

**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)

**REPLY COMMENTS OF PACIFIC GAS AND ELECTRIC
COMPANY (U 39 E) ON THE ENERGY DIVISION'S
FEBRUARY 10, 2014, FLEXIBLE CAPACITY
FRAMEWORK PROPOSALS**

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Pursuant to the February 27, 2014, e-mail from the assigned administrative law judge (ALJ), Pacific Gas and Electric Company (PG&E) provides these reply comments on the Energy Division's *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework* (ED Paper On Flexible Resource Adequacy Proposals) dated February 10, 2014, which sets forth several Energy Division proposals addressing the California Public Utilities Commission's (Commission) ongoing efforts to incorporate flexible capacity procurement requirements into its resource adequacy (RA) program.

I. A PORTION OF THE FLEXIBLE RESOURCE ADEQUACY REQUIREMENT SHOULD BE ALLOCATED TO THE VARIABLE ENERGY RESOURCES THAT CONTRIBUTE TO THE NEED, AND THE ALLOCATION METHODS ADOPTED BY THE COMMISSION AND THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR SHOULD BE ALIGNED

As PG&E discussed in its opening comments, PG&E urges the Commission to consider PG&E's recommendation for allocating the flexible RA obligations among Commission-jurisdictional load serving entities (LSEs).^{1/} PG&E supports a methodology that allocates a portion of the requirement based on the contribution of an LSE's renewable portfolio to the requirement. A methodology that does not reflect this contribution, such as the load-ratio share approach, fails to create the proper incentive for LSEs to reduce the intermittency of its renewable portfolio. Further, if a methodology does not reflect that intermittent renewable resources contribute to the flexibility need, then it does not reflect cost causation and so creates the likelihood of cross-subsidization among those bearing the burden of the flexible RA requirement. Therefore, the load-ratio share approach should not be used to allocate flexible RA obligations.

In the context of the California Independent System Operator's (CAISO) flexible resource adequacy criteria and must offer obligation (FRAC-MOO) stakeholder process, PG&E has put forward a specific allocation proposal that differs from that currently proposed by either

^{1/} PG&E Comments, pp. 1-2.

the Commission’s Energy Division or the CAISO.^{2/} PG&E recommends that a portion of this obligation to provide flexible RA be allocated to the variable energy resources, as they are collectively a part of the reason that flexible RA resources are necessary.

PG&E also urges the Commission and the CAISO to adopt a common methodology for allocating flexible RA requirements. Several parties encourage such alignment. As described above, that methodology should reflect the contribution of an LSE’s renewable portfolio to the requirement, so that the allocation provides proper incentives.

II. THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR SHOULD NOT ADOPT COUNTING RULES FOR FLEXIBLE RESOURCES THAT DIFFER FROM THOSE ESTABLISHED BY THE COMMISSION, AND P_{min} SHOULD BE ALLOWED TO BE NEGATIVE FOR STORAGE

In opening comments, the CAISO states that “[i]f the CPUC elects less stringent criteria than those set by the ISO, then the ISO will validate those values against the minimum criteria or tests established by the ISO. If the flexible capacity values do not meet the ISO’s minimum criteria...then the ISO will reduce the flexible capacity to meet the minimum criteria and that value will become the effective flexible capacity used in the ISO’s analysis of whether backstop capacity is needed.”^{3/} PG&E does not support the CAISO’s assertion that it may have “veto power” over the CAISO’s counting criteria for determining a resource’s effective flexible capacity (EFC) value. Rather, PG&E agrees with The Utility Reform Network (TURN) that the Commission should establish the counting rules for the RA value of flexible resources relied on by Commission-jurisdictional LSEs and that the CAISO should recognize those counting rules by reference in its tariff.^{4/}

This is consistent with the current approach with respect to the counting rules for “generic” RA capacity. The CAISO’s tariff states, for example, that the “default” counting rules

^{2/} Comments of PG&E on FRAC-MOO Fourth Revised Straw Proposal. Located at: https://www.caiso.com/Documents/PG_EComments-FlexibleResourceAdequacyCriteriaMustOfferObligation-FourthRevisedStrawProposal.pdf

^{3/} CAISO Comments, p. 10.

^{4/} TURN Comments, p. 3.

for generic RA capacity set forth in the CAISO tariff will only apply “where the CPUC or Local Regulatory Authority has not established and provided to the CAISO criteria to determine the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity for such eligible resource types. . .”^{5/} The CAISO would be acting inappropriately, and going beyond the boundaries of the current division of RA responsibilities between the Commission and the CAISO, if the CAISO were to assert that it has veto power over the counting rules for flexible RA resources, insofar as those counting rules relate to the RA obligations of Commission-jurisdictional LSEs.

Turning specifically to the EFC for storage resources, PG&E urges the Commission to adopt the Energy Division’s proposal, which would allow Pmin to be negative. Storage resources are fundamentally different from generation-only resources, and should not be treated the same. The EFC for storage should recognize the bi-directional range in which the resource can operate.

III. THE COMMISSION AND THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR SHOULD USE THE SAME CATEGORIES FOR FLEXIBLE RESOURCE ADEQUACY REQUIREMENTS

As just described in the previous section, the Commission, not the CAISO should establish counting rules for flexible RA. Thus, the Commission should determine if a Commission-jurisdictional LSE’s flexible RA obligation should meet certain “category” requirements.

Currently, the Energy Division’s proposal for categories, and the proposal that the CAISO has made in its FRAC-MOO stakeholder process, are similar but distinct. One example of the difference is that the percentages of flexible RA resources allowed to be/required to be in each category are somewhat different. PG&E urges the Energy Division and the CAISO to find a common ground that they can recommend to the Commission for adoption. Several parties urged such alignment in opening comments.^{6/}

^{5/} CAISO Tariff, section 40.8.1.

^{6/} See e.g., TURN Comments, p. 3; Southern California Edison Company Comments, p. 3; San

IV. CATEGORIES FOR FLEXIBLE RESOURCE ADEQUACY RESOURCES SHOULD NOT BECOME “CARVE-OUTS” FOR USE-LIMITED PREFERRED RESOURCES

Although not entirely clear, EnerNOC, Inc. (EnerNOC) may be proposing that the category requirements proposed by the Energy Division be modified to reserve a specified portion of the flexible RA requirement so that an LSE could only meet that portion of the flexible RA requirement with preferred resources that fall under the category 2 and category 3 designations.^{7/} The category framework proposed by the Energy Division should not be used to create such a reservation for preferred resources. A Commission-jurisdictional LSE should not be prohibited from using category 1 resources to meet its flexible RA obligations if that approach would best fit the LSE’s portfolio at a particular point in time.

V. ALL LOAD SERVING ENTITIES SHOULD BE TREATED THE SAME; SMALL LOAD SERVING ENTITIES SHOULD NOT BE EXEMPTED FROM ANY OBLIGATION TO COMPLY WITH “CATEGORY LIMITATIONS” ON THE TYPES OF RESOURCES THAT CAN BE USED TO MEET THEIR FLEXIBLE RESOURCE ADEQUACY OBLIGATIONS

The Energy Division proposes that Commission-jurisdictional LSEs with flexible capacity obligations less than 25 megawatts (MW) not have to comply with the flexible RA category limits that it is otherwise proposing.^{8/} In their opening comments a number of parties in addition to PG&E oppose this proposal.^{9/} The RA obligations should be applied equally to all LSEs, as stated in Public Utilities Code section 380(e).

VI. NO CAP SHOULD BE SET ON THE “ERROR TERM” IN THE FORMULA TO DETERMINE THE FLEXIBLE RESOURCE REQUIREMENTS

The Office of Ratepayer Advocates (ORA) recommends that the Commission adopt a cap on the possible size of the error term that is currently reflected in the adopted formula for

Diego Gas & Electric Company Comments, p. 1.
^{7/} “EnerNOC objects to the ability for Category 1 resources to displace Categories 2 and 3 and for Category 2 resources to displace Category 3 resources.” EnerNOC Comments, p. 6.
^{8/} ED Paper On Flexible Resource Adequacy Proposals, p. 14.
^{9/} See e.g., Alliance for Retail Energy Markets Comments, pp. 5-6; Southern California Edison Company Comments, pp. 4-5; San Diego Gas & Electric Company Comments, pp. 11-12.

determining the flexible RA requirements of the CAISO grid.^{10/} ORA's proposal should be rejected. If and when a party proposes a non-zero error term, then the Commission should address the merits of that proposal. Nothing is gained by limiting the possible range of the error term now, when there is no concrete proposal on the table for it to be anything different than zero.

VII. COMBINED HEAT AND POWER RESOURCES PROVIDING FLEXIBLE RESOURCE ADEQUACY SHOULD BE REQUIRED TO PROVIDE BIDS INTO THE CAISO MARKETS

The Cogeneration Association of California (CAC) appears to propose that combined heat and power (CHP) resources providing flexible RA be excused from the associated must-offer obligations that would otherwise apply to the resource.^{11/} PG&E urges the Commission not to make such an exception. There is no basis for providing CHP resources a complete excusal from the bidding component of any flexible RA must-offer obligation. The requirement to provide bids into the market, as contrasted with self-schedules, is one of the most significant distinctions between flexible and generic RA.

Respectfully Submitted,

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^{10/} ORA Comments, pp. 1-2.

^{11/} CAC proposes that the final guidelines on flexible capacity explicitly provide that “[f]lexible [c]apacity is not intended to diminish a CHP resource’s ability to selfschedule into the ISO’s Day-Ahead and Real Time markets.” CAC Comments, p. 3.