Pacific Gas and Electric Company Stakeholder Comments

Submitted by	**Company**	**Date Submitted**
Antonio Alvarez; (415) 973- 3594 aja6@pge.com John A. Newton; (415) 973-1609 jans@pge.com	Pacific Gas and Electric Company (PG&E)	June 22, 2016

PG&E considers the SB 350 Study work as part of the larger effort to evaluate regional expansion of the CAISO. In that context, the following points seem clear:

- As benefits are directionally positive from an expanded CAISO footprint, independent of which scenario one prefers, it make senses to take the next step for expansion—i.e., governance.
- While resolution of the Transmission Access Charge (TAC), regional resource adequacy (RA), GHG, RPS, and other issues are important, final resolution of these issues is not necessary before proceeding with the next step on governance. Resolution of the remaining outstanding issues can occur concurrently and independent of governance.
- Proceeding with the next step on governance would not compromise stakeholders' rights to represent their interests in the various stakeholder processes.

PG&E agrees with the CAISO that there should be benefits to California and to PG&E's customers from regional integration as it will expand the energy market in the West. We appreciate the work the CAISO and study team have done toward quantifying benefits to customers of a potential WECC-wide expansion. Nevertheless, any assessment of costs and benefits of regional integration are necessarily uncertain and dependent on many assumptions. With any possible expansion of the CAISO footprint, the most likely benefits must outweigh costs for our customers and will ultimately depend on the careful design process yet to unfold.

PG&E proposes several key updates to the SB 350 study that we believe will yield a more representative assessment of regional integration benefits at this point.

1. The study should use Scenario 1B as the Current Practice scenario to compare with Scenarios 2 and 3 for any assessment of ratepayer savings and benefits of regional expansion in 2030. Scenario 1A represents CAISO's view of its current protocols, termed "Current Practice", which limits exports to historical flows. Scenario 1B assumes 8,000 MW of export capability and utilization. The existing WECC market structure might already be capable of supporting 8,000 MW of exports from the CAISO footprint. Therefore, PG&E recommends that the CAISO clearly identify that the benefits between Scenario 1B and Scenario 2 & 3 are the benefits directly attributable to regional integration. The assumption that increased export capability will be due to regional integration is speculative and the study narrative should reflect that determination.

2. PG&E anticipates a significant portion of the projected ratepayer benefits shown in Scenarios 2 and 3 can be achieved bilaterally—with the high bilateral flexibility represented in Scenario 1B. For example, a large portion of the reported RPS benefits are associated with reducing RPS curtailment. This is achieved with

the higher export limit in Scenario 1B. Additionally, some benefits from reduced production and purchase/sales costs can be accomplished with the high bilateral flexibility present in Scenario 1B. PG&E is reviewing the additional study data regarding the actual production cost savings associated with Scenario 1B.

3. The study should reexamine load diversity (i.e., resource adequacy). Without additional transmission capacity, load diversity benefits projected by the study may not be supported. The regions already make use of the available transmission capacity in their respective high-need hours. Therefore, benefits from load diversity may not be realized without increasing transmission capacity among integrated areas. Furthermore, any resource adequacy benefits must be validated with a loss of load probability analysis *to substantiate the conclusion* that the combined areas can indeed reduce their combined resource adequacy capacity requirement to achieve a desired reliability standard.

4. The study should consider the incremental effects of economic retirements of existing gas-fired capacity in California. Currently, the study assumes that the additional RPS resources to meet the 50% RPS requirement in all scenarios do not lead to the retirement of fossil fuel resources. If fossil fuel retirements are assumed, these resources would not be available to provide valuable ramping services in a 50% RPS future. The impact of these lost ramping services might differ between current practice and regional scenarios. Also, the economic analysis does not appear to account for job losses and related economic multiplier effects associated with decreased employment from the retirement of thermal units in California.

5. The study should account for the ability of sellers of out-of-state RPS resources to capture some (if not all) of the price spread between in-state and out-of-state RPS costs to produce the benefit estimate of RPS-portfolio related capital investment savings.

PG&E looks forward to continued participation in the CAISO's evaluation of regional integration.