

Draft PG&E Comments on Sutter CPM Waiver

PG&E Opposes

Pacific Gas and Electric Company (“PG&E”) provides these comments on the *California ISO Report on Basis and Need for CPM Designation for Sutter Energy Center* (“Sutter Report”) issued by the California Independent System Operator (“CAISO”) on December 6, 2011. PG&E appreciates the CAISO’s focus on long-term reliability and the need to have appropriate and sufficient resources available to meet the challenging operational needs facing California’s electric system over the next ten years. However, PG&E does not support the CAISO’s proposal to award a 2012 Capacity Procurement Mechanism (“CPM”) designation to Calpine’s Sutter plant to meet projected resource needs in 2017-2018. As explained in more detail below, the CAISO’s proposal is contrary to California statutory law and the CAISO’s Federal Energy Regulatory Commission (“FERC”) approved tariffs. Moreover, the process by which a need determination should currently be made for the year 2017-2018 is the existing Long-Term Procurement Plan (“LTPP”) proceeding at the California Public Utilities Commission (“CPUC”). PG&E is further concerned that awarding a CPM designation based on a long-term need may result in a flood of similar requests from other generators. Rather than making special accommodation for the Sutter plant, the CAISO should continue its analysis to enable the CPUC to make a conclusive determination in the LTPP.

I. The Sutter Report Raises Significant Legal Concerns.

Under California statutory law, resource adequacy and long-term capacity procurement is under the jurisdiction of the CPUC, not the CAISO. Public Utilities Code section 380 provides that the CPUC, in consultation with the CAISO, shall establish resource adequacy requirements that:

- (1) Facilitate development of new generating capacity and retention of existing generating capacity that is economic and needed.
- (2) Equitably allocate the cost of generating capacity and prevent shifting of costs between customer classes.
- (3) Minimize enforcement requirements and costs.¹

Section 380(h) further provides that the CPUC shall “determine and authorize the most efficient and equitable means for achieving all of the following:

- (1) Meeting the objectives of this section.
- (2) Ensuring that investment is made in new generating capacity.
- (3) Ensuring that existing generating capacity that is economic is retained.

¹ Public Utilities Code section 380(b) (emphasis added); *See also* D.10-06-018 (regarding Commission implementation of Section 380).

(4) Ensuring that the cost of generating capacity is allocated equitably.”²

Public Utilities Code section 380 makes clear that for resource adequacy and long-term planning purposes, it is the CPUC, not the CAISO, that should be determining whether the Sutter plant is “economic and needed.”

The CAISO Tariff is equally clear that the Sutter proposal is beyond the CAISO’s authority. When it approved the CPM, FERC allowed the CAISO to designate a unit under the CPM if there was a risk the unit would retire in a given year and the unit was needed for reliability purposes the following year.³ FERC did not authorize the CAISO to use the CPM mechanism to conduct long-term planning or to procure resources that may be needed five to six years in the future, as is the case here. Moreover, the Sutter Report indicates that the CAISO is considering initiating in January 2012 a stakeholder process to consider a longer-term procurement mechanism for the CAISO.⁴ At best, the CPM designation proposal for the Sutter plant is premature. The CAISO should first go through the stakeholder process, develop a proposal for a long-term procurement capacity mechanism, and present its proposal for approval to FERC. Only if the CAISO decides to pursue and FERC approves a long-term capacity procurement mechanism is it then appropriate to consider how the mechanism would apply to specific facilities. Designating the Sutter plant now is both beyond the CAISO’s current authority and premature given the fact that the long-term capacity procurement mechanism stakeholder process has not even been initiated.

II. Long-Term Need Is Currently Being Determined at the CPUC.

Determination of resource need for the years leading up to and including 2020 is in scope in Track I of the CPUC’s 2010 LTPP proceeding (Rulemaking 10-05-006). The CAISO’s analysis in the Sutter Report is an extension of the High Load Trajectory scenario the CAISO performed and submitted in the in the CPUC’s 2010 LTPP proceeding. This scenario is one among at least seven presented at the CPUC. In addition to the High Load Trajectory, the CAISO also performed analysis of four other scenarios required by the CPUC. The investor-owned utilities (“IOUs”) jointly filed three additional scenarios. While the CAISO has stated that 4600 megawatts (“MW”) of resources with operational flexibility are needed by 2020, this assertion is based on the High Load Trajectory. The CAISO and 22 other Settling Parties in Track I of the LTPP Track I, agreed to the following:

Four CPUC-Required Scenarios and one other CPUC scenario [were] analyzed by the CAISO. The results show no need to add capacity for renewable integration purposes above the capacity available in the four scenarios for the

² Public Utilities Code section 380(h) (emphasis added).

³ CAISO Tariff, § 43.2.6.

⁴ Sutter Report at p. 9.

planning period addressed in this LTPP cycle (2012-2020).
The additional scenario studied by the CAISO did show need.

The additional scenario specified above is the High Load Trajectory scenario. Furthermore, the 23 Settling Parties agreed that “the results of the IOUs’ modeling show need for additional capacity for renewable integration purposes under certain circumstances.” Nonetheless, all 23 Settling Parties agreed “the resource planning analyses presented in this proceeding do not conclusively demonstrate whether or not there is need to add capacity for renewable integration purposes through the year 2020.”

As a result of this inconclusive analysis, the CAISO formed an advisory group to review and improve input assumptions and methodology used in the 2010 LTPP. Subsequent analysis by the CAISO is scheduled to be ready by the end of the first quarter of 2012. Also in early 2012, as part of the CAISO’s integration study update, the CAISO is to consider alternatives to meet integration needs. PG&E supports continuation of this analytical activity and supports the CAISO’s leadership in this analytical effort.

The appropriate forum for determination of long-term need is currently at the CPUC, in the 2010 LTPP and its successor proceedings. It is at the CPUC that the CAISO should continue to make the case that there is a need for 4600 MW of resources with appropriate operating flexibility to ensure integration of intermittent renewable resources into the electric grid.

[TO BE DECIDED WHETHER TO INCLUDE THE FOLLOWING PARAGRAPH]
Given the challenges ahead in meeting California long-term needs, it is worthwhile to consider whether the existing framework for long-term capacity procurement ought be changed. Such possible changes should be considered by the CPUC and CAISO jointly and collaboratively, with appropriate stakeholder involvement in a deliberate process.

IV. The CAISO Has Not Demonstrated That Sutter Needs A CPM Designation And Doing So May Create A Bad Precedent.

Using the short-term CPM mechanism for long-term procurement sets a poor precedent for other similarly situated resources and could cause a flood of retirement applications. Generators may be incited to make “me too” filings with the CAISO, claiming economic hardship and threatening to shut down unless they are given a CPM designation. The CAISO could be inundated by requests from generators seeking long-term commitments from the CAISO.

V. Conclusion

⁵ [CITE Settlement filed in 2010 LTPP]

⁶ Sutter Report at p. 9.

⁷ CAISO Tariff, § 43.2.6(5); see also Sutter Report at pp. 10-11 (describing information provided by Calpine).

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For the foregoing reasons, PG&E opposes the proposals to award a CPM designation to the Sutter plant. PG&E does support the CAISO's efforts to consider long-term capacity procurement mechanisms and looks forward to actively participating in the CAISO stakeholder process on this issue currently scheduled to start in January 2012.