BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Annual Local Procurement Obligations	R.11-10-023 (Filed October 20, 2011)

PROPOSALS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) ON PHASE 1 ISSUES

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ON PHASE 1 ISSUES**

Pursuant to the schedule set forth in the December 27, 2011, *Phase 1 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (Phase 1 Scoping Memo) in this proceeding, PG&E files its proposals on Phase 1 issues. PG&E also reiterates its request for a conditional exemption for its peak day pricing program, to allow PG&E to continue to count this dynamic rate program for full resource adequacy value for 2013 if PG&E does not receive California Public Utilities Commission (Commission) authorization to shift the dynamic rate operating hours in time for implementation in 2013.

I. REVIEW THE YEARLY LOCAL CAPACITY REQUIREMENTS RECOMMENDED BY THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR

PG&E will continue to participate in the yearly review of the local capacity requirements that is carried out by the California Independent System Operator (CAISO).

II. REFINEMENTS TO THE RESOURCE ADEQUACY PROGRAM

A. Standard Capacity Product (SCP) Implementation For Demand Response Resources

PG&E does not have a proposal for a standard capacity product (SCP) to be applicable to demand response (DR) resources providing resource adequacy (RA) into the CAISO markets. In its current configuration, DR might not be a logical fit for the current SCP framework that the CAISO has incorporated into its tariff for other RA resources. There are a number of challenges in translating the terms associated with conventional generation RA resources and applying them to DR resources.

The CAISO's SCP framework is built on a generation model that does not always have direct analogues to DR. For instance, in contrast to generation resources, DR resources do not have nameplate capacities, scheduled outages, or forced outages, all of which act as inputs in the CAISO's current SCP structure. These differences render the current SCP framework inapposite for RA DR resources.

B. Maximum Cumulative Capacity (MCC) Buckets For Demand Response Resources

PG&E does not have a specific proposal with respect to this topic. If other parties make specific proposals, PG&E anticipates that it may prepare comments on some or all of them for the workshops scheduled for January 26 and 27, 2012.

C. Adjustments To The RA Coincidence Adjustments

PG&E does not have a specific proposal with respect to this topic. If other parties make specific proposals, PG&E anticipates that it may prepare comments on some or all of them for the workshops scheduled for January 26 and 27, 2012.

D. Development Of Qualifying Capacity (QC) Rules For Dynamically Scheduled And Pseudo-Tie Resources

PG&E does not have a specific proposal with respect to this topic. If other parties make specific proposals, PG&E anticipates that it may prepare comments on some or all of them for the workshops scheduled for January 26 and 27, 2012.

E. Allocation Of Resource Adequacy Credit For Third-Party Demand Response Providers Who Participate In Reliability Demand Response Programs

PG&E recommends that the allocation of RA credit for third-party reliability demand response programs be addressed later, once the CAISO's reliability demand response program is finalized and incorporated into the CAISO's tariff.

Other uncertainties also argue against addressing this topic at this time. Specifically, the decision on the utilities' 2012-2014 DR budget applications (A.11-03-001, et al) has been delayed. PG&E anticipates that this, in turn, will push off further action in the Commission's effort to finalize Rule 24 in phase IV of the Commission's ongoing rulemaking on demand response (R.07-01-041), which will govern the direct participation of third-party aggregators in CAISO DR programs. Rule 24 is needed in order for third-party aggregators to bid DR into the CAISO market.

For these reasons, this topic should not be addressed at this time.

F. CAISO Flexible Capacity Procurement Requirement

PG&E will review the CAISO's proposal, and anticipates that it will prepare comments on it for the workshops scheduled for January 26 and 27, 2012. PG&E's preliminary observations on the topic of modifications to the resource adequacy program to integrate increased levels of renewables are provided in the following section.

G. Update Resource Adequacy Rules To Account For Differences In Procurement Due To The 33% Renewable Portfolio Standard Requirement, The Electrical System's Operational Needs, And Related Issues

Regarding the procurement of non-generic capacity, PG&E supports development of a multi-year forward showing rather than a one-year forward showing. A one-year forward showing does not provide adequate market lead time to ensure required flexible capacity is procured. To better meet this goal, PG&E recommends that the Commission work with the

CAISO and market participants to develop a process by which non-generic capacity needs are identified, and their procurement demonstrated, five years in advance.

Flexible capacity (e.g., regulation and flexible ramping[1]) procured in the forward market should have a must-offer requirement in the CAISO's Day-Ahead and Real-Time markets similar to the generic capacity procured for the one-year forward showing.

H. Staff Implementation Proposals

PG&E will review the staff's proposals, and anticipates that it may prepare comments on some or all of them for the workshops scheduled for January 26 and 27, 2012.

III. REQUEST FOR CONDITIONAL EXTENSION OF PEAK DAY PRICING EXEMPTION

In this section, PG&E raises an issue that was not identified in the Phase 1 Scoping Memo. PG&E had raised this issue in its comments on the rulemaking.

The issue relates to the interaction of the hours of operation of PG&E's peak day pricing (PDP) program, and the hours of operation typically required for DR programs. Currently, PDP's hours of operation do not align perfectly with the hours of operation typically required for DR programs to receive full RA credit.

In D.11-06-022, the Commission granted PG&E an exemption to continue to receive full RA credit for PDP during 2012. However, the Commission also required PG&E to "propose changes to the current large commercial and industrial and agricultural customers' PDP operational period of 2 p.m. – 6 p.m. to 1 p.m. - to 6 p.m. in its 2012 Rate Design Window [RDW] application. PDP for other customer classes that has not been implemented should comply with the new measurement hours in 2013."[2]

As ordered, PG&E will propose changes to comply with these operational hours in the 2012 RDW application, which will be filed in February 2012. However, PG&E is concerned

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1 The Flexible Ramping spot product is being developed by the CAISO in a separate, ongoing stakeholder process, the results of which are scheduled to be presented to the CAISO board in March 2012.

2 D.11-06-022 , p. 60.

that Commission approval may not be received in time for implementation in 2013. Indeed, it is quite possible that the 2012 RDW decision may not be issued until sometime in 2013. Therefore, PG&E requests that this proceeding grant PG&E a conditional exemption to allow it to continue to count dynamic rates for full RA value for 2013, if PG&E does not receive CPUC authorization to shift the dynamic rate operating hours in time for implementation in 2013.

PG&E is following the Commission's directive, and will seek to conform the hours of the PDP program to the revised RA window through the appropriate venue, the 2012 RDW. It would not make sense for PG&E to modify its PDP program before the Commission's decision in that proceeding, however. Nor would PG&E have authority to do so. And it would be fundamentally unfair to penalize PG&E's ratepayers with additional RA procurement costs during 2013 if the timing of the final decision in the 2012 RDW does not allow PG&E to change its operational hours for PDP by the beginning of 2013. Therefore, PG&E again respectfully requests that this issue be addressed in Phase I of this proceeding, and that a conditional exemption be granted.

Respectfully Submitted,

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