

**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 THE PROPOSED DECISION**

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Dated: June 16, 2014

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Pursuant to Rule 14.3 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 May 27, 2014, *Proposed Decision of ALJ Gamson Adopting Local Procurement and Flexible Capacity Obligations for 2015, and Further Refining the Resource Adequacy Program* (PD).

PG&E generally supports the PD, and appreciates the time and effort devoted by the Energy Division, the California Independent System Operator (CAISO), the other parties, and the assigned administrative law judge (ALJ) to address a substantial number of complex issues related to the Commission’s resource adequacy (RA) program.

As summarized below and discussed in more detail in the following sections, PG&E proposes several refinements and modifications to some aspects of the PD:

- The PD should make clear that the Commission expects the CAISO to defer with respect to the flexible RA capacity “counting rules,” similar to the deference shown in the current CAISO tariff with respect to the counting rules for system and local RA capacity;
- The PD’s proposed process and counting criteria for supply-side demand response should be refined;
 - flexible demand response RA products should not have to meet the local and system RA operating hour requirement;
 - the Commission should use the same supply-side demand response testing standards for all supply-side demand response RA products; and

- the Commission should provide details on when, to whom, and in what format the demand response ex-ante load impacts should be submitted;
- The PD should be modified to clarify that the qualifying capacity (QC) for wind and solar resources will not be changed mid-year to reflect the effective load carrying capacity methodology (ELCC); and
- Ordering paragraph 7 should be modified by replacing “target” with “requirement” to better capture the mandatory nature of the adopted flexible RA framework.

Additionally, as discussed below, PG&E supports the determination to revisit the method for allocating the flexible capacity RA requirements next year, and PG&E urges the Commission to develop flexible RA counting rules for “flexible” variable energy resources next year. PG&E supports the flexible RA counting rules for storage, and urges the Commission to refine them next year to better take into account storage resources with non-zero transition times between charge and discharge.

I. THE PD SHOULD MAKE CLEAR THAT THE COMMISSION EXPECTS THE CAISO TO DEFER WITH RESPECT TO THE FLEXIBLE RA CAPACITY “COUNTING RULES,” SIMILAR TO THE DEFERENCE SHOWN IN THE CURRENT CAISO TARIFF WITH RESPECT TO THE COUNTING RULES FOR SYSTEM AND LOCAL RA CAPACITY

In the context of discussing the flexible RA counting rules for storage and demand response resources, the PD states that “[w]e agree with parties that it is valuable to have consistent requirements across the Commission and the CAISO.”¹ However, the Commission does not take direct issue with the fact that the CAISO is proposing flexible RA counting rules for storage resources, in particular, that would be in direct conflict with those the Commission proposes to use. Rather, the PD states that, “[i]t is our expectation that the CAISO will align its evolving FRAC-MOO proposal as closely as possible to the framework adopted in this decision.”²

¹ PD, p. 31.

² PD, p. 16.

This request should be more direct, and should be consistent with the current approach used for local and system RA. PG&E urges the Commission to modify the PD to indicate the Commission’s expectation that the CAISO will follow a deferential approach with respect to flexible RA counting rules to determine each resource’s effective flexible capacity, or EFC. The Commission should indicate its expectation that the CAISO’s approach for EFC counting rules will be modeled on the deferential approach that the CAISO takes in its tariff with respect to system and local RA counting rules for QC.

With respect to QC, section 40.4.1 the CAISO tariff provides that “[t]he CAISO shall use the criteria provided by the CPUC or Local Regulatory Authority to determine and verify, if necessary, the Qualifying Capacity of all Resource Adequacy Resources. . . .” Section 40.8 of the CAISO tariff sets forth “default” counting rules for QC, but these are only applicable if the local regulatory authority does not adopt QC counting rules for RA resources.³ These default rules were developed based on the initial RA counting rules adopted by the Commission.

In the context of EFC, by contrast, the CAISO is proposing its own counting rules for storage, to be applied regardless of what the Commission adopts.⁴ However, no rationale is set forth for why the cooperative approach followed with respect to QC cannot be used with respect to EFC.

Commission-jurisdictional load serving entities (LSEs) will be caught between conflicting requirements if the Commission and the CAISO adopt different flexible RA counting rules. Implementing conflicting requirements, with the potential for even greater divergence in the future, creates additional regulatory complexity and uncertainty that could increase procurement costs ultimately borne by customers. Therefore, PG&E urges the Commission to

³ CAISO tariff located at:
http://www.caiso.com/Documents/CombinedConformedTariff_May19_2014.pdf

⁴ This statement is based on the CAISO’s draft tariff language for Flexible Resource Adequacy Criteria and Must Offer Obligations, located on the CAISO website at:
<http://www.caiso.com/informed/Pages/StakeholderProcesses/FlexibleResourceAdequacyCriteria-MustOfferObligations.aspx>

modify the PD to make clear the Commission's expectation that, consistent with the approach the CAISO takes for system and local RA counting rules, the CAISO will defer to the Commission's adopted counting rules for flexible RA capacity.

II. THE PD'S PROPOSED PROCESS AND COUNTING CRITERIA FOR SUPPLY-SIDE DEMAND RESPONSE SHOULD BE REFINED

A. Flexible Demand Response RA Products Should Not Have To Meet The Local And System RA Operating Hour Requirement

PG&E and EnerNOC, Inc. (EnerNOC) have advocated in prior comments in this phase of the proceeding that flexible demand response RA products should not be required to meet the operating hour requirement of local and system RA in order to be eligible to provide flexible RA capacity.⁵

It is impractical for demand response providers to require customers to be available during the hours for both system/local RA and flexible RA when these products are providing unique attributes – load shedding for system and local RA, and ramping for flexible RA. Under the proposed flexible capacity framework, supply-side demand response resources would be required to submit economic bids for at least 7:00 a.m. to 12:00 p.m. from May through September, and 3:00 p.m. to 8:00 p.m. for October through April.⁶ These hours do not align with the hours used to determine the QC for demand response resources providing system and local RA. Under the current QC methodology manual, the QC of demand response resources is calculated by estimating load impacts over the hours of 4:00 p.m. to 9:00 p.m. from November through December, and 1:00 p.m. to 6:00 p.m. from April through October.⁷

Requiring flexible RA programs to also provide system/local RA will make it very challenging to achieve any customer participation in flexible demand response programs. Additionally, there is no value gained by requiring flexible demand response products to meet

⁵ PG&E post-workshop comments (April 18, 2014), p. 14; EnerNOC post-workshop comments (April 18, 2014), pp. 4-6.

⁶ PD, p. A-11.

⁷ D.10-06-036, Appendix B, Qualifying Capacity Methodology Manual, p. 19.

this requirement for system/local RA in addition to the flexible RA requirements in order to be eligible to provide flexible RA capacity.

While PG&E recommends that the PD be modified to eliminate this requirement for flexible demand response RA products specifically, PG&E recognizes that Appendix A of the PD indicates that this is an issue that will be generally explored during the next RA proceeding.⁸ PG&E supports addressing this issue next year if not addressed in this Commission decision.

B. The Commission Should Use The Same Supply-Side Demand Response Testing Standards For All Supply-Side Demand Response RA Products

Appendix B of the PD describes, among other items, the testing process for supply-side demand response.⁹ The proposed testing process applies a different testing notification standard for supply-side demand response providing flexible RA than is applied for demand response products for system and local RA. There is no value in setting a different standard, and no basis has been demonstrated for different notification standards. In addition, it would be inefficient for demand response providers to have to meet two different standards, especially if a demand response resource is providing system/local as well as flexible RA.

Therefore, PG&E recommends that the PD be modified to align the testing notification standard for all supply-side demand response RA products. For both types of RA products, the testing should occur at a time of the operator's own choosing.¹⁰

C. The Commission Should Provide Details On When, To Whom, And In What Format The Demand Response Ex-Ante Load Impacts Should Be Submitted

Appendix B also describes how the demand response load impact protocols will be used to determine the RA value for supply-side demand response RA products.¹¹ While PG&E agrees that using the load impact protocols is the appropriate methodology for determining the QC and

⁸ PD, Appendix A, p. A-13.

⁹ PD, Appendix B, pp. B-5 – B-7.

¹⁰ PD, Appendix B, p. B-7.

¹¹ PD, Appendix B, p. B-10.

EFC of supply-side demand response at this time, critical details are missing from the PD. PG&E generally recommends that these processes leverage the existing processes used for the investor-owned utilities' (IOUs) current retail demand response programs.

First, the PD should identify when the ex-ante load impact estimates should be submitted to the Commission for supply-side demand response resources. PG&E recommends that these estimates be submitted by April 1 of each year, consistent with the IOUs' current annual Demand Response Load Impact Reports.

Second, the PD should identify to whom the ex-ante estimate should be submitted. PG&E recommends that these estimates be submitted to the same Energy Division staff who review the IOU's current Demand Response Load Impact Reports to determine the RA value of those programs.

Third, the PD should indicate that the format of the ex-ante estimate reports for supply-side demand response should be determined by Energy Division staff with the opportunity for party input. The IOUs' current annual Demand Response Load Impact Reports can be used as a starting point for discussion.

Fourth, the PD should be modified to clarify that the ex-ante load impact estimates measure *expected* demand response performance. Expected demand response performance will be measured based on ex-ante load impact estimates using the load impact protocols, as is already the case for the IOUs' current demand response programs.¹²

Finally, PG&E notes that the existing load impact protocols do not entail reporting load impacts at the sub-load aggregation point (sub-LAP) level. The IOUs were originally directed to report demand response load impacts at the Local Capacity Area (LCA) level. Therefore, the PD should be modified to address a process by which any necessary changes to the load impact protocols or reporting requirements can be made.

¹² PD, Appendix B, pp. B-7 – B-8.

III. THE PD SHOULD BE MODIFIED TO CLARIFY THAT THE QUALIFYING CAPACITY FOR WIND AND SOLAR RESOURCES WILL NOT BE CHANGED MID-YEAR TO REFLECT THE EFFECTIVE LOAD CARRYING CAPACITY METHODOLOGY

The PD determines not to apply an ELCC methodology to determine the QC of solar and wind resources for the 2015 RA year. The PD directs the Energy Division to further develop its ELCC proposal so that an ELCC-based methodology can be considered by the end of 2014.¹³

PG&E supports this effort. PG&E requests that the PD be clarified, however, to indicate that the QC values for wind and solar resources will not be modified for the 2015 RA year. The possibility of such a change would introduce substantial uncertainty into the LSEs' RA compliance efforts for 2015.

IV. ORDERING PARAGRAPH 7 SHOULD BE MODIFIED BY REPLACING "TARGET" WITH "REQUIREMENT" TO BETTER CAPTURE THE MANDATORY NATURE OF THE ADOPTED FLEXIBLE RA FRAMEWORK

At this time, PG&E supports the adoption of binding flexible RA requirements for the 2015 RA compliance year. PG&E notes, however, that the applicable flexible must-offer obligations are still in the formulation stage, and that the CAISO has not yet submitted them to the Federal Energy Regulatory Commission for approval. It is possible that unexpected developments on that front could cause the Commission to reconsider implementation of binding flexible RA requirements for 2015.

However, barring such reconsideration, the PD adopts binding flexible RA requirements that will be in place for 2015 for Commission-jurisdictional LSEs.¹⁴ The Commission's binding flexible capacity framework is set forth in Appendix A of the PD. In that context, the wording in ordering paragraph 7 could be confusing, and so should be modified. Ordering paragraph 7 refers to "an LSE's flexible capacity procurement *target* for 2015."¹⁵ (Emphasis added.) PG&E recommends that the language be modified to better capture the mandatory nature of the

¹³ PD, p. 60.

¹⁴ PD, ordering paragraph 4, p. 72.

¹⁵ PD, p. 73.

program, by changing the word “target” in the quoted phrase with the word “requirement.” Stating the LSE’s obligation as a requirement, rather than as a target, more clearly captures the mandatory nature of the program.

V. PG&E SUPPORTS THE DETERMINATION TO REVISIT THE METHOD FOR ALLOCATING THE FLEXIBLE CAPACITY RA REQUIREMENTS NEXT YEAR

In its comments in this proceeding PG&E has proposed a different approach for allocating the flexible RA requirement than is adopted by the PD.¹⁶ Based on the statement in Appendix A of the PD that for the 2016 RA compliance year the Commission will explore a flexible capacity allocation methodology that reflects causation,¹⁷ PG&E does not object to the approach adopted by the PD for the 2015 RA year. PG&E strongly supports the determination to revisit the flexible capacity requirements allocation methodology in the next RA proceeding to be applied to the 2016 RA compliance year.

VI. PG&E URGES THE COMMISSION TO DEVELOP FLEXIBLE RA COUNTING RULES FOR “FLEXIBLE” VARIABLE ENERGY RESOURCES NEXT YEAR

The PD does not adopt flexible RA counting rules for variable energy resources that can control output. However, such resources might be able to offset the system’s need for flexible capacity. Therefore, PG&E encourages the Commission to indicate that it will address this topic in the next RA proceeding for the 2016 RA compliance year.

VII. PG&E SUPPORTS THE FLEXIBLE RA COUNTING RULES FOR STORAGE, AND URGES THE COMMISSION TO REFINE THEM NEXT YEAR TO BETTER TAKE INTO ACCOUNT STORAGE RESOURCES WITH NON-ZERO TRANSITION TIMES BETWEEN CHARGE AND DISCHARGE

For bi-directional resources such as storage, the flexible RA counting method adopted by the PD would not allow resources with a non-zero “transition time” between charging and discharging to obtain credit for the full range between their charging and discharging

¹⁶ PG&E post-workshop comments (April 18, 2014), pp. 7-9.

¹⁷ PD, Appendix A, p. A-12.

capabilities.¹⁸ As the PD acknowledges, however, “there is a clear potential for resources with a non-zero transition time to contribute in a reliable and quantifiable manner towards meeting ramping needs. . . .”¹⁹

PG&E agrees with the PD that bi-directional resources with non-zero transition times can contribute toward meeting ramping needs, including both charging and discharging. Therefore, PG&E urges the Commission to develop flexible RA counting rules that take the full range of a storage resource’s operation (i.e., both charging and discharging) into consideration during the next RA proceeding for the 2016 RA compliance year.

Respectfully submitted,

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Dated: June 16, 2014

¹⁸ PD, p. 32.

¹⁹ PD, pp. 32-33.