

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate and
Refine Procurement Policies and Consider
Long-Term Procurement Plans.

R.12-03-014
(Filed March 22, 2012)

**COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) REGARDING
TRACK 3 ISSUES IN THE 2012 LONG-TERM PROCUREMENT PLAN OIR**

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Dated: November 2, 2012

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Pursuant to the May 17, 2012 Scoping Memo and Ruling (Ruling), Pacific Gas and Electric Company (PG&E) respectfully submits its comments on Track 3 procurement rules issues. PG&E's comments focus on four primary areas: flexibility procurement requirements and products (items 1 and 9 in the Ruling); multi-year forward procurement requirements (item 12); greenhouse gas (GHG) procurement rules (items 3 and 4) and refinements to the Energy Resource Recovery Account (ERRA) compliance filing requirements (item 6).

For items 1, 9, and 12, PG&E reiterates its position in its September 20th motion that these items should be moved to the current Resource Adequacy (RA) proceeding. PG&E believes they require attention sooner than other issues associated with Track 3 on its currently proposed schedule. If the Commission keeps these issues in this proceeding, they should be given the highest priority.

With respect to GHG procurement rules, PG&E urges the Commission to modify current procurement rules to allow utility procurement of offset credits that are developed by the utility,

without need for a separate application. PG&E further urges the Commission to remove the restriction that requires all allowance and offset credit transactions to be conducted through a Request For Offers (RFO) or on an exchange.

Turning to ERRA compliance filings, PG&E recommends that the Commission review the Quarterly Procurement Compliance Report (QCR) filing requirements for contract amendments to ensure uniformity among the utilities' respective filings, and to clearly establish whether contract amendments are reviewed in the QCR.

PG&E has no comments at this time on the other Track 3 items listed in the Ruling.

I. IF THEY ARE NOT MOVED TO THE RESOURCE ADEQUACY PROCEEDING, THE MULTI-YEAR PROCUREMENT REQUIREMENT AND ASSOCIATED PROCUREMENT RULE ISSUES SHOULD BE GIVEN PRIORITY IN TRACK 3

With respect to item 1 in the Ruling (“Flexible resource procurement and contract policies”), PG&E urges the Commission to move quickly in determining what requirements and policies are needed. The Commission has indicated it intends to implement a flexibility requirement for the 2014 RA showing,^{1/} load-serving entities (LSE) are likely to begin contracting explicitly for flexibility attributes by mid-2013, and negotiations for such flexible attributes are dependent on Commission policies on requirements and contract terms. Regarding item 9 (“Policies related to ISO new markets and market products, including flexi-ramp products and intra-hour products”), PG&E notes that flexibility requirements are likely to be tied to new California Independent System Operator (CAISO) products such as flexible ramping. Given the timeframe on adopting flexibility requirements, these issues need to be addressed quickly so that parties can procure the appropriate products in the most cost-effective manner for customers.

1/ See, D.12-06-025, p. 2.

Finally, regarding item 12 (“Multi-year forward procurement requirements”), PG&E urges the Commission to act quickly to determine the design attributes of the multi-year forward procurement market. The current RA proceeding is addressing flexibility requirement on a one-year basis, and PG&E notes that the amount of flexibility required is tied to the amount of renewables coming on line. Renewable Portfolio Standard (RPS) capacity is slated to increase significantly in the next few years, and existing plants need to make investments to increase their flexibility. Adopting a multi-year forward requirement will facilitate investment by existing plants to meet flexibility need.

II. GHG PROCUREMENT

PG&E urges the Commission to modify current procurement rules to allow utility procurement of offset credits that are developed by the utility, without need for a separate application. The same approved methods that PG&E would follow to procure non utility-originated offset credits, such as through an RFO, should be authorized for this purpose. Given the limited availability of offset credits, this will allow the utility’s customers to more fully benefit from any cost savings provided by purchasing offset credits in lieu of allowances, to the extent allowed by the California Air Resources Board’s Cap-and-Trade regulation.

PG&E further urges the Commission to modify current GHG procurement rules by removing the restriction that requires all allowance and offset credit transactions to be conducted through an RFO or on an exchange. This restriction hampers the ability of PG&E to procure other cost-effective allowance and offset credits that may be available through a bilateral transaction, unnecessarily increasing ratepayers’ expense. PG&E should instead be authorized to utilize any of the approved procurement methods and practices as described in its Bundled Procurement Plan that govern procurement.

