UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Application to Recover Fuel Procurement Costs of San Diego Gas & Electric Co.	)))	**Docket No. ER21-2193**

PROTEST OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

The California Independent System Operator Corporation (CAISO) files this protest in response to the June 23, 2021, filing of San Diego Gas & Electric Company (SDG&E) requesting after-the-fact recovery of fuel-related costs SDG&E asserts it did not recover through the CAISO market settlements.[1] The CAISO requests that the Commission set this matter for evidentiary hearings and authorize parties to conduct additional discovery.

I. BACKGROUND

On June 23, SDG&E filed a request to recover fuel-related costs pursuant to CAISO Tariff Section 30.12. SDG&E's request seeks approximately $12.8 million in unrecovered fuel costs it allegedly incurred to support financially binding market schedules issued for the Desert Star Energy Center (DSEC) and the Yuma Cogen Associates (YCA) resource for Trading Days February 13-16, 2021. As reflected in the CAISO's report attached as Exhibit 1 to SDG&E's filing, the CAISO observed high

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[1] The CAISO separately submitted a motion to intervene in this proceeding on July 7, 2021 and submits this protest pursuant to Rule 211 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.211 (2021). Capitalized terms not otherwise defined herein have the meanings set forth in the CAISO tariff, and references to specific sections, articles, and appendices are references to sections, articles, and appendices in the current CAISO tariff and as revised or proposed in this filing, unless otherwise indicated.

natural gas prices during the period around the President's Day weekend in February 2021. These high prices appear to have resulted from extreme weather conditions in Texas and the Midwestern United States.

In its filing, SDG&E explains that it is the scheduling coordinator for both the DSEC and YCA resources and financially responsible for the cost of fuel necessary to operate both resources. According to the filing, for the DSEC unit, SDG&E procures most of the anticipated gas needs month-ahead and leaves a small amount of procurement to the spot market. Based on this approach, SDG&E reports it was largely insulated from the extreme spot gas prices during the days in question for the DSEC but nevertheless was left exposed to a small degree. Even this small exposure to spot prices, according to SDG&E, left it with unrecovered costs for DSEC. For YCA, which is a cogeneration resource, SDG&E states that the resource owner is responsible for procuring gas and bills SDG&E for gas used above the host plant's need. SDG&E claims that it was unable to recover the costs of these indirect gas purchases through CAISO market revenues on the relevant days. For both resources, SDG&E argues that it meets the CAISO tariff requirements to demonstrate it actually incurred the claimed costs and that these costs were incurred prudently.

II. PROTEST

The Commission should not accept SDG&E's request as just and reasonable based on the record before it. The CAISO has not yet completed the process of securing access to the confidential attachments to SDG&E's June 23 filing. Without having an opportunity to review that material, the CAISO is uncertain if there are relevant factors of which it may still be unaware. The Commission should not accept

SDG&E’s filing without ensuring parties the opportunity to validate SDG&E’s claims.

Even if the CAISO had secured access to the confidential attachments before the comment date, the process of reviewing SDG&E’s application will not necessarily be straightforward. For example, one complicating factor is that, as noted in SDG&E’s application, the CAISO’s underlying market rules changed during the period of requested recovery. This will require the CAISO to validate the cost claims under two rule sets. One significant issue the CAISO and the Commission should endeavor to understand is why SDG&E chose to keep these two resources as modeled in the generic CAISO fuel region, rather than use a specific fuel region that might better reflect their costs. SDG&E states the alternative fuel regions it could have used have tended to be the lowest cost fuel regions, which in turn suggests use of those other regions may not have reduced the unrecovered costs. This counterfactual claim requires further analysis.

Another complicating factor is that SDG&E’s filing does not explain whether the costs it allegedly incurred exceeded the maximum bids for commitment costs for the DSEC and YCA resources nor what commitment cost bids SDG&E submitted on behalf of the resource. Whether SDG&E submitted commitment costs bids at the cap calculated for the resources based on prevailing gas prices is a critical fact to determine if SDG&E is eligible for after-the-fact cost recovery. Allowing scheduling coordinators to seek after-the fact cost recovery when bidding below the cap for commitment costs would create an inappropriate incentive to submit artificially low bids and then seek after-the-fact cost recovery.

The CAISO also has unresolved questions as to whether SDG&E’s alleged costs were incurred prudently. As to the DSEC resource, SDG&E claims that the California Public Utilities Commission's (CPUC) approval of its bundled procurement plan creates a safe harbor for its gas procurement decisions. That may be the case under CPUC rules, but the CAISO does not necessarily agree that procurement under those plans is owed automatic deference or a safe harbor for purposes of this Commission's proceedings or after-the-fact recovery of fuel costs. As to the YCA resource, SDG&E suggests that, based on its power purchase agreement, the gas costs it faces are a direct pass-through from the resource owner. Without understanding the underlying purchases or what measures SDG&E may have taken to hedge the costs passed on from the resource owner, it is not possible to know whether these costs were incurred prudently.

Based on these issues and concerns, the CAISO will require time and possibly additional discovery to validate that SDG&E's calculation reflects actual cost incurred less the revenues SDG&E received from the CAISO markets. The Commission should not accept SDG&E's filing without allowing parties to conduct this discovery and perform any additional analysis.

III. COMMUNICATIONS

In accordance with Rule 203(b)(3) of the Commission's Rules of Practice and Procedure,[2] the CAISO respectfully requests that service of all pleadings, documents,

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[2] 18 C.F.R. § 385.203(b)(3).

and all communications regarding this proceeding be addressed to the following individuals:

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IV. CONCLUSION

For the foregoing reasons, the CAISO requests the Commission find that SDG&E has not demonstrated that its request is just and reasonable and set this matter for hearing.

Respectfully submitted,

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Dated: July 14, 2021

CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 14th day of July, 2021.

/s/ *Martha Sedgley*
Martha Sedgley