

March 19, 2019 Senate Energy Hearing – Kendall Helm, SDG&E

- Good morning Chairman Hueso and members of the Committee. I am pleased to be here today to discuss energy supply in California and how we will evolve to meet both state and customer interests. I plan on addressing three topics: (1) trends in San Diego; (2) a Central Buyer; and (3) the Provider of Last Resort.
- Let me begin with an update on developments in our territory. On February 25, the San Diego City Council voted to move forward with a CCA through establishment of a Joint Powers Authority, intended to include other jurisdictions in the county. Their goal is to be up and running and providing energy to customers beginning in 2021.
- If we include jurisdictions with anticipated interest in the CCA model and customers served by the one operating CCA in our territory and Direct Access, SDG&E could be left serving roughly 20 percent of the load in our territory in just a few years.
- This trend is not inconsistent with what we are seeing across the state, whereby energy supply is becoming increasingly decentralized, as President Picker noted. In California, we are moving to a supply model with the potential for over 50 CCAs and an expansion in the Direct Access program.
- As a result, the IOUs will play a smaller role in procurement going forward. For example, SDG&E's current renewable percentage is around 45 percent, well ahead of our compliance requirements. With anticipated load departure, our models now show that our need to procure renewable resources is extended from the mid-2020s to well beyond 2030.
- While our forecasted energy supply needs are decreasing, procurement by non-IOU providers is expected to rise.
- As the state moves forward with decentralized procurement, a key issue facing legislators and regulators is coordination of that procurement to meet a single goal, be it GHG reduction or reliability. This coordination question brings me to an important part of our vision.

- Where the IOUs have traditionally provided operational resources and the balance sheet to lead legislative or regulatory-directed procurement, we recommend that, going forward, the emerging players lead the way.
- It will be important that all load serving-entities are subject to the same reliability and GHG-reduction requirements; but, when there is a gap because of decentralized decision making, a state Special Purpose Entity (or central buyer) could be relied upon to procure residual needs.
- The scope, functionality, and governance of this central buyer is paramount to its success, so let me state a few points about our position.
 - First relates to the question of who will be the central buyer? We believe the entity must be independent and financially viable. Without independence, the function is vulnerable to litigation and disputes, and without the financial backing to secure resources for broad state needs, the function cannot be relied upon as a safety net.
 - Second relates to the question of what will be procured? We believe the entity should backstop reliability and GHG-reduction goals, but that central procurement should be limited in scope to collective deficiencies resulting *only* after other Load Serving Entities have made their portfolio decisions.
 - Third relates to why SDG&E should *not* serve in this function? Besides failing to meet the independence standard, SDG&E should not seek to regularly take on multimillion-dollar commitments for customers that have chosen a different energy provider. Instead, we believe it makes most sense for us to focus on the safe and reliable delivery of clean energy, including the investments needed to integrate higher levels of clean energy onto the grid. In fact, at a broad level, we believe it is best for all stakeholders if we exit the role of energy supplier altogether.
 - As we consider this option, it is important to note that we currently act as Provider of Last Resort or “POLR”. With this term, I am referring to the obligation to serve all customers in our territory who are not served by another Load Serving Entity.
 - Concerns have been raised about who will provide POLR service if SDG&E exits procurement. If we establish that all Load Serving Entities are subject to the same reliability and GHG-reduction requirements, as well as a central buyer to backstop any gaps, the POLR service is smaller in scope.

- Simply put, the POLR service will be limited to procuring daily energy needs from the CAISO for a small percentage of customers in the state. As done elsewhere, this function can be provided by a wide variety of energy suppliers, auctioned off, or provided by the central buyer as well.
- In closing, I would like to emphasize that SDG&E recognizes the procurement landscape is changing. We expect a decentralized model can work if implemented properly. And, most importantly, we believe **now** is the time to ensure the rules, regulations, and structures are put in place to support this future marketplace.
- Thank you and I am happy to answer any of your questions.