-party offers SDG&E received were in SCE territory – and SCE launched its solicitation two months sooner than SDG&E and filed its first five “Fast Track” contracts just over seven months after the launch.⁹ SCE filed a sixth contract two and half months after that¹⁰ and five more in mid-August, comparable to SDG&E's timing.¹¹ Pacific Gas & Electric Co. (PG&E) launched its solicitation even earlier, in mid-June 2021, and PG&E filed nine “Phase 1” contracts seven months later.¹² (Note, however, that PG&E recently negotiated higher pricing for four of those contracts in response to market conditions, and filed contract amendments.¹³) PG&E's and SCE's earlier launches may have been because they were filling some of their emergency procurement needs through their Midterm Reliability RFOs and therefore likely would have needed to move quickly in order to procure against both sets of requirements; even so, their early actions reduced the liquidity in the contract market facing SDG&E.

Relative to the other two IOUs, SDG&E was slow in issuing its RFP, and appears to have taken a more casual approach to bid evaluation. That may not be an entirely fair characterization. SDG&E likely has a smaller staff to start with, and PA has observed significant lateral mobility within that staff. During Summer 2021 the same small group that ran the Mid-term Reliability RFO was very busy concluding the Emergency Reliability procurement. On the other hand, SDG&E's late RFO release probably lengthened its bid evaluation, as attractive offers dropped out to take offers (or at least accept shortlist positions) from other utilities. **Although SDG&E had a slower start when compared to the other two California IOUs, it doesn't appear to have had a lasting effect in respect to SDG&E now meeting its near-term compliance requirements.**

Similar issues of timing and buyer competition appeared in the Emergency Reliability Procurements and 2021-2023 IRP Reliability RFO. In the case of the RPS RFOs the Commission eliminated the “first mover” advantage of early RFO release by establishing a common schedule across the three utilities for those solicitations.

Rather than wait for the CPUC to level the playing field, SDG&E should realize that it faces continuing competition, especially with SCE, and move more quickly on procurement to capture the most desirable “low-hanging fruit”. Dedication more staff to preparing for the RFO process as well as executing it may help SDG&E launch solicitations more quickly, complete the evaluations expeditiously, and push negotiations forward faster, and be a more competitive buyer against the other two IOUs – and against CCAs. Additionally, in future solicitations with high-priority reliability-based needs, SDG&E can be more willing to overprocure somewhat in order and avoid having cascading solicitations.

⁹ Southern California Edison Company (SCE), Advice Letter (AL) 4739-E, March 4, 2022; approved in Resolution E-5205, May 19, 2022.

¹⁰ SCE, AL 4800-E, May 19, 2022; approved in Resolution E-5225, August 25, 2022.

¹¹ SCE, AL 4850-E, August 17, 2022 (pending).

¹² Pacific Gas & Electric Company (PG&E), AL 6477-E, January 21, 2022; approved in Resolution E-5202, April 21, 2022.

¹³ PG&E, AL 6711-E, September 23, 2022 (pending).

3 SDG&E's LCBF Methodology Design

This section explores SDG&E LCBF methodology for fair offer evaluation.

3.1 Principles Used to Evaluate Methodology

PA has used the following principles to guide its evaluation, based on principles originally codified by PA in its report on SDG&E's 2006 RPS RFO¹⁴:

- The procurement targets and objectives were clearly defined in SDG&E's solicitation materials.
- The evaluation should only be based on those criteria requested in the response form. There should be no consideration of any information that might indicate whether the bidder is an affiliate.
- The methodology should identify how quantitative measures will be considered and be consistent with an overall metric.
- The approach should not be biased for or against specific technologies, solely based on the choice of technology (as opposed to, e.g., quantifiable differences between the value of peaking and baseload technologies).
- The methodology does not have to be the one that the IE would independently have selected but it needs to be "reasonable".

These principles do not specifically address "consistent" evaluation of bids of different sizes and timing because PA considers that issue to fall within the area of reasonableness: a consistent evaluation may not be the most reasonable.

3.2 Amount and Type of Resources Sought

In total, the CPUC decision required SDG&E to procure a minimum of 361 MW of additional net qualifying capacity (NQC). These MWs are to come online between August 1, 2023, and June 1, 2026. Within this time period, SDG&E is required by D. 21-06-035 to procure and have operational 63 MW by August 1, 2023; 188 additional MW by June 1, 2024; 47 additional MW by June 1, 2025; and 63 additional MW by June 1, 2026. The 361 MW procurement requirement was further divided amongst different types of resources. In addition to the 361 MW procurement requirement, SDG&E also sought an additional 78 MW from zero-emitting resources to replace the production of the Diablo Canyon Power Plant. This brought SDG&E's procurement requirement to 439 MW of NQC. NQC was estimated using marginal ELCCs calculated by the CPUC for each resource type for each future online year. Capacity had to be additional relative to a Sept. 2021 baseline¹⁵.

¹⁴ Jacobs, Jonathan M., *Preliminary Report of the Independent Evaluator on the 2006 Request for Offers from Eligible Renewable Resources (Renewable RFO)*, PA Consulting Group, Los Angeles CA, January 16, 2007, p. 2-1.

¹⁵ CPUC September 2021 baseline resources: https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/integrated-resource-plan-and-long-term-procurement-plan-irp-ltpp/d2106035_baseline_gen_list.xlsx

Table 4: SDG&E's Minimum Mid-term Reliability RFO Procurement Requirements (in NQC MW)

| Type of Resource | 2023 | 2024 | 2025 | 2026 | Total |
|--|------|------|------|------|------------|
| Firm zero-emitting resources | - | - | - | 31.5 | 31.5 |
| Long-duration storage resources ¹⁶ | - | - | - | 31.5 | 31.5 |
| Any type of non-fossil fueled resources | 63 | 188 | 47 | - | 298 |
| Zero-emitting resources required by no later than 2025 | - | - | 78 | - | 78 |
| Total (without zero-emitting resource need) | 63 | 188 | 47 | 63 | 361 |
| Total (with zero-emitting resource need)¹⁷ | - | - | - | - | 439 |

After the Mid-term Reliability RFO launched, because of San Diego Community Power's (SDCP) reallocation, SDG&E's annual procurement targets increased to a total procurement requirement of 578 MW of NQC, including zero-emitting resources. This target is outlined in Table 5 below.

¹⁶ Long lead-time resource requirements were divided in half between long-duration storage resources and firm zero-emitting resources.

¹⁷ Zero-emitting resources that are required to replace Diablo Canyon needed to be procured by 2025 but could come online anytime between 2023-2025; therefore, the zero-emitting resource need is not included in the yearly total in the table.

Table 5: SDG&E's Minimum Mid-term Reliability RFO Procurement Requirements – Increased to Account for the SDCP Reallocation (in NQC MW)

| Type of Resource | 2023 | 2024 | 2025 | 2026 | Total |
|--|-----------|------------|-----------|-----------|------------|
| Firm zero-emitting resources | - | - | - | 41 | 41 |
| Long-duration storage resources | - | - | - | 41 | 41 |
| Any type of non-fossil fueled resources | 83 | 247 | 62 | - | 392 |
| Zero-emitting resources required by no later than 2025 | - | - | 103 | - | 103 |
| Total (without zero-emitting resource need) | 83 | 247 | 62 | 82 | 475 |
| Total (with zero-emitting resource need) | - | - | - | - | 578 |

During negotiations for agreements executed in Tranche 2, a Proposed Decision¹⁸ was released pushing back the compliance date for long lead time resources from 2026 to 2028. Additional procurement was also ordered in 2026 and 2027. SDG&E's updated target is outlined in Table 6 below.

¹⁸ The Proposed Decision was issued on January 13, 2023 and later Decision (D.) 23-02-040 was issued.

Table 6: SDG&E's Minimum Mid-term Reliability RFO Procurement Requirements – After D. 23-02-040 (in NQC MW)

| Type of Resource | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total |
|--|-----------|------------|-----------|-----------|----------|----------|------------|
| Firm zero-emitting resources | - | - | - | - | - | 41 | 41 |
| Long-duration storage resources | - | - | - | - | - | 41 | 41 |
| Any type of non-fossil fueled resources | 83 | 247 | 62 | 72 | 72 | - | 536 |
| Zero-emitting resources required by no later than 2025 | - | - | 103 | - | - | - | 103 |
| Total (without zero-emitting resource need) | 83 | 247 | 62 | 82 | - | - | 618 |
| Total (with zero-emitting resource need) | - | - | - | - | - | - | 721 |

3.3 Description of SDG&E's LCBF Evaluation Methodology

SDG&E's valuation and selection approach was intended to evaluate the different product types on as equal a footing as possible. In past solicitations, SDG&E first performed a conformance check of each offer received before conducting a Net Market Value (NMV) analysis. However, for the Mid-term Reliability RFO, SDG&E completed the NMV analysis for each offer received and then checked for conformance only the offers that were the most highly ranked. The NMV analysis scored the offers based on their value to SDG&E customers as well as their relative value in comparison to other offers. The methodology considers both quantitative as well as qualitative factors as described below. SDG&E then selected offers with the highest NMV rank that fulfilled the procurement target. PA recommended that SDG&E also consider offers based not solely on their NMV rank, but on a ranking system based on NMV per MW. SDG&E considered this feedback and type of ranking when selecting bids for its shortlist. Although SDG&E did not evaluate bids on a NMV per MW basis, SDG&E did compare large NMV bids with combinations of smaller bids that ranked higher on a NMV basis but could meet the requirement more efficiently overall. In selecting its shortlist, SDG&E balanced its desire to minimize over procurement with selecting bids with the best NMV. It is PA's assessment that the methodology was fair and not biased for or against specific bids.

3.3.1 All Bids Placed on a Consistent Footing

To obtain a fair comparison between utility-ownership and third-party bids, they had to be described in a common form. The UDT would solicit bids in each category and convert the cost parameters into revenue requirements. The UDT would then fill out an Offer Form for each offer, using the same format as would be used by third-party offerors.

3.3.2 Conformance Check

Before completing the NMV analysis for submitted offers to the Mid-term Reliability RFO, SDG&E was to complete an extensive conformance check on all offer submitted. The first step would be to screen offers received to ensure that the bidder did not exceed the number of bids/offers allowed in the Solicitation. In completing this screening, SDG&E intended to take a less strict approach than they had in the 2021-2023 IRP Reliability RFO. SDG&E would then complete an additional conformance check for top ranked bids. Some of the specific conformance items that SDG&E looked for in top ranked bids includes:

- Bidder provided all bid documents specified by the RFO protocol document(s)
- Resource complies with resource criteria identified in the RFO protocol document(s)
- Resource is eligible to provide RA, including a delivery allocation by the California Independent System Operator (CAISO)
- Resource is confirmed to be incremental
- Bidder demonstrated site control

3.3.3 LCBF Quantitative Evaluation

The LCBF quantitative evaluation of an offer considers both the benefits and costs (including interconnection and network upgrade costs). The primary quantitative metric is an NMV calculation. The NMV calculation is a quantification of the value of an offer when compared to a set of price benchmarks for capacity, electrical energy, ancillary services, RECs (renewability) and natural gas (there were no CHP conventional tolling bids so a gas benchmark was not used). Valuing storage required a computer tool to determine charging and discharging schedules. SDG&E told PA that it would use the Plexos simulation model and its own price forecasts to dispatch storage, without a dispatch of its entire system. This is the same approach SDG&E has used for other recent NMV calculations.

The cost and benefit components would be netted on an annual basis and then discounted to yield an NMV for each offer. Bid scoring was done without consideration of credit costs.

3.3.4 LCBF Qualitative Evaluation

Qualitative factors and benefits would be used to determine the projects that are the “best fit” for SDG&E’s portfolio. Qualitative factors were applied to various components of project value (but not cost) in the evaluation describe in the previous subsection. The qualitative factors were:

- Interconnection status – RA value would be increased by 5% for imports and for projects in CAISO Interconnection Cluster 10 or 11, 4.75% for projects in Cluster 12, and 4.5% for projects in Cluster 13 and all later clusters.
- Dispatch flexibility – In the RA valuation, ESS bids would receive a 50% weighting for dispatch flexibility whereas energy efficiency, demand response, and renewable resources would receive 0% weighting for dispatch flexibility.
- Term Length – SDG&E preferred contracts that were shorter term. As such in its evaluation model it provided 100% weighting to projects with a term length of 11 years or less. Weighting decreased by 5% for each additional term year. Term length weights by year were the same for both PPAs and utility owned resources.

3.3.5 Ranking vs. Optimization

SDG&E ranked bids by a score based on NMV and then selected winning bids on an ad hoc basis, rather than using an optimization formulation. However, in the Mid-term Reliability RFO, SDG&E’s goal was to select a portfolio of bids with the greatest total score while minimizing over procurement. Additionally, SDG&E needed to procure NQC not just by year but also by various resource types as required by the CPUC decision, which in principle is an optimization problem seeking to satisfy constraints at minimum cost (maximum NMV). On the other hand, the selection for each resource type or online year was less complex as there were comparatively few candidate offers for each resource type. SDG&E could work from a single ranked list to create its initial shortlist and a small number of reasonable alternatives, and would go back to the ranked list as shortlisted offers were modified or withdrawn. PA compared the shortlist in various scenarios against other options selected from different rankings in order to verify that a reasonable shortlist was selected.

3.4 Evaluation of SDG&E’s Methodology

The BET was open with PA about its evaluation methodology and models. The BET discussed its approach to the evaluation with PA and sought PA’s opinion on evaluation and modeling issues.

PA reviewed the models used by the BET. The objective of this review was to determine that resource types were fairly compared: that there were similar levels of approximation of price uncertainty, operational constraints, etc., and therefore similar levels of over- or under-optimization of benefits by type.

Overall, PA believes that the BET's methodology is reasonable. This judgment is within the context of the principles set forth in Section 3.1. The review of the application of the BET's methodology **and** the BET's results is provided in Section 4.

4 Fairness of SDG&E LCBF Evaluation

This section addresses the application or administration of the methodology described in Section 3.

4.1 Principles IE Used to Evaluate Evaluation Methodology

As in the previous section, PA used principles to guide its evaluation originally codified by PA in its report on SDG&E's 2006 RPS RFO and in this case phrased as questions (one question did not really apply and has been excluded):

- Were utility ownership offers treated the same as PPA offers?
- Were bidder questions answered fairly and consistently and the answers made available to all?
- Did the utility ask for "clarifications" that provided the bidder an advantage over others?
- Were bids given equal credibility in the economic evaluation?
- Was there a reasonable justification for any fixed parameters that enter the methodology?
- Were qualitative factors used only to distinguish among substantially equal bids?

4.2 Handling of Utility Ownership Offers

SDG&E concluded in the past that the wording of the Energy Storage decision required it to seek utility-owned as well as third-party storage offers.¹⁹ D. 21-06-035 permitted SDG&E to propose utility-owned resources to meet its requirements provided that the projects were selected under the terms of D.19-11-016 and the proposals filed using Applications rather than Advice Letters.²⁰ D.19-11-016, in turn, referenced rules set in D. 07-12-052 and D.19-06-032.²¹

SDG&E included two utility ownership options in its RFO -- purchases of new assets, i.e. build-own-transfer (ESSBOT), and engineering, procurement, and construction agreements for development on SDG&E land (ESSEPC) – as well as contract forms for third party ownership.

In section 2c of Appendix 2, this decision set out three requirements that a utility must satisfy in procuring utility-owned storage, the first of which is the most important for the purposes of this report.

4.2.1 Competitive procurement

a. Procedural requirements of D.07-12-052

The main criterion is that "[a]n IOU proposing utility-owned storage shall pursue a competitive process consistent or comparable to the process described in D.07-12-052."²² The specific requirements of that decision are largely procedural, in particular the use of an IE and segregation of functions subject to a strict code of conduct.²³

SDG&E established a segregation of functions so that the employees performing the bid evaluation would be functionally separated from the individuals preparing the cost estimates for the utility-owned projects. As noted earlier, SDG&E separated the Bid Evaluation Team (BET) from the Utility Development Team (UDT) and created a Code of Conduct to clarify and enforce that separation. Through this structure the employees developing the utility-owned projects would not be allowed access to any evaluation protocols, input assumptions, or bid information not generally made available to outside bidders.

The BET conducted the overall RFO process, receive all bid materials from third parties and materials for the ESSEPC and ESSBOT utility ownership projects developed by the UDT from bidders' cost estimates, evaluate bids according to the process outlined in solicitation protocols, and prepare the ranking of all offers. The UDT developed specifications for utility-ownership offers, developed the revenue requirements estimates for the utility ownership projects based on bidders' cost proposals and created properly formatted Offer Forms for the BET.

As far as PA was able to determine, the BET did not discuss or communicate any details regarding the evaluation process that were not made public with the UDT. Similarly, the UDT did not discuss any aspect of the cost development process with the BET. Materials for both teams were to be separately located with restricted access to only the appropriate team members. SDG&E clearly identified the team members for both teams and had all team members sign a code of conduct to abide by the functional separation.

¹⁹ California Public Utilities Commission Decision (D.) 13-10-040, October 21, 2013, Appendix A, p. 6.

²⁰ California Public Utilities Commission Decision (D.) 21-06-045, June 24, 2021, Ordering Paragraph 8.

²¹ California Public Utilities Commission Decision (D.) 19-11-016, November 7, 2019, Conclusion of Law 29.

²² California Public Utilities Commission Decision (D.) 19-06-032, June 27, 2019, Appendix A, Section 2c, p. 2.

²³ California Public Utilities Commission Decision (D.) 07-12-052, December 20, 2007, p. 211 and Conclusion of Law 51.

While that Decision “relax[ed] for the moment the proposed restriction”²⁴ that would have required head-to-head competition between utility-owned and third-party bids, it still implied such competition was preferable. SDG&E attempted to provide such competition in this RFO by scoring all bids on a common basis. This is consistent with SDG&E’s approach in prior RFOs.

b. Other requirements

The Appendix to D.19-06-032 states that the utility seeking to procure utility-owned storage should use a separate solicitation for Purchase and Sale Agreements (i.e., BOTs). If such a solicitation is inappropriate, the utility can then propose an EPC contract or other forms of utility ownership.

The UDT solicited BOT and EPC offers prior to the BET’s solicitation of PPA offers (and did not claim the BOT form was inappropriate before soliciting EPCs). The UDT’s solicitation took place in August 2021, after SDG&E had published a Market Notice of the upcoming Mid-term RFO but before the RFO was issued. PA did not monitor that RFO but did review its results after the fact.

The Appendix appears to imply that a utility must separately “propose” utility ownership as a resource type before running a directed solicitation; SDG&E did not do so anyway as it selected no utility-owned resources in this RFO although it did file some UOG contracts separate from the Mid-term RFO in Advice Letter 3913-E.²⁵ Furthermore, prior to the paragraph about a PSA solicitation, the Appendix says:

“When procuring energy storage systems through competitive RFOs, the utilities shall consider all forms of resource ownership (utility-owned, third-party owned, customer-owned, joint ownership). The RFO allow [sic] bid participation and be evaluated without any bias towards any ownership model.”

That paragraph appears to direct utilities to consider different ownership models simultaneously, as SDG&E has done. In PA’s opinion SDG&E’s approach complies with the spirit of the requirement and the letter is unclear.

4.2.2 Use of other funding sources

If a utility-owned project makes use of other public funding, that amount of its funding is not be recovered in rates. To PA’s knowledge, none of the utility ownership bids benefited from other public funding sources.

4.2.3 Unique sources of value

The Appendix states that if certain values streams can only be obtained from a utility-owned asset then it must provide support for that assertion. SDG&E has made no such assertions.

4.2.4 ESSEPC and ESSBOT Bids

The BET engaged PA in its solicitation from the drafting of the protocol documents in September 2021. PA was not as involved in the UDT’s solicitation as it was in the BET’s solicitation –PA did not learn about the UDT’s solicitation until October 2021. PA’s knowledge of the UDT’s solicitation is more limited and known information is largely from the documents and information provided through the UDT’s PowerAdvocate® event site.

The UDT provided site information to the ESSEPC bidders. SDG&E would provide site development for ESSEPC offers, as well as the sites themselves.

In order to be evaluated consistently with the other storage bids, the EPC and BOT offers had to supply additional information. The utility owned offers provided a different risk to SDG&E than third-party offers, as the equipment would be owned by SDG&E and SDG&E would have liability for any activities at the site after commercial operation. Therefore, SDG&E required bidders to provide a 15-year defect warranty on the complete ESS and balance of plant including all major components and control and management software. Additionally, the UDT’s offer form required bidders to specify information about the major equipment that was included in the offer.

The UDT used provided information from bidders’ submittals and used their own evaluation criteria to determine which bids would be submitted to the BET and into the Mid-term Reliability RFO. The UDT ultimately submitted fewer bids to the BET and into the Mid-term Reliability RFO than it received in its solicitation. However, before the BET completed its initial shortlist, the UDT withdrew most of its submitted bids from consideration.

4.3 Administration of LCBF Process

SDG&E received 194 separate bids including utility ownership bids from the UDT. Additionally, on April 26, 2022, SDG&E re-opened the RFO for two weeks, for the submission of new offers as well as for updates to previously submitted offers. This re-opening resulted in 44 submissions, including the updates to previously submitted offers. A description of PA’s activities in its role as IE is provided in Section 1. Based on PA’s participation and observations:

²⁴ *Ibid.*, p. 211.

²⁵ San Diego Gas & Electric Company (SDG&E), AL 3914-E, December 14, 2021; approved in Resolution E-5193, February 15, 2022.

- The BET treated utility ownership and third-party bids reasonably equally
- Bidder questions were answered fairly and consistently
- The BET's clarification questions were reasonable and did not advantage any bidder
- The BET applied conformance requirements fairly to all bids and consistent with bid documents
- All conforming bids were given equal credibility in the quantitative evaluation
- Bids were modelled and evaluated as consistently as possible given the different characteristics of the various resource types
- The BET's evaluation of bids and selection of short-listed bids conformed to the RFO documents

4.4 IE's Review of the BET's Conformance Checks

The BET received 194 separate bids including utility ownership bids from the UDT: 158 third-party energy storage or hybrid bids, 12 bids submitted by the UDT, 16 renewable bids, 2 demand response bids, and 6 (ineligible) energy efficiency bids. There were an additional 3 third-party energy storage bids that were duplicates of bids submitted for the same project in the solicitation, and as such are not counted in the total bid counts.

After the bids were submitted and the RFO closed, PA downloaded a complete copy of all the bids through PowerAdvocate.

4.4.1 Summary of the Conformance Check

In the Mid-term Reliability RFO, SDG&E did not perform the full conformance check prior to the NMV analysis, it delayed the conformance check and did not check every bid that had passed the initial screen. SDG&E completed a "light touch" conformance screen of all bids before completing the NMV analysis. Part of this light touch conformance screen was determining if bidders submitted more offers than the RFO specified as permissible.

In the Mid-term Reliability RFO, respondents were limited to six offers for resources that would come online between 2023 to 2026. SDG&E defined respondent in the protocol documents, for the purposes of the six-offer restriction, as referring "to the project development company or subsidiary that is responsible for the commercial and construction activities necessary to bring the project from concept to commercial operation." Several bidders submitted more than six offers and it was the BET's opinion and interpretation that the six-offer limit was per project, as opposed to being per respondent, as the possible use of subsidiaries could make it difficult to understand who the true respondents were.

In the 2021-2023 IRP Reliability RFO, SDG&E had interpreted the offer limit as being per ultimate respondent and not per project. The Mid-term RFO approach resulted in SDG&E having more offers from which to select, though this approach could have disadvantaged some respondents who only submitted six total offers across multiple projects based on prior experience.

In the initial light touch conformance check of all bids, SDG&E checked for the following items:

- Respondents submitting no more than 6 offers per project
- Offers submitted included complete information on the offer form
- Bid forms determined to be duplicates were considered only once, and put into the model for the NMV analysis only once
- Project has NQC after the updated CPUC adopted ELCC values are applied.

SDG&E completed the detailed conformance check for bids that were top ranked in the NMV analysis before shortlisting, to ensure selected shortlisted offers were conforming. SDG&E checked for criteria including interconnection, deliverability, and site control.

The BET and PA had several discussions and exchanged emails to compare conformance results (based on PA's independent assessment). Additionally, PA flagged to the BET some offers that had passed the initial light touch conformance check but had not been included in the BET's model for NMV analysis. The BET promptly reconciled this issue and included the missing offers in the NMV analysis model.

In total, 9 offers were found to be non-conforming in the initial conformance screen. There were no bids that were later removed for conformance issues when a full conformance check was completed for top ranked bids that would be part of the initial shortlist. PA believes that splitting the conformance check had no adverse effects.

4.5 The BET's Application of the LCBF Methodology

The BET developed separate models for each resource type (ESS PPA, ESS Utility-Owned, Hybrid, Renewables, and Demand Response) because of their unique characteristics, based on the approach it had used for other recent RFOs. The overall valuation approach was applied consistently as possible.

4.5.1 Review of Price Curves and General Assumptions

PA reviewed the price curves that the BET used to evaluate the bids and agreed that the BET was using reasonable price curves. The BET also explained their sourcing and which substantiated that the prices were developed independent of any bid information. After SDG&E's initial shortlisting process and as part of the May refresh, SDG&E consulted with PA and updated its RA forward price curves. The decision was made to do so, as the RA price curves that the BET was using were stale.

4.5.2 Selection of the Shortlist

The BET created a summary table of all offers (including those screened out in the initial conformance check) and ranked them based on the net market values. The ranked offers were then used to select the shortlist, for which the BET started at the top of the list and worked its way down. Offers that did not pass the initial conformance check were not considered for the shortlist. The BET selected the highest ranked offers to fill SDG&E's procurement needs for each resource type by each year. SDG&E considered term length, with a preference for 10-year terms, when making shortlisting decisions. PA recommended that the BET also make shortlisting decisions that consider bids NMV per MW ranking, as opposed to only using bids NMV ranking to make shortlisting decisions. SDG&E adopted this recommendation and considered both bids NMV and NMV per MW rankings when making their shortlist.

PA reviewed the BET's development of the shortlist analysis and discussed with the BET any questions and discrepancies. Additionally, PA completed some sensitivity analyses by identifying additional shortlists if other parameters were considered (examples include procuring double the procurement target, which could bring in some larger offers; not considering term length in shortlisting decisions; and selecting shortlists based on ranking bids by NMV per MW). Through this exercise, PA concluded that the BET had developed a reasonable shortlist.

Moreover, the BET itself developed an alternate shortlist, which excluded a hybrid project that would provide 75 MW with a COD in 2023 but was currently being used as replacement RA for a different project already under contract to SDG&E. SDG&E had contracted with that project in 2021 as part of the Emergency Reliability procurement but the project had still not received a deliverability allocation.

After the shortlist was developed, the BET presented it to the Energy Division and the CAM PRG. PA did not participate in the first of those meetings but did participate in the CAM PRG meeting, on February 9, 2022. Table 7 shows the bids from Tranche 2 (projects that were hybrid, would backfill SDG&E's 2024 procurement need, would meet SDG&E's firm zero-emitting procurement need, and would meet SDG&E's long duration storage procurement need) that were initially shortlisted.

Table 7: Tranche 2 Bids from SDG&E's Shortlist

| Project | Capacity (MW) | Term (Years) | Technology |
|-----------------------------------|---------------|--------------|------------|
| 1 | 100 | 25 | Wind |
| 2 | 150 | 20 | Solar |
| 3 | 200 | 15 | Hydro |
| 4 | 250 | 10 | Nuclear |
| 5 | 300 | 5 | Coal |
| 6 | 350 | 0 | Gas |
| Shortlisted on a Contingent Basis | | | |
| 7 | 400 | 25 | Wind |
| 8 | 450 | 20 | Solar |

4.5.3 Revisions of the Shortlist

The BET notified shortlisted bidders of their positions on the shortlist and requested that they acknowledge shortlisting and forward deposits to hold their positions.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

The Tranche 2 shortlist is now:

Table 8: Revised Tranche 2 Shortlist

| Project | Capacity (MW) | Term (Years) | Technology |
|------------|---------------|--------------|------------|
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

These are the projects with which SDG&E has been negotiating.

4.5.4 May Refresh

On April 26, 2022, SDG&E reopened the RFO for submissions of new offers as well as updates to previously submitted offers. This is referred to as the May Refresh. The BET made this decision after changes to their shortlist left them with capacity need in 2023 as well as for hybrid projects to meet the zero emitting resource target by 2025. Offers submitted into the May Refresh generally had price increases relative to the versions originally submitted into the Midterm Reliability RFO.

[REDACTED]

4.5.5 Offer modifications during negotiations

[REDACTED]

Table 9: Projects for which SDG&E negotiated contracts

| Project | Capacity (MW) | Term (Years) | Technology | Contract Type |
|--------------------------|----------------------------------|--------------|-----------------|--|
| Yellow Pine 3 | 50 – Storage 65 - Solar | 15 | Solar + Storage | Toll |
| Nova Power Bank | 60 | 15 | Storage | Toll |
| Luna Valley + Daggett | 113.5 – Storage 113.5 - Solar | 15 | Solar + Storage | As-Available Energy for Luna Valley & Toll for Daggett |

4.6 Analysis of the BET's Offer Evaluation

PA reviewed the BET's quantitative evaluation through the direct review of the BET's models, comparison with PA's own analysis, and meetings and discussions to resolve questions or discrepancies. Through this process, PA was

able to review and confirm the BET's interpretation of the data as well as the application of the quantitative analysis.

4.6.1 Utility Ownership Offers

PA paid close attention to the scoring and communications with utility-ownership bidders. PA also attempted to compare the fairness of scoring between utility-ownership and third-party bids. No UDT offers were shortlisted in either Tranche 1 or Tranche 2 in the Mid-term Reliability RFO; they ultimately were not competitive with submitted third-party offers.

It is PA's opinion that the evaluation of offers did not favor utility owned offers.

4.6.2 Other Properties of the Evaluation Methodology

Several storage projects were bid both as RA-only offers and as tolling PPAs. PA observed that the tolling PPA offers scored higher than the corresponding RA-only offers.

4.7 Fairness of SDG&E's Evaluation

Based on PA's review of the BET's analysis, participation in calls and meetings and other IE activities, PA believes that the BET conducted the 2023-2026 Mid-term Reliability RFO evaluation analysis fairly.

4.8 Fairness of Any Third-Party Evaluation

There was no third-party evaluation used to evaluate the bids for this RFO.

4.9 Appropriateness of Transmission and Integration Cost Adders

The BET included interconnection costs for bids based on the interconnection studies bidders provided.

4.10 Recommendations

- SDG&E should consider launching future RFOs in a more expeditious manner; and where necessary have an expanded team in place to do so. Given the competitive market, this can help SDG&E be more competitive with the other IOUs trying to solicit the same resources.
- It has been PA's observation over a number of solicitations over the past few years (the 2019 IRP Reliability RFO as well as the Emergency Reliability procurements) that SDG&E is having to backfill on past procurements and quickly try and secure resources for near term needs. This is partly responsible for SDG&E's delayed launch and completion of the Midterm Reliability RFO. Given the likelihood that SDG&E will continue to have numerous and complex solicitations within a short time frame, SDG&E should consider overprocuring somewhat in future solicitations, especially those with high-priority reliability-based needs. This will allow SDG&E the ability to apply already procured capacity towards future procurement needs.

5 Merit of the 2023-2026 Mid-term Reliability RFO Shortlist

Through the bid evaluation and selection process, PA believes that SDG&E selected the best offers submitted for Tranche 2 of the 2023-2026 Mid-term Reliability RFO.

5.1 Did SDG&E conduct the solicitation consistent with Commission decisions and its approved LCBF methodology?

It is PA's opinion that SDG&E conducted a fair solicitation consistent with Commission decisions and approved LCBF methodology.

5.2 Do selected shortlisted projects provide the best overall value to ratepayers?

Yes, relative to the choices available when it came time to negotiate contracts, and the urgency of the need. SDG&E selected bids with positive NMV based scores that represented a mix of resource types and which appeared viable. PA verified the scoring, and that SDG&E's shortlist achieved the objectives of the procurement better than other proposed shortlists.

5.3 Did the shortlist conform to the needs of SDG&E's portfolio and RFO plan?

The shortlist prepared by SDG&E did conform to the RFO plan and satisfied the Tranche 2 requirement for 2025 and 2026. SDG&E still has a need under the Tranche 1 requirement.

5.4 Reasonableness of the Shortlist

In PA's opinion, SDG&E's shortlist was reasonable.

6.3.2 Summary of Negotiations – Yellow Pine 3

The BET negotiated with NextEra for a 15-year toll agreement for a hybrid project with 50 MW of BESS and 65 MW of solar. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

6.3.3 Summary of Negotiations – Nova Power Bank

The BET negotiated with Calpine for a 15-year 60 MW toll agreement. Through the negotiation process, the BET and Calpine negotiated several key issues.

[REDACTED]

[REDACTED]

[REDACTED]

6.3.4 Summary of Negotiations – Luna Valley + Daggett Contractual Hybrid

The BET negotiated with Clearway for a 15-year 113.5 MW as-available energy agreement and for a 15-year 113.5 MW toll agreement. These are two separate agreements that are contractually tied together to create a contractual hybrid project, as allowed by CPUC guidance. [REDACTED]

[REDACTED]

[REDACTED]

6.3.5 Evaluation of negotiations

The agreements between SDG&E and each of the three counterparties were fairly arrived at and struck a reasonable balance between the interest of the two sides.

6.4 Recommendation

- SDG&E should ensure that all contract types have an initial draft posted with the RFO materials and approved by SDG&E's internal teams prior to launching future solicitations.
- SDG&E should post updated draft contract language for future solicitations, to make bidders aware ahead of time of costs, like costs associated with a change in law, at the beginning of the solicitation to 1.) ensure that bidders include these costs in their bids and 2.) that the inclusion of these costs in the bid price doesn't present as an issue during negotiations. By doing so, this will also help ensure that all bids offered into future RFOs are including the same costs in their bid price and can be compared equally.

7 Merit of Contract Approval

SDG&E negotiated and signed four contracts through this RFO process with three counterparties: one as-available energy agreement and three tolling agreements. These contracts will provide 223.5 MW of Resource Adequacy if all four achieve COD on time. The contracts executed so far through the Mid-term Reliability RFO satisfies SDG&E's obligation under Tranche 2, however, SDG&E still has not completely satisfied obligations under Tranche 1.

Through the bid evaluation and selection process, PA believes that SDG&E selected the most appropriate non-hybrid offers for projects coming online in 2025 and 2026 from those submitted for SDG&E's 2023-2026 Mid-term Reliability RFO.

PA recommends the CPUC's approval of the contracts.



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As strategies, technologies and innovation collide, we create opportunity from complexity.

Our diverse teams of experts combine innovative thinking and breakthrough use of technologies to progress further, faster. Our clients adapt and transform, and together we achieve enduring results.

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San Diego Gas & Electric Advice Letter 4189-E
April 14, 2023

ATTACHMENT C

DECLARATIONS OF CHRIS SUMMERS REGARDING CONFIDENTIALITY OF CERTAIN DATA

San Diego Gas & Electric Company

ATTACHMENT C

Declarations of Chris Summers Regarding Confidentiality of Certain Data

**BEFORE THE PUBLIC UTILITIES
COMMISSION OF THE STATE OF CALIFORNIA**

**DECLARATION OF CHRIS SUMMERS
REGARDING CONFIDENTIALITY OF CERTAIN DATA**

I, Chris Summers, do declare as follows:

1. I am the Director of Origination, Energy Supply, and Dispatch in the Electric & Fuel Procurement Department for San Diego Gas & Electric Company (“SDG&E”). I have reviewed SDG&E’s Advice Letter number 4189-E, submitted concurrently herewith (“AL 4189-E”). I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with D.06-06-066, *et seq.*, to demonstrate that the confidential information (“Protected Information”) provided in the Advice Letter submitted concurrently herewith (described below) falls within the scope of data protected as confidential pursuant to the IOU Matrix attached to the Commission’s confidentiality decision, D.06-06-066 (the “IOU Matrix”) and/or under relevant statutory provisions.^{1/}

^{1/} The Matrix is derived from the statutory protections extended to non-public market sensitive and trade secret information. (See D.06-06-066). The Commission is obligated to act in a manner consistent with applicable law. The analysis of protection afforded under the Matrix must always produce a result that is consistent with the relevant underlying statutes; if information is eligible for statutory protection, it must be protected under the Matrix. (See *Southern California Edison Co. v. Public Utilities Comm.* 2000 Cal. App. LEXIS 995, *38-39) Thus, by claiming applicability of the Matrix, SDG&E relies upon and simultaneously claims the protection of applicable statutory provisions including, but not limited to, Public Utilities Code §§ 454.5(g) and 583, Govt. Code § 6254(k) and General Order 66-C.

3. In D.06-06-066, the Commission adopted rules governing confidentiality of certain categories of electric procurement data submitted to the Commission by investor owned utilities (“IOUs”) and energy service providers (“ESPs”). The Commission established two matrices – one applicable to IOUs, the other to ESPs – setting forth categories and sub-categories of data and providing a confidentiality designation for each.^{2/}

4. To the extent information matches a Matrix category, it is entitled to the protection the Matrix provides for that category of information. In addition, the Commission has made clear that information must be protected where “it matches a Matrix category exactly . . . or consists of information from which that information may be easily derived.”^{3/} In order to claim the protection afforded by the relevant Matrix, the party seeking confidential treatment must establish:

- 1) That the material it is submitting constitutes a particular type of data listed in the Matrix,
- 2) Which category or categories in the Matrix the data correspond to,
- 3) That it is complying with the limitations on confidentiality specified in the Matrix for that type of data,
- 4) That the information is not already public, and
- 5) That the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure.^{4/}

5. SDG&E’s Protected Information: The Protected Information, consisting of the information described below, is protected pursuant to the following Matrix categories:

| Data at Issue | Matrix Requirements | How Moving Party Meets Requirements |
|--|---|--|
| <p><i>Redactions in Sections 6.3 of the Public Version of the IE Report, Attachment B</i></p> <p><i>Summary of Market Conditions and Selected Projects, Confidential Attachment F</i></p> <p><i>Executed Agreement and redlines of Agreement vs pro forma agreement, Attachment G through J</i></p> | Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix. | The redacted data includes non-public contract terms that are protected by the Matrix. |
| | Identify the Matrix category or categories to which the data corresponds. | Matrix category VII.B., Contracts and power purchase agreements between utilities and non-affiliated third parties (except RPS). |
| | Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data. | In accordance with the limitations on confidentiality set forth in the IOU Matrix, category VII.B., SDG&E has made public in AL 4189-E the contract summary, including counterparty, resource type, location, capacity, expected deliveries, delivery point, length of contract and online date. SDG&E is requesting that all other terms remain confidential for three years from the date the contract states deliveries are to begin or until one year following expiration, whichever comes first. |
| | Affirm that the information is not already public. | SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party. |
| | Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure. | The contract terms are specific to the unique bargain with the counterparty and cannot be summarized, masked or otherwise protected in a way that allows that allows only partial disclosure of the protected information. |

| Data at Issue | Matrix Requirements | How Moving Party Meets Requirements |
|---|--|---|
| <p><i>Redactions in Section 3 of the Public Version of the IE Report, Attachment B</i></p> <p><i>Attachment E – LCBF Evaluation Results</i></p> | Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix | The data includes quantitative analysis in scoring and evaluating bids. |
| | Identify the Matrix category or categories to which the data corresponds | This information is protected under IOU Matrix category VIII-B. |
| | Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data | SDG&E requests that this information be kept confidential as directed in the Matrix. |
| | Affirm that the information is not already public | SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party. |

| | | |
|--|---|---|
| | Affirm that the data cannot be aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure. | The information is provided in the format that is required by the Commission/best conveys the analysis. The data cannot be further aggregated, redacted, summarized, masked or otherwise protected in a way that allows partial disclosure. |
| | | |
| Data at Issue | Matrix Requirements | How Moving Party Meets Requirements |
| <i>Redactions in Section 4 of the Public Version of the IE Report, Attachment B</i> | Demonstrate that the material submitted constitutes a particular type of data listed in the IOU Matrix | The data includes bid information and quantitative analysis involved in scoring and evaluation of participating bids. |
| | Identify the Matrix category or categories to which the data corresponds | This information is protected under IOU Matrix category VIII-A and VIII-B. |
| | Affirm that the IOU is complying with the limitations on confidentiality specified in the Matrix for that type of data | SDG&E requests that this information be kept confidential as directed in the Matrix. |
| | Affirm that the information is not already public | SDG&E has not publicly disclosed this information and is not aware that it has been disclosed by any other party. |

^{2/} See, D.06-06-066, as amended by D.07-05-032, *mimeo*, Appendices 1 and 2.

^{3/} See, *Administrative Law Judge's Ruling on San Diego Gas & Electric Company's April 3, 2007 Motion to File Data Under Seal*, issued May 4, 2007 in R.06-05-027, p. 2 (emphasis added).

^{4/} D.06-06-066, as amended by D.07-05-032, *mimeo*, p. 81, Ordering Paragraph 2.

6. SDG&E intends to comply with the limitations on confidentiality specified in the Matrix for the type of data that is provided herewith.

7. I am not aware of any instance of public disclosure of the Protected Information.

8. The Protected Information cannot be provided in a form that is further aggregated, redacted, or summarized and still provide the level of detail requested and expected by California Public Utilities Commission.

9. As an alternative basis for requesting confidential treatment, SDG&E submits that the project status information provided in AL 4189-E is material, market sensitive, electric procurement-related information protected under §§ 454.5(g) and 583, as well as trade secret information protected under Govt. Code § 6254(k), and that the disclosure of this information would place SDG&E at an unfair business disadvantage, thus triggering the protection of G.O. 66-D.^{5/}

10. Public Utilities Code § 583 establishes a right to confidential treatment of information otherwise protected by law.^{6/}

11. Public Utilities Code § 454.5(g) provides:

^{5/} This argument is offered in the alternative, not as a supplement to the claim that the data is protected under the IOU Matrix. California law supports the offering of arguments in the alternative. *See, Brandolino v. Lindsay*, 269 Cal. App. 2d 319, 324 (1969) (concluding that a plaintiff may plead inconsistent, mutually exclusive remedies, such as breach of contract and specific performance, in the same complaint); *Tanforan v. Tanforan*, 173 Cal. 270, 274 (1916) ("Since . . . inconsistent causes of action may be pleaded, it is not proper for the judge to force upon the plaintiff an election between those causes which he has a right to plead.")

^{6/} *See*, D.06-06-066, *mimeo*, pp. 26-28.

The commission shall adopt appropriate procedures to ensure the confidentiality of any market sensitive information submitted in an electrical corporation's proposed procurement plan or resulting from or related to its approved procurement plan, including, but not limited to, proposed or executed power purchase agreements, data request responses, or consultant reports, or any combination, provided that the Public Advocates Office and other consumer groups that are nonmarket participants shall be provided access to this information under confidentiality procedures authorized by the commission.

12. Under the Public Records Act, Govt. Code § 6254(k), records subject to the privileges established in the Evidence Code are not required to be disclosed.^{7/} Evidence Code § 1060 provides a privilege for trade secrets, which Civil Code § 3426.1 defines, in pertinent part, as information that derives independent economic value from not being generally known to the public or to other persons who could obtain value from its disclosure.

13. If disclosed, the Protected Information could provide parties with whom SDG&E is currently negotiating insight into SDG&E's procurement needs, which would unfairly undermine SDG&E's negotiation position and could ultimately result in increased cost to ratepayers. In addition, if developers mistakenly perceive that SDG&E is not committed to assisting their projects, disclosure of the Protected Information could act as a disincentive to developers. Accordingly, pursuant to P.U. Code § 583, SDG&E seeks confidential treatment of this data, which falls within the scope of P.U. Code § 454.5(g), Govt. Code § 6254(k) and General Order 66-D.

14. Developers' Protected Information: The project status information provided in the AL 4189-E may also constitute confidential trade secret information of the listed projected developers that SDG&E is obligated to protect. The project status information set forth in AL 4189-E relates directly to viability of the respective projects and identifies

^{7/} See also Govt. Code § 6254.7(d).

barriers to project success. Disclosure of this extremely sensitive information could harm developers' ability to negotiate necessary contracts and/or could invite interference with project development by competitors.

15. In accordance with the statutory provisions described herein, SDG&E hereby requests that the information set forth in AL 4189-E be protected from public disclosure.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

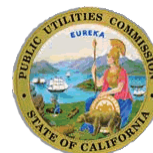
Executed this 13th day of April 2023, at San Diego, California.

A handwritten signature in black ink, appearing to read "Chris Summers", written over a horizontal line.

Chris Summers
Origination, Energy Supply, and Dispatch
Director

Appendix C

Excerpt of Opening Brief of the Public Advocates



FILED

04/14/23

04:59 PM

A2206001

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Approval of: (i) Contract Administration, Least-Cost Dispatch and Power Procurement Activities in 2021, (ii) Costs Related to those Activities Recorded to the Energy Resource Recovery Account, Portfolio Allocation Balancing Account, Power Charge Indifference Adjustment Undercollection Balancing Account, Transition Cost Balancing Account, and Local Generating Balancing Account in 2021, and (iii) Costs Recorded in Related Regulatory Accounts in 2021.

Application 22-06-001

OPENING BRIEF OF THE PUBLIC ADVOCATES

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April 14, 2023

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| A. Cal Advocates withdraws its recommendations for a disallowance relating to the August 27, 2021 Desert Star outage and for a Commission order requiring SDG&E to submit a work status report in its 2023 ERRA Compliance Application. | 3 |
| B. The Commission should determine that contract procurement activities, including contract solicitation and execution, are covered under SOC 4 and subject to review in the annual ERRA Compliance proceedings. | 5 |
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In its review, Cal Advocates observed a concerning and deteriorating trend in the quality of SDG&E's contract procurement activities and results over the 2021 Record Period. In general, SDG&E's contract procurement activities lacked urgency. Specifically, SDG&E was slow in releasing requests for offers (RFO) and evaluating offers that were submitted, and SDG&E mismanaged its contracting timeline so that it did not conform to, and correspond with, the Commission's contract approval process.²¹ The Independent Evaluator for SDG&E's first Mid-term Reliability Request for Offers (RFO) solicitation, presented in SDG&E's Advice Letter 4096-E, filed October 27, 2022, observed the same, and noted in its public report:

Relative to the other two IOUs, SDG&E was slow in issuing its RFP, and appears to have taken a more casual approach to bid evaluation. That may not be an entirely fair characterization. SDG&E likely has a smaller staff to start with, and PA^[22] has observed significant lateral mobility within that staff. During Summer 2021 the same small group that ran the Mid-term Reliability RFO was very busy concluding the Emergency Reliability procurement. On the other hand, SDG&E's late RFO release probably lengthened its bid evaluation, as attractive offers dropped out to take offers (or at least accept shortlist positions) from other utilities.²³

The Independent Evaluator report suggests that SDG&E's procurement problems may be systemic and could persist beyond the scope of the 2021 Record Period. SDG&E's inadequate contract procurement patterns risk exposing its ratepayers to unreasonably high rates relative to other IOU customers.

Cal Advocates identified that during the 2021 Record Period, SDG&E employed similar contracting procedures that the Commission has identified in other proceedings as lacking the requisite urgency to meet the current capacity needs and capacity timeline and that its solicitation process stood in contrast to the more proactive approach utilized by

²¹ See Exhibit CA-01C at 4-5 through 4-8.

²² "PA" here refers to PA Consulting Group, Inc., which served as the Independent Evaluator for SDG&E's 2023-2026 Mid-term Reliability Request for Offers solicitation.

other IOUs that resulted in significantly better results.²⁴ Specifically, Cal Advocates identified issues with contract terminations that occurred with power purchase tolling agreements for energy storage with the Desert Peak Energy Center and North Johnson Energy Center.²⁵ In both contract termination cases, the contracts would have become effective upon Commission approval. However, the pending contracts were automatically terminated due to SDG&E's failure to obtain Commission approval in a timely manner.²⁶ In this case, it is unclear whether this is a "contract administration" matter triggering SOC 4 because the contracts were not technically effective as they were in a limbo period where they were agreed to by the parties but not yet approved by the Commission as required under the contract terms. Regardless, SDG&E failed to take adequate care during the underlying solicitation and contract negotiations, and knew or should have known that its energy storage contracts would need to abide by Commission obligations, rules, and timelines.²⁷ In failing to incorporate these known obligations and timelines into its solicitation and contracting procedures, SDG&E demonstrated a lack of care that led to the contract terminations with the Desert Peak Energy Center and North Johnson Energy Center.

SDG&E disagrees with Cal Advocates' assertion that its contract procurement process has been deteriorating over time and it contends that the ERRA compliance proceeding is not the proper venue to evaluate its contract procurement activities.²⁸ Rather, SDG&E states that the procurement advice letter process, which is reviewed and approved by the Commission, and the Peer Review Group, that reviews IOU procurement

(continued from previous page)

²³ SDG&E Advice Letter (AL) 4096-E, Attachment B (Public) at 13.

²⁴ See Resolution (Res.) E-5117 at 8.

²⁵ See Exhibit CA-01C at 4-5.

²⁶ See Exhibit CA-01C at 4-5.

²⁷ See Exhibit CA-01C at 4-5.

²⁸ Exhibit SDGE-09 at MM-2.

Appendix D

Excerpt of Protest to San Diego Gas & Electric
Company's Tier 3 Advice Letter 4096-E, Request for
Approval of Tranche 1 Mid-Term Integrated Planning
Contracts Resulting from SDG&E's Request for Offers
under D.21-03035 (Public Version)



November 16, 2022

Via Electronic Mail

CPUC Energy Division
Attention: Tariff Unit, Room 4005
505 Van Ness, Avenue
San Francisco, CA 94102
EDTariffUnit@cpuc.ca.gov

Subject: **Protest to San Diego Gas & Electric Company's Tier 3 Advice Letter 4096-E, *Request for Approval of Tranche 1 Mid-Term Integrated Resource Planning Contracts Resulting from SDG&E's Request for Offers under D.21-06-035* (Public Version)**

INTRODUCTION

Pursuant to General Order (GO) 96-B, Rule 7.4, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits this protest to San Diego Gas & Electric Company's (SDG&E) Tier 3 Advice Letter (AL) 4096-E, *Request for Approval of Tranche 1 Mid-Term Integrated Resource Planning Contracts Resulting from SDG&E's Request for Offers Under D.21-06-035*. SDG&E's AL 4096-E seeks approval of three Resource Adequacy (RA) contracts. Two of the contracts are tolling power purchase agreements (PPA) for standalone lithium-ion battery energy storage systems that include energy, ancillary service (AS) and capacity benefits, and one of the contracts is an RA-only agreement for a hybrid solar photovoltaic with lithium-ion battery project.¹ The total megawatt (MW) capacity of the three projects is 200 MW. SDG&E expects the projects to come online by June 1, 2023, and June 1, 2024.² SDG&E AL 4096-E seeks a Commission finding that:

¹ AL 4096-E at 1. The battery storage systems and the hybrid solar-battery project are all owned by third party developers. The storage projects are owned by Ormat (VESI 12 LLC) and Aypa (Cald BESS, LCC), and are named Bottleneck and Cald, respectively. The hybrid project is owned by Terra-Gen (TGP Energy Management, LCC), and is named Edwards Sanborn.

² AL 4096-E at 8. SDG&E expects Edwards Sanborn to come online by June 1, 2023, and Bottleneck and Cald to come online by June 1, 2024.

⁴⁰ The executed contract specifies a condition precedent of [REDACTED], which should provide adequate time for SDG&E to negotiate for a share of potential IRA benefits with Aypa.

D. SDG&E continued a pattern of casual RFO management.

SDG&E's management of negotiations with counterparties repeatedly displays a lack of urgency. The Commission recently admonished SDG&E for its handling of the investor-owned utility's (IOU) procurement pursuant to D.19-11-016, stating, "Given the urgency of the procurement and the level of competition around the state for new resources during this cycle we believe that SDG&E should have put forth a greater effort."⁴¹ The Independent Evaluator (IE) report for AL 4096-E echoes and expands on the same pattern of behavior, noting:

- "PA [Consulting] believes that SDG&E extended what would normally have been appropriate outreach for the 2023-2026 Mid-term Reliability RFO."⁴²
- "SDG&E's outreach was not a detriment to the robustness of the solicitation, but SDG&E's relative tardiness was."⁴³
- "SDG&E is filing its first set of Mid-term RFO contracts 13 months after launching its RFO. Southern California Edison Co. (SCE) [...] launched its solicitation two months sooner than SDG&E and filed its first five 'Fast Track' contracts just over seven months after the launch. SCE filed a sixth contract two and half months after that and five more in mid-August, comparable to SDG&E's timing. Pacific Gas & Electric Co. (PG&E) launched its solicitation even earlier, in mid-June 2021, and PG&E filed nine 'Phase 1' contracts seven months later."⁴⁴
- "SDG&E was slow in issuing its RFP and appears to have taken a more casual approach to bid evaluation."⁴⁵

⁴⁰ AL 4096-E, Confidential Attachment I - VESI 12, LLC Power Purchase Agreement Executed and Redlined at 1.

⁴¹ Resolution E-5117, January 14, 2021, available at: <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M360/K405/360405873.PDF>.

⁴² Public IE Report at 13.

⁴³ Public IE Report at 13.

⁴⁴ Public IE Report at 13. Source footnotes removed.

⁴⁵ Public IE Report at 13.

Nonetheless, the IE report recommends approval of all three contracts contained in AL 4096-E, in part relying on the timeline as justification:

Given, to date, how long the Mid-term Reliability RFO has lasted in duration, as well as the competitive market for projects in California that can meet SDG&E's procurement needs for the RFO, it is PA's opinion that SDG&E is reasonable in executing contracts for the projects outlined in Table 7 despite the bid price increases.⁴⁶

However, if SDG&E is responsible for the extended timeline of this RFO, then it must also be responsible for denying ratepayers the benefits which could accrue to them from ITC benefits.

California's other two IOUs' actions to achieve ITC benefits for ratepayers stand in contrast to SDG&E's efforts. Pacific Gas and Electric (PG&E) had to renegotiate some of its MTR contracts and submitted AL 6711-E on September 23, 2022 with contract amendments that increased the MTR contract prices.⁴⁷ PG&E's

aligns with SDG&E's

⁴⁸ This indicates that counterparties would have faced

. However, PG&E

⁴⁹

SDG&E's comparative lack of

urgency. PG&E signed its contract amendments

⁵⁰

SDG&E executed its contracts

. Likewise, Southern California Edison Company (SCE)

SCE

. It is reasonable to expect SDG&E to have taken comparable steps to realize ratepayer benefits from the ITC prior to executing these contracts.

⁴⁶ Public IE Report at 25.

⁴⁷ PG&E AL 6711-E, Amendments to Mid-Term Reliability Contracts approved in Advice Letter 6477-E, September 23, 2022.

⁴⁸ Compare the described in PG&E AL 6711-E, Confidential Appendix A: Key Aspects to the Amendments.

⁴⁹ PG&E AL 6711-E, Confidential Appendix A: Key Aspects to the Amendments.

⁵⁰ PG&E AL 6711-E, Confidential Appendices B, C, D, and E.

⁵¹ SCE AL