

**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)

**COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)  
ON PROPOSED DECISION ADOPTING LOCAL PROCUREMENT OBLIGATIONS  
FOR 2014, A FLEXIBLE CAPACITY FRAMEWORK, AND FURTHER REFINING  
THE RESOURCE ADEQUACY PROGRAM**

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Dated: June 17, 2013

## **SUBJECT INDEX OF RECOMMENDED CHANGES**

Pursuant to California Public Utilities Commission Rule 14.3(b), Pacific Gas and Electric Company (“PG&E”) provides the following subject index of recommended changes to the *Proposed Decision Adopting Local Procurement Obligations for 2014, A Flexible Capacity Framework, and Further Refining the Resource Adequacy Program* (“PD”) issued by Administrative Law Judge Gamson on May 28, 2013:

1. PG&E recommends that the PD be clarified to recognize that economic bids into the day-ahead and real-time California Independent System Operator (“CAISO”) markets are only required, to the extent possible, for flexible resources that a load-serving entity (“LSE”) claims, or commits, as a flexible capacity resource adequacy (“RA”) resource for the purpose of meeting its flexible RA procurement target, rather than all qualified flexible resources.
2. PG&E requests clarification that the 2015 flexible RA procurement obligation will be based on the calculated system flexibility requirement, rather than the amount of available flexible capacity in each LSE’s portfolio.
3. PG&E requests modification to the PD to recognize that it is premature to conclude that the flexible capacity required to operate the system will increase almost exclusively as a function of the 3-hour ramp.

These three recommendations are discussed in detail in PG&E’s comments. In addition, PG&E has included in Appendix A to its comments recommended changes to the PD.

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Pursuant to the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure 14.3(b), Pacific Gas and Electric Company (“PG&E”) respectfully submits these comments on the *Proposed Decision Adopting Local Procurement Obligations for 2014, A Flexible Capacity Framework, and Further Refining the Resource Adequacy Program* (“PD”) issued by Administrative Law Judge Gamson on May 28, 2013.

In general, PG&E supports the PD, including the PD’s adoption of a flexible capacity framework with mandatory procurement obligations beginning in 2015. PG&E appreciates the PD’s recognition of the need to impose flexible capacity procurement obligations in the near-term to ensure continued reliability of California’s electric system. PG&E also appreciates the PD’s recognition that the proposed flexible capacity framework may require further refinement between now and June 2014, before implementation of mandatory procurement obligations in 2015. However, PG&E has concerns about some aspects of the non-binding flexible capacity showing for 2014 and the expectations implied by the PD for 2014.

PG&E recommends three modifications to the PD. First, PG&E recommends that the PD be clarified to recognize that economic bids into the day-ahead and real-time California Independent System Operator (“CAISO”) markets are only required, to the extent possible, for flexible resources that a load-serving entity (“LSE”) claims, or commits, as a flexible capacity resource adequacy (“RA”) resource for the purpose of meeting its flexible RA procurement target, rather than all qualified flexible resources. Second, PG&E requests clarification that the 2015 flexible RA procurement obligation will be based on the calculated system flexibility requirement, rather than the amount of available flexible capacity in each LSE’s portfolio. Finally, PG&E requests modification to the PD to recognize that it is premature to conclude that the flexible capacity required to operate the system will increase almost exclusively as a function of the 3-hour ramp.

**A. Flexible Resources Should Only Be Obligated To Submit Economic Bids If They Are Committed As Flexible To Meet The LSE's 2014 Flexible Capacity Procurement Target Or 2015 Flexible Capacity Procurement Obligation**

Appendix A of the PD states that “[e]ach LSE shall report all its qualified flexible resources in the annual and monthly RA filings” and “[u]tilities and LSEs (or their Scheduling Coordinators) shall, to the extent possible, submit economic bids into the day ahead and real time markets for the flexible resources reported in their monthly filings.”<sup>1/</sup> PG&E is concerned that the reference to “qualified” flexible resources could be interpreted as any resource under contract with the LSE that is on the effective flexible capacity (“EFC”) list maintained by the CAISO and for which the LSE has contractual rights to the EFC. Therefore, it could be interpreted that all flexible resources, whether or not the LSE is committing those resources to meet its forward flexible capacity procurement target or obligation, will be required to submit economic bids into the day-ahead and real-time markets. However, as with local RA, the LSE may not wish to commit all of its qualified flexible resources to meet the flexible RA procurement target (for 2014) or obligation (starting in 2015). Not committing some flexible RA resources allows an LSE to substitute resources later, if needed, to account for unforeseen outages of committed resources. In addition, it is possible that there are resources on the EFC list for which the LSE is under contract for the resource, but does not have rights to the flexibility of the resource. LSEs should have the option to contract for the flexibility of the resource only when needed to meet their flexibility procurement target or obligation. Requiring the LSE to procure the EFC of all resources under contract, whether or not they are needed to meet the LSE’s flexible capacity procurement target or obligation, could unnecessarily increase customer costs. For these reasons, it is not appropriate to set an expectation that all qualified flexible resources be bid into the day-ahead and real-time markets. Rather, only flexible resources that LSEs commit, or claim, as flexible resources in order to meet the LSE’s flexible capacity procurement target or obligation should be expected to bid economically into these markets.

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<sup>1/</sup> PD, Appendix A at p. 4.

PG&E recommends that the annual reporting of flexible resources include both a designation of flexible resources claimed for the purpose of meeting the flexible capacity RA procurement target (for 2014) or obligation (starting in 2015) and a designation of all eligible flexible resources online and whose EFC is under a contract with the LSE in which the rights to the flexible attributes are conveyed to the LSE for that time period. The monthly reports would only include those resources committed as flexible RA for that particular month. This is consistent with the current process for reporting local RA and allows the Commission insight into the current availability of flexible resources for each LSE (through the annual year-ahead report) without unduly constraining the LSEs' commitment of resources. Templates for reporting flexible capacity on an annual and monthly basis should be provided by early August.

Limiting the economic bidding expectation for 2014 to only those flexible resources that the LSE claims for flexible RA, although not binding, would provide a more realistic portrayal of how the LSEs might comply with their flexible capacity procurement obligation once they become mandatory and binding in 2015. It is important that 2014 is representative of behavior to be expected once procurement obligations are mandatory, as the PD indicates that an analysis of bidding behavior for the units reported as flexible will be conducted in 2014 for consideration in future refinement of the flexible capacity framework. Another benefit of this approach is that the Commission gains insight into which resources are most likely to be claimed as flexible RA, rather than just knowing the level of qualified flexible resources for each LSE. While the PD recognizes that such bidding requirements would not be binding for 2014, the LSEs should make a "good-faith effort" to meet this expectation for the benefit of gaining experience and practice with binding requirements expected for 2015 and to better inform the Commission and the CAISO for future analysis and policymaking on flexible capacity procurement obligations.

PG&E recommends modifications to Ordering Paragraph 6 to address these concerns. The modified language is found in Attachment A.

**B. Allocation Of System Flexible Capacity Requirements Should Form The Basis For Determining Each LSE's 2015 Flexible Capacity Resource Adequacy Procurement Obligation**

PG&E recommends that the PD be clarified to recognize that the basis for determining 2015 flexibility procurement obligations for each LSE is the calculation of system flexible capacity requirements allocated to each LSE based on the LSE's monthly share of coincident peak load. These formulas are shown in Appendix A of the PD. The procurement obligation imposed on LSEs should be based solely on the requirements of the system and a methodology for allocating those requirements.

The availability of flexible capacity to LSEs should not provide the basis for determining whether or not mandatory flexible procurement obligations should be imposed on LSEs. Rather, flexible capacity procurement obligations should be imposed if such flexibility is required to operate the system in a reliable manner and flexible generation resources must be made available to the CAISO in order to ensure system reliability. As the PD states in Finding of Fact 5, “[t]he adoption of a flexible capacity requirement as part of the resource adequacy program will help ensure that flexible capacity is *operationally available* to the ISO to maintain grid reliability.” (emphasis added)

Additionally, language found in Conclusion of Law 11 should be amended to clarify that the referenced formula identifies flexible capacity “requirements” rather than flexible capacity “need.” This will ensure consistency with the use of the terms “requirements” and “need” as they are used in the Commission’s Long-Term Procurement Plan (“LTPP”) proceedings while also maintaining consistency with State law. In *Decision 12-12-010 Adopting 2012 LTPP Track 2 Assumptions and Scenarios*, the Commission recognized that, “[t]hese assumptions will be used for forecasting system reliability *needs* for California’s electricity grid.”<sup>2/</sup> (emphasis added) The decision goes on to explain that the purpose of Track 2 (the systems need track) is to determine the overall long-term need for new system reliability resources. The decision also

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<sup>2/</sup> D.12-12-010 at p. 1.

notes that “[s]cenarios should inform the transmission planning process and the analysis of flexible resource *requirements* to reliability integrate and deliver new resources to loads.”<sup>3/</sup> (emphasis added) Furthermore, Public Utilities Code Section 380 requires that “[t]he Commission in consultation with the Independent System Operator, shall establish resource adequacy *requirements* for all load-serving entities.”<sup>4/</sup> (emphasis added) Thus, the legislature is clearly defining the purpose of the RA program to be the determination of system requirements and not system needs. There is a clear distinction between requirements and need that should be recognized in the PD, consistent with how those terms are used in the LTPP proceeding.

The term “requirements” should be consistently used in the RA and LTPP proceedings to identify what is physically needed to operate the system while “need” should be consistently used to identify the difference between the requirements and available resources. “Procurement target” or “procurement obligation” should be consistently used in the RA proceeding to identify what an LSE is required to show in its RA compliance filings. PG&E recommends modifications to Conclusion of Law 11 to address these concerns. The modified language is found in Attachment A.

**C. It Is Premature To Conclude That The Flexible Capacity The System Requires Increases Almost Exclusively As A Function Of The 3-Hour Ramp**

Finding of Fact 16 states that, “[f]lexible capacity needs increase year over year in non-peak months, with this increase almost exclusively reflected by 3-hour ramp caused by intermittent generation, not increase in peak load or changing patterns of customer load.” Conclusion of Law 16 of the PD later states that “[t]he Commission should use the time between now and June 2014 to refine a flexible capacity framework for mandatory implementation in RA year 2015.” Because further refinements to the flexibility requirement determination and flexible capacity framework are planned for 2014, it is premature to conclude

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<sup>3/</sup> D.12-12-010, Appendix A at p. 7.

<sup>4/</sup> Public Utilities Code Section 380(a).



that the flexible capacity required to operate the system increases almost exclusively as a function of the 3-hour ramp. The CAISO has repeatedly stated that it must address net load ramping that lasts more than the 3-hour ramp. The CAISO noted in its Comments that “[t]he use of the three-hour net-load ramp represents a compromise. The ISO recognizes that there are longer ramps than three hours and shorter but steeper ramps that require faster ramp capability for shorter periods than those reflected in the 3-hour ramp.”<sup>5/</sup> Additionally, the system flexible capacity requirements formula includes an error term to consider uncertainty that exists beyond the 3-hour ramping requirements. Appendix A states that the annually adjustable error term will account for uncertainties such as load following. In 2014 this value is set at zero, but a value will be determined for 2015.

PG&E recommends modifications to Finding of Fact 16 to address these concerns. The modified language is found in Attachment A.

Respectfully submitted,

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Dated: June 17, 2013

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<sup>5/</sup> CAISO Initial Comments on Workshop Issues, p. 13.

## ATTACHMENT A

### PROPOSED CHANGES TO FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDERING PARAGRAPHS

#### Findings of Fact

PG&E recommends that Finding of Fact 16 be modified as follows:

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16. ~~Flexible capacity needs~~ **The Joint Parties' proposed flexible capacity requirements** increase year over year in non-peak months, with this increase almost exclusively reflected by 3-hour ramp caused by intermittent generation, not increase in peak load or changing patterns of customer load.

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#### Conclusions of Law

PG&E recommends that Conclusion of Law 11 be modified as follows:

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11. **System flexible capacity requirements should be based on flexible capacity required to operate the system. System flexible capacity requirements** should be defined, on an interim basis, as the quantity of flexible capacity identified ~~needed~~ **as required** by the ISO to meet ramping and contingency reserves. The flexible capacity ~~need~~ **requirements** for a given month should be calculated by the following formula:

**Required** MTHy = Max [(3RRHRx)MTHy] + Max(MSSC, 3.5%\*E(PLMTHy)) + ε

In this formula:

Max[(3RRHRx)MTHy] = Largest three hour continuous ramp starting in hour x for month y

E(PLMTHy) = Expected peak load in month y

MSSC = Most Severe Single Contingency

Max(MSSC, 3.5%\*E(PLMTHy)) is the Maximum of MSSC or 3.5%\*E(PLMTHy)

ε = Annually adjustable error term to account for uncertainties such as load following

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## Ordering Paragraphs

PG&E recommends that Ordering Paragraph 6 be modified as follows:

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6. Each Load Serving Entity (LSE), as defined by Public Utilities Code Section 380(j), shall make a year ahead and month-ahead showing of flexible capacity for each month of the compliance year. Each LSE shall report all its qualified flexible resources in its required annual ~~and monthly~~ Resource Adequacy filings. **Additionally, with respect to the showing, each LSE shall report all its committed flexible resources in its required annual and monthly Resource Adequacy filings to meet the LSEs' flexible capacity procurement target (for 2014) or flexible capacity procurement obligations (starting in 2015).**

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Corresponding language found in Appendix A of the PD, which is referenced in Ordering Paragraph 5, should also be revised to reflect this change and clarify that flexible resources are only required to submit economic bids if they are committed as flexible to meet the LSE's 2014 flexible capacity procurement target (for 2014) or flexible procurement obligations (starting in 2015).