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)

REPLY 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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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 reply comments on the Proposed Decision Authorizing Long-Term Procurement For Local Capacity Requirements (PD).

As PG&E indicated in its opening comments on the PD, PG&E generally supports it, but urges the Commission to modify it 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, regardless of whether those resources are obtained pursuant to Track 1 or some subsequent authorization, and
- Remove the 50 MW set-aside for storage, as storage should compete with other resources to meet the authorized need.

In response to comments from other parties on the PD, PG&E has several additional points:

- PG&E supports Southern California Edison Company's (SCE) request that the PD be modified to authorize SCE to procure up to 2,370 MW of local capacity requirements (LCR) resources to meet the local need in southern California identified by the California Independent System Operator (CAISO);
- PG&E supports SCE's request that the PD be modified to remove the requirement that SCE receive formal pre-approval, in writing, from the Energy Division (ED) prior to SCE's initiation of its public procurement process;
- PG&E opposes the proposals of several parties to increase the storage set-aside, or to create additional set-asides for other classes of resources;
- The Commission should reject the requests of the direct access (DA) and community choice aggregation (CCA) parties to modify the Cost Allocation Mechanism (CAM), and should not open a new rulemaking to relitigate the CAM issues that have just been litigated in this proceeding;
- The Commission should reject South San Joaquin Irrigation District's (SSJID) request to address a number of hypothetical issues that relate to how CAM interacts with municipalizations, including "large municipalizations;" and
- Contrary to the arguments of the Natural Resources Defense Council (NRDC), Clean Coalition (CC), and Community Environmental Council (SBCEC), the PD's assumptions regarding energy efficiency are reasonable for analyzing LCR needs, do not represent any lessening of the Commission's commitment to energy efficiency, and so should not be modified.

I. PG&E SUPPORTS SCE'S REQUEST THAT THE PD BE MODIFIED TO AUTHORIZE SCE TO PROCURE UP TO 2,370 MW TO MEET IDENTIFIED LCR NEEDS

In its comments on the PD, SCE requests that the PD be modified to increase, from 1,500 MW to 2,370 MW, the upper limit placed on SCE's authorization to procure resources to meet LCR needs in the Los Angeles basin. (SCE Comments, pp. 11-15.) As SCE notes, many resource planning uncertainties currently face the southern California region which could make the authorized procurement level, based on analysis of the "environmentally constrained" scenarios, insufficient to meet the LCR needs of southern California. (SCE Comments, pp. 11-12.) The CAISO echoes SCE's concerns, and identifies a number of possibly unrealistic assumptions in the environmentally constrained scenarios. (CAISO Comments, pp. 4-6.) The CAISO also recommends an increased authorization similar to SCE's proposal. (CAISO Comments, pp. 6-8.)

PG&E supports SCE's and the CAISO's observations that the upper procurement limit in the PD is too low, and supports their request that it be increased to 2,370 MW based on analysis of the "trajectory" scenario.

II. PG&E SUPPORTS SCE'S REQUEST THAT THE PD BE MODIFIED TO REMOVE THE REQUIREMENT THAT SCE RECEIVE FORMAL PRE-APPROVAL OF ITS PROCUREMENT PROCESS FROM THE ED

SCE objects to the PD's requirement that SCE receive formal pre-approval, in writing, from the ED prior to SCE's initiation of its public procurement process. (SCE Comments, pp. 9-10.) As SCE describes:

> The [Independent Evaluator (IE)], [Procurement Review Group (PRG)], and Energy Division have been offering SCE contemporaneous advice and counsel on its RFO procurement activities for new generation for many years. The PD does not identify any record evidence to support the need for the prescriptive process identified in the PD when the IE, PRG, and Energy Division are available to offer SCE on-going advice and counsel. (SCE Comments, p. 9.)

PG&E supports SCE's comments. The same statement is equally applicable to PG&E. The current process, including the roles played by the IE, the PRG, and the ED, has served the Commission and the Investor-Owned Utilities (IOUs) well. In particular, PG&E emphasizes that the ED currently plays a significant positive role in the process.

There is no basis to significantly change the role of one of these participants, the ED, when the process as currently established is working well. Therefore, PG&E supports SCE's

proposal that the PD be modified to remove the requirement that SCE receive formal pre-approval, in writing, from the ED prior to SCE's initiation of its public procurement process.

III. THE PD SHOULD BE MODIFIED TO REMOVE THE 50 MW SET-ASIDE FOR STORAGE, AND PARTIES' CALLS TO ADD ADDITIONAL SET-ASIDES FOR OTHER TYPES OF RESOURCES SHOULD BE REJECTED

A. The Storage Set-Aside Should Be Removed From The PD, And No New Set-Asides Should Be Created

For the reasons discussed in PG&E's testimony and briefs in this track as well as those presented in PG&E's opening comments on the PD, the 50 MW set-aside for storage should be removed from the PD. While storage may be a valuable resource depending on the needs that must be addressed, storage is a means to an end (reliable, economic, environmentally sound electric service), not an end in itself. Therefore, storage should be allowed to compete to meet the LCR need identified in this proceeding, but should not be given a set-aside to meet a portion of that need independent of the costs and benefits of storage relative to other resources available to meet the need. Such a set-aside only increases costs to customers without providing any additional benefit.

For the same reason, the California Energy Storage Association's (CESA) call to provide a "preference" to storage (CESA Comments, pp. 8-9) should not be adopted.

Not surprisingly, representatives of other resource types advocate that they, too, should receive a set-aside. EnerNOC, Inc., (EnerNOC), for example, appears to advocate that SCE be mandated to procure 450 MW of demand response and energy efficiency. (EnerNOC Comments, p. 13.) For its part, the California Cogeneration Council (CCC) argues that a 90 MW set-aside should be created for combined heat and power (CHP) resources. (CCC Comments, p. 2.)

These calls for additional mandates should be rejected. The PD strikes a reasoned balance with respect to the treatment of "preferred" resources, one that balances the preferred status of identified resources with the ability to meet LCR needs in a cost-effective, environmentally sound manner.

B. All Of The Procurement Costs Incurred To Meet The LCR Needs In Southern California Should Remain In Southern California

Turning to the incremental costs that might be incurred due to a set-aside, SCE argues that "[a]ny procurement obligations for energy storage technology should be spread across the territories of all utilities in the State." (SCE Comments, p. 5.) As discussed above, PG&E urges

the Commission not to adopt any storage set-aside to meet southern California's LCR need. However, regardless of the make-up of the resources that SCE chooses, and/or is required to choose, to meet its procurement obligations to satisfy LCR needs in southern California, those costs should remain in southern California.

IV. THE PD'S TREATMENT OF CAM IS SOUND, AND SHOULD NOT BE MODIFED

The Alliance for Retail Energy Markets, the Direct Access Customer Coalition, and the Marin Energy Authority (collectively, the DA/CCA Parties), continue to argue that CAM should be modified in ways that would result in unfair treatment of IOU bundled customers. The City and County of San Francisco (CCSF) joins in. The PD correctly rejects these arguments, and nothing in the DA/CCA Parties or CCSF's opening comments points to any error in the PD. The PD provides a well-reasoned analysis of the various CAM issues litigated in this proceeding, and should not be modified.

Further, the DA/CCA Parties recommend that the Commission open up a new rulemaking to relitigate the issues that were just litigated in this track of this proceeding. (DA/CCA Parties Comments, pp. 13-14.) There are no changed circumstances that justify a relitigation of the issues just litigated, and the Commission should reject this recommendation of the DA/CCA Parties.

For its part, SSJID continues to argue that the Commission should conclude that use of CAM in the case of a municipalization is never appropriate, even in the case of a large municipalization. (SSJID Comments generally.) However, the argument that SSJID makes is a *non sequitur*. SSJID would conclude, from the fact that other, existing Publicly-Owned Utilities (POUs) have resources to meet their load, that therefore there can be no CAM responsibility when a new POU is formed. But one does not follow from the other.

The PD declines to address SSJID's claim that CAM treatment is never appropriate in the context of a municipalization, and SSJID has pointed to nothing that requires the Commission to revisit this issue. The PD also declines to address the issue of whether "SSJID is a large municipalization" in the abstract. Both determinations are well-reasoned, and neither should be modified.

V. THE PD USES REASONED ASSUMPTIONS REGARDING ENERGY EFFICIENCY FOR LCR NEED MODELING PURPOSES

In their joint comments, NRDC/CC/SBCEC argue that the Commission, in determining

the LCR needs, should assume that all potential energy efficiency, including all "uncommitted" energy efficiency, is implemented. (NRDC/CC/SBCEC Comments, pp. 3-7.) Their criticism of the PD on this score is misplaced. There is too much uncertainty as to the level of energy efficiency that will occur to plan that this entire amount will occur. If it did not, and that possibility was not planned for, reliability in southern California could be seriously compromised.

The assumptions used by the PD do not reflect any abandonment by the Commission of its energy efficiency goals. As the PD states, "we fully expect to continue to fund all cost-effective energy efficiency into the foreseeable future." (PD, p. 47.)

The PD explained its reasoning in adopting the forecast it used for LCR needs determination.

> There is a difference between using uncommitted energy efficiency levels for projecting future demand levels and using uncommitted energy efficiency levels for forecasting local capacity requirements. Lower demand levels do not reduce LCRs on a one-to-one basis, but must be modeled. In addition, uncommitted energy efficiency may not occur uniformly across the state. Amounts must be allocated or assigned to specific areas to model outcomes. A sophisticated power flow model can show the impacts of different demand levels with accuracy and detail. This is exactly what the ISO did in the Environmentally Constrained scenario sensitivity analysis. (PD, pp. 49-50.)

In sum, the PD's energy efficiency assumptions are reasoned for the purpose of the LCR need analysis, and do not represent any lessening in the Commission commitment to energy efficiency. The PD's assumptions regarding energy efficiency should not be modified.

Respectfully Submitted,
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