

**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)

**POST-WORKSHOP COMMENTS OF PACIFIC GAS AND ELECTRIC
COMPANY (U 39 E)**

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Pursuant to the schedule set forth in the March 23, 2012, Administrative Law Judge's Ruling Seeking Comment, as modified by a March 30, 2012, e-mail ruling of the administrative law judge, Pacific Gas and Electric Company (PG&E) files its comments on the issues identified in the December 27, 2011, Phase 1 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge, as well as the issues discussed during the workshops held on January 26-27, 2012, and March 30, 2012.

First, PG&E addresses two related proposals, the Energy Division's (ED) Maximum Cumulative Capacity Bucket proposal and the California Independent System Operator's (CAISO) flexible capacity proposal. PG&E recommends that neither of these proposals be adopted at this time, but that the California Public Utilities Commission (Commission) immediately initiate a separate, stand-alone phase of this proceeding to develop a multi-year, flexible capacity resource adequacy program. As has become increasingly clear to many of the parties that traditionally participate in resource adequacy and long term procurement plan proceedings, a multi-year, flexible capacity resource adequacy program is necessary to address the looming issues that led the ED and the CAISO to make their respective proposals.^{1/}

PG&E then addresses the other issues identified in the scoping memo, in the order they are set forth there.

^{1/} In earlier comments in this proceeding PG&E had urged the Commission to establish a separate, stand-alone rulemaking to investigate this issue. At this time PG&E believes that addressing this topic in a separate, stand-alone phase of this already-ongoing proceeding will allow it to be addressed more quickly.

Finally, PG&E reiterates two requests for exemptions related to its demand response (DR) proposals that it discussed during the January 26-27 workshops. Both requests are driven by timing considerations. First, PG&E requests 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 Commission authorization to shift the dynamic rate operating hours in time for implementation in 2013. Second, PG&E requests an exemption for 2013 from the local dispatchability requirement for PG&E's Aggregator Managed Portfolio (AMP) program, Capacity Bidding Program (CBP), and Demand Bidding Program (DBP). This request is driven by the timing of, and possible substantive determinations that may be included in, the upcoming decision on PG&E's 2012-2014 demand response program application (A.11-03-001).

I. DISCUSSION

A. The California Independent System Operator's Flexible Capacity Proposal, And The Energy Division's MCC Bucket Proposal Should Both Be Included For Consideration In A New Phase Of This Proceeding, To Be Initiated In The Immediate Future, To Develop A Multi-Year, Flexible Capacity Resource Adequacy Framework

Essentially all of the March 30 workshop was devoted to discussion of (1) the ED's proposed refinement of the Maximum Cumulative Capacity (MCC) aspect of the resource adequacy program, as detailed in the attachment to the March 23 ALJ Ruling, and (2) the CAISO's flexible capacity requirement proposal, described most recently in the presentation made by the CAISO at the March 30 workshop.

Both of these proposals are intended to address, from different perspectives, the perceived need for some level of "flexible capacity" on the CAISO grid in order for the CAISO to continue to operate the grid reliably as increasing levels of generation from renewable, often intermittent, sources of power are added to the grid.

As PG&E observed in the comments it filed on April 6, 2012, in R.12-03-014, the current resource adequacy framework is focused primarily on evaluating whether sufficient resources are

available to meet CAISO system peak needs. But as several parties have pointed out and/or acknowledged in recent Commission proceedings, additional factors must be taken into account going forward. The current planning reserve margin framework, standing alone, can no longer be viewed as adequate to ensure CAISO system reliability on an operating basis. Integration of generation from intermittent renewable sources of power will require that some amount of “flexible capacity” be available to the CAISO grid in order for the CAISO to operate it reliably.

Further, the current one year look-ahead incorporated in the resource adequacy program may not be sufficient to provide confidence, on a planning basis, that the CAISO will have the resources it ultimately needs, on an operational basis, in order to maintain system reliability. A multi-year resource adequacy framework may also be needed to address the risk of retirement of existing flexible generation capacity.

There appears to be something approaching agreement on these topics among many of the parties taking the most active roles in system planning issues, at least at the level of generality just stated. However, there is not unanimous agreement, and there is not nearly as much agreement on what the details of a multi-year, flexible capacity resource adequacy framework should look like.

Both the ED’s MCC bucket refinement proposal and the CAISO’s flexible capacity proposal are attempts to address this need for change. However, neither proposal should be adopted at this time. Nor should the Commission impose an artificial deadline for implementation of some of these features for the 2014 program year, as proposed by the CAISO.

First, there is no need for any new requirements to be adopted for the 2013 resource adequacy program year. The ED agrees there is no need for the Commission to include flexible capacity requirements for the 2013 program year. The CAISO is no longer asking the CPUC to implement flexible capacity procurement in the 2013 program year, either.

Second, from a substantive perspective, neither the ED’s nor the CAISO’s proposed frameworks are appropriate for adoption at this time. The ED’s approach allocates resources to

buckets, but has no clear methodology to determine the size of the buckets, or to determine how these buckets should change in the future as more intermittent generation is added to the system.

From PG&E's perspective the CAISO's approach is better grounded in terms of categorizing various types of flexible capacity need. However, the CAISO has not demonstrated its approach is efficient for addressing flexibility needs. Nor has the CAISO described how the level of need for the various categories of flexible capacity would change over time as system characteristics, such as the levels of intermittent generation, change. Also, the CAISO's approach is missing essential ingredients such as how important resources like use-limited and hydro-electric resources should be counted.

Neither the CAISO nor the ED has examined how adoption of its proposal would affect customer reliability or cost, how it would affect market prices for flexible and non-flexible resource adequacy capacity, how load serving entities could comply with it, or how compliance would be verified. Therefore, adopting either framework now, or locking in requirements now for any compliance year, would be premature. Instead, the Commission should immediately initiate a separate, stand-alone phase of this proceeding to develop and adopt a multi-year, flexible capacity resource adequacy framework.

PG&E recognizes that this topic will require substantial efforts. Developing this framework is not a small "tweak" of the current resource adequacy program at the margin. Instead, it is a fundamental revamping of how resource adequacy works. Modifying the existing resource adequacy program to incorporate the new flexibility and multi-year dimensions will take time, and must be done carefully to avoid disrupting markets and increasing costs to customers unnecessarily.

Therefore, PG&E urges the Commission to initiate this phase of the resource adequacy OIR immediately, and to set a prehearing conference in the very near future to establish a schedule for this effort. Careful consideration should be given to the effect any adopted program will have on reliability and customer costs, as well as the implementation processes that the new

framework will impose on the Commission, the CAISO, and load serving entities (and other market participants) affected by the new requirements. The Commission should work closely with the CAISO, which has an ongoing flexible capacity procurement stakeholder process that is addressing the same or similar issues.

As PG&E discussed in its comments on the preliminary scoping memo in R.12-03-014, PG&E urges the Commission to address this issue here, rather than in the long-term planning process (LTPP) proceeding because addressing system need questions, first with respect to local capacity requirements and then with respect to flexible capacity requirements, will be more than enough to occupy the LTPP over the next two years.

B. Yearly Local Capacity Requirements:

Yearly local capacity requirements are being addressed on their own timeline.

C. Proposed Refinements to the Resource Adequacy program.

1. Standard Capacity Product (SCP) implementation for demand response resources

There is no specific proposal in front of the Commission for adoption on this topic at this time. As PG&E has commented earlier, DR might not be a logical fit for the current SCP framework that the CAISO has incorporated into its tariff for other resource adequacy resources. There are a number of challenges in translating the terms associated with conventional generation resource adequacy 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. But all of these are inputs in the CAISO's current SCP structure. These differences render the current SCP framework inapposite for DR resource adequacy resources.

2. Maximum cumulative capacity (MCC) buckets for demand response resources

This topic was subsumed in the ED's broader proposal to revise MCC buckets. PG&E's

comments on the ED's broader proposal are provided above.

3. Adjustments to the RA coincidence adjustments

PG&E recommends the Commission not adopt this proposal at this time. With planned increases in intermittent generation, load serving entities' procurement responsibilities will need to consider their contribution to the system's reliability and flexibility over many more hours than the system peak hour.

The Commission may want to consider changing the allocation of load diversity, if necessary, after the Commission incorporates flexible capacity procurement requirements in its resource adequacy process. At that point, the Commission may also want to consider allocating flexible capacity procurement responsibility among load serving entities as a function of the variability and forecast uncertainty of load and resources that each load serving entity brings to the system.

4. Development of qualifying capacity (QC) rules for dynamically scheduled and pseudo-tie resources

The ED proposes to treat dynamically scheduled resources and pseudo tie resources as if they were located in the CAISO for purposes of qualifying capacity rules. PG&E has no objection to this proposal.

5. Allocation of Resource Adequacy credit for third-party demand response providers who participate in Reliability demand response programs

PG&E recommends that no action be taken on this topic at this time. This topic can be considered after several actions have been completed, including the CAISO having an approved Reliability Demand Response Resource program, and the conclusion of Phase 4 Part 2 of the demand response OIR (R.07-01-041).

6. CAISO Flexible Capacity Procurement Requirement

As discussed above, from a substantive perspective, the CAISO's proposed framework is not appropriate for adoption at this time. While the CAISO's approach has some grounding in terms of categorizing various types of flexible capacity need, the CAISO has not demonstrated

its approach is efficient for addressing flexibility needs. Nor has the CAISO described how the level of need for the various categories of flexible capacity would change over time, as system characteristics, such as the levels of intermittent generation, change. Also, the CAISO's approach is missing essential ingredients such as how important resources like use-limited and hydro-electric resources should be counted.

As also discussed above, PG&E urges the Commission to immediately initiate a stand-alone track of this proceeding to develop a multi-year, flexible capacity approach. Consideration of the CAISO's flexible capacity framework proposal should be incorporated into that phase of the proceeding.

7. 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

The ED's MCC bucket proposal and the CAISO's flexible capacity proposal are two specific approaches to addressing this topic. As just indicated, PG&E urges the Commission to immediately initiate a stand-alone track of this proceeding to develop a multi-year, flexible capacity approach, which will address this topic.

D. Energy Division Proposals

1. QC rules for dynamically scheduled or pseudo tie resources

PG&E understands this to be the same topic as is discussed in section C.4., above. PG&E has no objection to the ED's proposal to treat these resources as if they were located in the CAISO for purposes of qualifying capacity rules.

2. Revisions to the MCC bucket percentages

As discussed above, from a substantive perspective the ED's proposed framework is not appropriate for adoption at this time. The ED's approach allocates resources to buckets, but has no clear methodology to determine the size of the buckets, or to determine how these buckets should change in the future as more intermittent generation is added to the system.

As also discussed above, PG&E urges the Commission to immediately initiate a stand-

alone track of this proceeding to develop a multi-year, flexible capacity approach. Consideration of the ED's MCC proposal should be incorporated into that phase of the proceeding.

3. Changes to the rounding convention as adopted in D.07-06-029

PG&E has no comments on this topic at this time.

E. Proposed Issues For The Traditional Phase 2 Of The Two-Year Resource Adequacy OIR

As is anticipated in the scoping memo issued in this proceeding, typically the Commission holds a resource adequacy rulemaking every two years, and conducts the proceeding in two one-year phases. In that context, the scoping memo identifies several potential issues for phase 2 of this proceeding. PG&E provides brief comments on those topics below.

In addition, as discussed above, PG&E recommends that a separate, stand-alone phase of this proceeding be initiated immediately, to address development of a multi-year, flexible capacity resource adequacy framework. That phase should have its own schedule, separate from the traditional schedule.

The scoping memo lists four potential topics for phase 2.

1. Review the yearly Local Capacity Requirements recommended by the CAISO for 2014

PG&E has no comment at this time.

2. Determination of RA rules for generation interconnected at the distribution level

PG&E agrees that this is very likely to be an appropriate issue for phase 2. Further, the timing of this should be coordinated with the timing of the CAISO's ongoing stakeholder process relating to this matter.

3. RA rules for resources which provide flexible grid attributes, such as energy storage devices

As discussed above, PG&E recommends initiation of a separate, stand-alone phase of this proceeding, separate from the traditional annual phases, to address the development of a multi-

year, flexible capacity framework for resource adequacy. The question of whether there is any need for special rules for any particular kind of resource, whether an energy storage device or some other resource, should be addressed there.

4. Preparation and review of new studies of the effective load carrying capacity of wind and solar resources on California

The more general topic of how wind and solar resources will fit into the new multi-year, flexible capacity resource adequacy framework should be addressed in the stand-alone phase of this proceeding that PG&E recommends be initiated.

II. REQUEST FOR EXEMPTIONS FOR PG&E DEMAND RESPONSE PROGRAMS DUE TO ANTICIPATED TIMING OF COMMISSION DECISIONS

In this section, PG&E raises two issues that were not identified in the Phase 1 Scoping Memo. PG&E discussed these issues at the January 26-27 workshop. First, PG&E requests that the Commission grant PG&E's request for a conditional extension of exemption it is currently operating under for the peak-day pricing program. Second, PG&E requests an exemption for 2013 from the local dispatchability requirement for PG&E's AMP program, its CBP, and its DBP.

A. Request For Extension Of Conditional Extension Of Peak Day Pricing Exemption

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 resource adequacy 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, in February 2012 PG&E proposed changes to comply with these operational hours in its 2012 RDW application (A.12-02-020). However, PG&E is concerned 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 Commission authorization to shift the dynamic rate operating hours in time for implementation in 2013.

PG&E is following the Commission’s directive and is seeking to conform the hours of the PDP program to the revised RA window through the appropriate venue, the 2012 RDW. However, it does not make sense for PG&E to modify its PDP program before the Commission’s decision in that proceeding. Nor would PG&E have authority to do so. And it would be fundamentally unfair to penalize PG&E’s ratepayers with additional resource adequacy 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, and that a conditional exemption be granted.

B. Request For Exemption From Local Dispatchability Requirement For PG&E’s AMP Program, Its CBP, And Its DBP

In D.11-10-003 the Commission ruled that DR resources, not including dynamic pricing programs, must be capable of being dispatched by Local Capacity Area (LCA) by 2013 in order to receive local resource adequacy credit.^{3/} It ruled that utilities may request an exemption to the 2013 requirement for specific demand response programs if: 1) the Commission proceedings addressing demand response program designs and funding issues have not concluded with

^{2/} D.11-06-022 , p. 60.

^{3/} D.11-10-003, Ordering Paragraph 1a.

sufficient time to modify the program in question prior to the 2013 RA compliance year; or 2) the Commission has found in a demand response proceeding that a particular demand response program should not be modified to comply with the rule for various reasons, e.g., cost-effectiveness or implementation-related issues.^{4/}

PG&E respectfully requests an exemption to this requirement for 2013 for its AMP Program, its CBP, and its DBP. For the AMP program, the Commission's October 28, 2011 proposed decision (PD) and March 19, 2012 alternate proposed decision (APD) in the 2012-2014 demand response programs applications for the utilities, A.11-03-001, *et al*, would require PG&E to file a Tier 2 Advice Letter within 60 days (ordered by the PD) or 90 days (ordered by the APD) of renegotiating the AMP contracts for 2013-2014. This leaves little time before the October 2012 resource adequacy compliance filing date for 2013 to negotiate a local dispatchability provision in the AMP contracts in a cost-effective manner, or implement any changes in time for 2013.

For CBP and DBP, like the AMP program, there is insufficient time for PG&E to implement dispatchability by LCA in time for the October 2012 resource adequacy compliance filing date, or to be operational in 2013. The PD and APD would require that PG&E submit Tier 2 Advice Letters for DR programs with a current cost-effectiveness score between 0.5 and 0.9, and propose revisions to the programs to give them a cost-effectiveness score of 0.9 or higher. The CBP and DBP fall into this category of DR programs so their respective Tier 2 Advice Letters must be submitted within 45 and 60 days from a final decision. PG&E is concerned that the Commission will be unable to approve these advice letters in time for these programs to be included in the October 2012 resource adequacy compliance filing.

In summary, the timing of the decision in the 2012-14 DR program applications (A.11-03-001, *et al*), combined with the need to file and obtain approval of advice letters after the decision is issued (assuming the final decision is consistent with the PD and APD) leaves

^{4/} D.11-10-003, p. 8.

