Stakeholder Comments Template

Subject: Capacity Procurement Mechanism, and Compensation and Bid Mitigation for Exceptional Dispatch

Submitted by	Company	Date Submitted
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Introduction

Pacific Gas and Electric Company (PG&E) would like to provide introductory comments to summarize our position regarding the CAISO's proposal:

- PG&E does not support the CAISO's Option A which advocates paying a price for backstop capacity that is based on cost of new entry (CONE).
  - The CAISO suggestions to price backstop capacity based on CONE is unwarranted and does not take into account the current Resource Adequacy (RA) process as well as recent CPUC decisions regarding RA.
  - No new circumstances suggest that the reconsideration of CONE is needed at this time. Pricing capacity based on CONE has been debated and rejected three times through the RCST, TCPM and ICPM stakeholder processes.
- PG&E does not support the significant expansion of the CPM that the CAISO is proposing. The CAISO has not demonstrated the need for it. Moreover, the need for the procurement of non-generic capacity is speculative and can be addressed in the future if the need develops. Finally, the complicated CPM proposed by the CAISO no longer appears to be a capacity backstop but designed to be something more. Systematic capacity shortcomings that need such an involved backstop mechanism are better addressed in the CPUC-administered resource adequacy program and not via the CPM.

CPM

1. **The appropriate duration of the tariff provisions associated with the CPM: should they be permanent or terminate on a certain date or under certain conditions? If the CPM should terminate, please be specific about the date or conditions upon which it would terminate and indicate the reasons for your proposal.**

PG&E supports adoption of a durable solution to the backstop procurement mechanism. A durable solution could involve developing an automatic mechanism for updating the capacity cost.

2. **The appropriate treatment of resources that may be procured through CPM or Exceptional Dispatch but then go out on Planned Outage during the period for which the resource has been procured. What are your views on the proposed formula in the straw proposal for compensating such resources?**

PG&E agrees with the CAISO that it is inappropriate to pay an Exceptionally Dispatched resource for 30 days of capacity if it goes on a planned outage. The CAISO proposes that such a resource be paid the CPM compensation for 30-days minus the number of days within the 30-day period that the resource is on its planned outage. PG&E believes that this proposal is reasonable and recommends that this change be made to the existing policy of automatically providing a 30-day payment for resources that are not fully available for the entire month.

However, the methodology described above does not capture planned derates in which only a portion (not all) of a resource's capacity is unavailable. PG&E recommends that the CAISO account for planned derates as well.[1]

3. **Modification of the criteria for choosing a resource to procure under CPM (section 43.3) to provide the ISO with the ability to procure non-use limited capacity over use-limited capacity.**

PG&E does not support the expansion of the selection criteria in section 43.3 to whether the resource is use-limited or not.[2] The CAISO has not adequately demonstrated a need for the expansion of the criteria either through data, analysis or other means. If the CAISO can demonstrate a need for this expansion through specific historic examples, PG&E may reconsider its position.

4. **The three new types of procurement authority for generic backstop capacity the ISO is proposing.**

The CAISO proposes to add three types of procurement authority:

[1] For example, if an Exceptionally Dispatched unit with a capacity of 500 MW experiences a planned derate of 100 MW for the second 15 days of the month, then the resource should be paid the full ICPM payment for the first half of the month and 80% of the full ICPM payment the second half of the month.

[2] Section 43.3 of the CAISO Tariff currently allows for the selection of backstop capacity based on the following criteria: 1) the effectiveness of eligible capacity at meeting criteria specified in Section 43.1, 2) the cost associated with the eligible capacity, 3) the quantity of a resource's available Eligible Capacity, 4) the effectiveness of eligible capacity at meeting zonal or local constraints. The CAISO wishes to modify the criteria in such a way that would result in the selection of a non-use limited resource over a use limited resource.

(1) Procurement of generic capacity to allow planned maintenance to occur;

(2) Procurement of generic capacity to backstop observed less-than-planned output from intermittent resources; and

(3) Procurement of generic capacity of resources that are needed for reliability and that are in danger of shutting down due to lack of sufficient revenues.

PG&E does not support expanding the CAISO's backstop capacity procurement authority to include these types of procurement. This proposed expansion is unneeded and inconsistent with the current RA paradigm.

- The CAISO's current outage planning and approval process currently ensures that there are sufficient resources available when a unit is planning on taking an outage. There is no indication that this process is inadequate.

- The CPUC has a process by which it determines Qualifying Capacity (QC) for all types RA resources. If these counting rules are not providing an accurate assessment of actual RA availability, then the CAISO and the CPUC should work together to revise the current RA counting rules.

- If the RA program is not adequate to deal with resources that may shut down, then the RA program should be revised to address that shortcoming.

5. **The compensation that should be paid for generic capacity procured under CPM and Exceptional Dispatch. Which method do you support: Option A – CONE net of peak energy rent; or Option B – going forward costs? Are there further modifications needed to either of these pricing options? If you have a specific alternative pricing proposal, please provide it and indicate the reasons for your proposal.**

PG&E strongly recommends Option B[3] and is strongly opposed to Option A.

The CPUC is the agency that is tasked with the responsibility of designing California's capacity market. It has ruled that over-reliance on backstop procurement is fundamentally at odds with the LSE-based procurement objective of the RA program and concluded that the RA program should be designed in a way that minimizes the need for backstop procurement.[4]

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[3] It's important to note that if Option B is adopted, the CAISO proposes to change the price of backstop capacity from $41/kW-year to $55/kW-year. This change reflects updates to the CEC's estimates of going forward costs of a small simple cycle gas unit (as previously used under ICPM). PG&E is open to hearing arguments for this adjustment but will limit the scope of its comments to address its preference for pricing methodology (and will not address specific cost estimates).

[4] CPUC Decision (D. 10-06-018, June 3, 2010) Phase 2 – Track 2 Issues: Adoption of a Preferred Policy for Resource Adequacy

If the CAISO backstop program were to be designed to incent new investment in capacity, the program would be inconsistent with the goals and intent of the CPUC's procurement and reliability planning. If the CAISO were to implement Option A it would have overstepped the established jurisdictional boundaries between itself and the CPUC.

Further, the purpose of the CAISO's backstop mechanism should not be to provide an incentive to build new capacity that will support newly evolving operational requirements (such as the integration of intermittent resources). The long-term reliability objective of facilitating development of new generating capacity is being addressed by the RA program in conjunction with the Commission's LTPP and RPS programs in a manner that is consistent with PUC Code Section 380.[5]

In its January 18, 2008 Board Memo, the CAISO described its ICPM proposal as the culmination of a lengthy and rigorous stakeholder process which attempts to strike a reasonable balance between the divergent views of stakeholders. When referring to the current ICPM price, the CAISO stated that:

> These and other cost data reviewed provide justification for assuming that this target capacity price along with retention of peak energy rents will be sufficient for almost all units to accept designation as Type 1 backstop resources.[6]

Given the guidance from the previous ICPM stakeholder process, there is no need to change the methodology used to determine the price of backstop capacity. We believe the CPM price should continue to be based on the going forward costs of existing generation.

6. The need for the ISO to procure non-generic capacity under CPM and Exceptional Dispatch to meet operational needs.

PG&E does not support the expansion of the CPM to include the procurement of non-generic capacity to meet certain defined operational needs. The CAISO has not adequately demonstrated a need for this expansion of CPM, and its associated

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[5] Public Utilities Code Section 380 directs the CPUC to establish resource adequacy requirements applicable to investor-owned utilities and other load-serving entities in order to facilitate development of new generating capacity and retention of existing generating capacity that is economic and needed for reliability.

[6] Under "Type 1" procurement, the CAISO would procure capacity (a) in advance of the compliance year if an LSE has not procured the full amount of its Resource Adequacy Requirement ("RAR") by the time of the required RA showing, or if the portfolio of resources procured by all LSEs in a local area is not sufficient to fully meet the operating needs of the local area, or (b) during the compliance year if an LSE has not procured the full amount of its RAR in the month-ahead time frame.

complexity and administrative burden, either through data or other means. If the CAISO can demonstrate a need for this capability in the future, PG&E may reconsider its position.

Furthermore, any systematic deficiency in capacity procurement should be addressed in the CPUC-administered RA program and not through the CAISO's CPM. To the extent that an LSE's portfolio of resources may need to change to better support the operational needs of the CAISO, these requirements should be reflected in the LSE's RA requirements or the Long-Term Procurement Plan as determined by the CPUC.

7. **The operational criteria the ISO is proposing to distinguish certain operational characteristics as non-generic capacity (fast ramping and load following). Are these two characteristics enough, or do you propose additional criteria for operating characteristics that would qualify for non-generic capacity?**

   As noted above, the CAISO has not adequately demonstrated a need for this expansion of the CPM. Different types of capacity may be needed to support increasing levels of renewable resources. However, any changes in capacity procurement should be addressed in the CPUC-administered resource adequacy program and not through the CAISO's CPM. To the extent that an LSE's portfolio of resources may need to change to better support the operational needs of the CAISO, these requirements should be reflected in the LSE's RA requirements or the Long-Term Procurement Plan as determined by the CPUC.

8. **How should non-generic capacity be compensated? What are your views on the proposal to compensate non-generic capacity by applying an adder to the price paid for generic capacity?**

   PG&E does not support the expansion of CPM to include non-generic capacity procurement.

<u>Exceptional Dispatch</u>

1. **Should energy bids for resources dispatched under Exceptional Dispatch continue to be mitigated under certain circumstances? Should such mitigation continue the current practices of bid mitigation as outlined in the straw proposal?**

   Currently, the CAISO mitigates Exceptional Dispatches in the two following situations:

   - A supplier is exceptionally dispatched to address a contingency on a non-competitive transmission path.

   - A supplier is exceptionally dispatched to address the Delta Dispatch. As a result of environmental restrictions on certain resources in the Bay Area, the

> CAISO must manually dispatch combinations of resources in a particular order during the same period of time every year (i.e. the operator of some units know with a high degree of certainty that it will be dispatched regularly during this period, creating the potential for a very high price bid for energy, thus exercising market power).

PG&E strongly supports appropriate mitigation rules that address the two circumstances listed above because they deter uneconomic bidding during times when a resource is capable of or exercising market power.

2. Should the ISO change the categories of bids subject to mitigation under Exceptional Dispatch (Targeted, Limited and FERC Approved) and extend the bid mitigation for the existing categories?

PG&E does not recommend changing the existing policy as it pertains to bid mitigation of Exceptionally Dispatched units.

3. What is the appropriate compensation for non-RA, non-RMR and non-CPM capacity that is Exceptionally Dispatched? Should the current compensation methodology be extended, updated to agree with what is put in place for CPM for generic capacity procurement?

We do not see a need to change the current payment structure for Exceptional Dispatches.[7]

<u>Other</u>

1. Do you have any additional comments that you would like to provide?

No other comments at this time.

[7] Resources without a capacity contract have a month-to-month choice between 1) accepting an ICPM designation and 2) earning hourly, bid-based compensation pursuant to the MRTU Tariff. Resources that choose Option 2, which is referred "Supplemental Revenue" option, are paid similarly to unmitigated resources until it receives revenues up to the level of the ICPM payment.