

**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) ON  
THE PROPOSED DECISION AUTHORIZING LONG-TERM  
PROCUREMENT FOR LOCAL CAPACITY REQUIREMENTS**

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Dated: January 14, 2013

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Pursuant to the Article 14 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) provides these comments on the Proposed Decision Authorizing Long-Term Procurement For Local Capacity Requirements (PD).

As discussed below, PG&E generally supports the PD. In particular, the PD's analysis of the Cost Allocation Methodology (CAM) is well reasoned and fully supported by the record.

PG&E recommends that the PD be modified in two respects.

- Since the PD does not require Southern California Edison Company (SCE) to procure sufficient resources to ensure that the local reliability needs in southern California have been satisfied, the PD should be modified to clarify that the cost of all resources necessary to meet local reliability needs in southern California should be borne by utility customers in southern California, and that customers in PG&E's service area should not bear any of those costs.
- The 50 MW set aside for storage should be removed. Storage should compete with other resources to meet the authorized need.

In addition, PG&E proposes that the PD be modified to encourage the California Independent System Operator (CAISO) to use its stakeholder process to develop the requirements needed for demand-side resources to compete in the procurement process to meet

local capacity requirements.

The Attachment to this pleading sets forth PGE's recommended modifications to the PD's findings of fact and conclusions of law.

**I. THE PD'S ANALYSIS OF THE ADOPTED COST ALLOCATION METHODOLOGY IS WELL REASONED AND FULLY SUPPORTED BY THE RECORD**

PG&E strongly supports the PD's positions regarding the CAM. The PD carefully considers the proposals made to alter the CAM or to allow the possibility of opting-out of CAM, and determines that the existing methodology should continue without change.

**A. CAM Properly Allocates Costs Among Load Serving Entities**

The PD's statements that 1) "[the Alliance for Retail Energy Market's (AReM)] driving peak/decreasing load proposal fails to recognize the interrelated nature of the electric system" and 2) "While creating more complexity, nothing in AReM's proposal improves on the fairness of the current allocation" (PD, p. 102) are absolutely correct. All benefitting customers should pay their fair share of reliability costs. PG&E agrees with the PD's conclusion that the "the costs of local reliability needs shall continue to be allocated in accordance with previous Commission decisions." (PD, p. 102.)

**B. CAM Should Not Be Modified**

PG&E supports the PD's rejection of AReM's proposed cap on the CAM, and agrees that the proposed cap would be contrary to the notion of each benefitting customer paying its fair share of system and local reliability costs. PG&E agrees with the PD that AReM's proposal to levelize the annual revenue requirement is contrary to the plain language of Section 365.1(c)(2)(C) and therefore must be rejected.

**C. No CAM Opt-Out Mechanism Should Be Adopted In This Proceeding**

PG&E agrees with the PD that the issue of a CAM opt-out is complex, and that any opt-

out mechanism would need to be carefully examined to see that it would adequately ensure investment in new resources. The PD correctly rejects AReM's opt-out proposal.

**II. THE PD SHOULD BE MODIFIED TO CLARIFY THAT THE COST OF RESOURCES NECESSARY TO MEET LOCAL RELIABILITY NEEDS IN SOUTHERN CALIFORNIA SHOULD BE BORNE BY RATEPAYERS IN SOUTHERN CALIFORNIA**

One consequence of the PD's approach of setting minimum and maximum procurement amounts for SCE to meet the local reliability needs in southern California is that the resources that SCE procures pursuant to Track 1 may not fully satisfy local requirements.

The PD acknowledges this, stating:

By adopting a lower maximum procurement level than the ISO recommends, the maximum levels are unlikely to turn out to be too high. *If our adopted maximum procurement level is too low, there will be timely opportunities to obtain additional resources in future long-term procurement planning proceedings.* (PD, p. 60 (emphasis added).)

It is important that the Commission continue to track whether local capacity needs in southern California have, in fact, been met. If later analysis shows that the maximum procurement level set here has not resulted in sufficient resources being added to meet this need, then the Commission should require that additional resources be procured for that purpose. Otherwise, local reliability could be unacceptably degraded in southern California.

Further, should additional resources be necessary to meet southern California's local capacity needs, those costs should be borne by customers in southern California. In particular, to the extent that any resources procured pursuant to Track 2 of this proceeding are counted toward meeting the local needs in southern California, the costs of those resources should be allocated to southern California. The final decision should clarify this point, and the additional finding of fact/conclusion of law that PG&E proposes should be included in the final decision, as well.

### **III. THE PD SHOULD BE MODIFIED TO REMOVE THE 50 MW SET-ASIDE FOR STORAGE**

While PG&E generally supports the PD, PG&E opposes the 50 MW storage set-aside that the PD would adopt. (PD, pp. 58-60, 79-80.) No storage set aside is necessary or appropriate. Storage resources should be allowed to compete to provide the necessary attributes to the CAISO grid to meet local reliability needs in southern California. If storage resources can provide these attributes—and can do so in a cost-effective and environmentally sound manner when compared to other available alternatives—then storage resources should be selected to meet the resource need.

However, creating a set-aside for storage will only increase customer costs to the extent that storage is not competitive relative to available alternatives. The PD should be modified to eliminate the 50 MW storage set aside, and to make clear that storage must be allowed to compete with other resources to meet the local reliability needs in southern California.

### **IV. THE CAISO STAKEHOLDER PROCESS SHOULD BE USED TO DEVELOP THE REQUIREMENTS NEEDED FOR DEMAND-SIDE RESOURCES TO COMPETE IN THE PROCUREMENT PROCESS TO MEET LOCAL CAPACITY REQUIREMENTS**

The PD cites the CAISO's offer made in its opening brief to work with SCE and the Commission to develop the requirements needed for demand-side and combined heat and power (CHP) resources to compete in the procurement process to meet local capacity requirements, and directs SCE to consult with the CAISO regarding performance characteristics for reliability. (PD, p. 73.)

PG&E applauds the CAISO's offer and the Commission's direction. This issue is germane to the other Investor-Owned Utilities (IOUs), as well as other stakeholders. Whatever agreements on operational requirements are finalized between SCE, the Commission and the CAISO will likely dictate the operational requirements of demand-side resources for other IOUs in future local capacity procurement processes.



**Appendix**  
**Recommended Changes to the Findings of Fact,  
Conclusions of Law, and Ordering Paragraphs.**

**Recommended additions are underscored,  
and recommended deletions are ~~crossed out~~.**

**Findings of Fact**

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**Conclusions of Law**

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4. SCE's procurement process should have no provisions specifically or implicitly excluding any resource from the bidding process due to technology, except for amounts above 1,200 MW in the LA basin local area ~~and a requirement to procure 50 MW of energy storage resources~~, SCE must have provisions designed to be consistent with the Loading Order approved by the Commission in the Energy Action Plan and § 454.5(b)(9(C)).

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~~8. SCE should be required to procure at least 50 MW of energy storage resources in the LA basin local area to meet LCR needs.~~

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17. The cost allocation mechanism established in D.06-07-029 and refined in D.07-09-04, D.08-09-012 and D.11-05-005 remains reasonable for application in this proceeding without modification.

17a. Consistent with the cost allocation mechanism established in D.06-07-029 and refined in D.07-09-04, D.08-09-012 and D.11-05-005, the costs of any resources necessary to meet LCR needs in southern California should be allocated to utility customers in southern California.

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## ORDER

**IT IS ORDERED** that:

1. In this decision, we authorized Southern California Edison Company to procure between 1,050 and 1,500 Megawatts (MW) of electrical capacity in the West Los Angeles sub-area of the Los Angeles basin local reliability area to meet long-term local capacity requirements by 2021. Procurement must abide by the following guidelines:

- a. At least 1,000 MW, but no more than 1,200 MW, of this capacity must be from conventional gas-fired resources;
- ~~b. At least 50 MW of capacity must be procured from energy storage resources;~~
- c. Up to 450 MW of capacity may be procured through preferred resources consistent with the Loading Order of the Energy Action Plan and/or energy storage resources. Distributed generation procured as part of this authorization must be incremental to the 1,519 MW of distributed generation already forecast to be available in the LA Basin in the California Independent System Operator Environmentally Constrained portfolio. To the extent that 1,519 MW of distributed generation has not already been authorized in other Commission decisions, such authorization is granted here.

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