Pacific Gas and Electric Company®

2018 Stakeholder Catalog and Draft Policy Initiatives Roadmap

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PG&E appreciates this opportunity to provide comments on the 2018 Stakeholder Catalog and Draft Policy Initiatives Roadmap presented in the stakeholder call of December 14, 2017. PG&E has questions with regard to the scope of several future initiatives in the Catalog and Roadmap, but highlights first the following critical concern:

1. The scope of the RMR/CPM Review initiative is too narrow and the timing must be accelerated to address the urgency of the coming wave of early economic retirements of gas-fired generation.

During the stakeholder call, CAISO described its proposed two phase approach to reviewing and revising the ISO tariff sections related to backstop procurement. The "Review of Reliability Must-Run (RMR) and Capacity Procurement Mechanism (CPM)" initiative will kick off with a stakeholder meeting on January 30, 2018.

> This initiative will review the RMR tariff, agreement and process, and will seek to clarify and align the use of RMR procurement versus backstop procurement under the CPM tariff. The initiative is planned to proceed in two phases. The first phase will have a limited scope and focus on developing a must-offer obligation for RMR units. The second phase will have a broader scope and address potential additional refinements to the RMR tariff, agreement and process, and strive to unify RMR and CPM procurement under a single procurement framework.[1]

PG&E is deeply concerned that this schedule and framing of the issue does not rise to the level of current challenges in the backstop procurement arena.

The current timeline will not result in a board decision on any policy changes until mid-2019 at the earliest, with little chance that any tariff language would be submitted and approved by FERC in time to impact RMR designations to go into effect January 1, 2020. In other words, the CAISO has proposed a timetable that may condemn PG&E customers to bear hundreds of millions of dollars of new RMR contract costs for a minimum of three more years and likely longer. There is no justification for this delay.

PG&E believes that CAISO can and should parallel track the "Phase 1" and "Phase 2" issues in this initiative and begin an expedited stakeholder process on the (renamed) Track 2 issues immediately, in an all-out effort to avoid additional new RMRs that may go into effect on January 1, 2019. PG&E notes that this is precisely the instruction that was provided to CAISO management by members of the Board of Governors during their reluctant acceptance of the Metcalf Energy Center RMR designation at the Board meeting of November 2, 2017.

[1] CAISO Market Notice of January 2, 2018

It is also consistent with FERC's expectation in its December 29 order accepting Calpine's 2018 RMR applications (subject to refund):

> Nevertheless, Metcalf, DMM, and others raise concerns that suggest a review of the current pro forma RMR agreement and capacity procurement procedures in CAISO is warranted. We understand that some of these issues may be addressed in an upcoming stakeholder process that CAISO states it intends to initiate in 2018, and we encourage interested stakeholders to participate in that process.[2]

In order to achieve the objective of a holistic review of the conditions that are driving the need for new backstop procurement, it is essential that the scope of Track 2 issues not be narrowly limited to the RMR and CPM provisions of the ISO tariff. The initiative must also consider such changes as are necessary throughout the ISO tariff, including to the processes upstream of a backstop procurement, in order to alleviate and where possible avert the conditions that currently allow local reliability needs to emerge only after needed generation threatens to retire, once it is already too late to consider lower cost alternatives to backstop procurement.

In particular, PG&E believes that features of the Transmission Planning Process (TPP) and Local Capacity Requirements (LCR) study processes should be in scope for Track 2. CAISO should assess necessary changes to the annual TPP and LCR studies to:

1) Allow for the timely[3] identification of local area and subarea needs that would be created by the early economic retirement of at-risk generation;
2) Allow for the timely consideration of lower cost alternatives to backstop procurement (including both wires and non-wires solutions);[4] and
3) Allow for annual re-study of all in-place RMRs (or CPM Risk of Retirement contracts), to ensure that cost effective alternatives are being developed and deployed, and that any backstop contracts are retired as expeditiously as possible.

While the above changes should be coordinated with the CPUC's Integrated Resource Planning (IRP) proceeding and the upcoming review of the overall CPUC Resource Adequacy (RA) framework in the CPUC RA Proceeding, timing is critical to prevent the coming wave of retirements from resulting in additional costly RMR contracts. PG&E notes that the CAISO, on its own, can play a very helpful role by improving the early identification and mitigation of transmission reliability needs (via its backstop procurement authority) even before addressing other systemic problems in the RA market.

In addition to the above, PG&E requests that CAISO use Track 2 to address mid-term solutions for generators which might request an RMR designation for 2019 or 2020. The CAISO's RMR process and 2018 designations for Metcalf, Feather River, and Yuba City highlighted that the Resource Adequacy (RA) and Long-Term Procurement

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[2] FERC Docket ER-18-240, "ORDER ACCEPTING AND SUSPENDING RELIABILITY MUST-RUN AGREEMENT AND ESTABLISHING HEARING AND SETTLEMENT JUDGE PROCEDURES" at p. 11

[3] Ideally studies could be performed up to five years ahead of time, but the new process should also consider a two year forward look, as part of the annual LCR study process.

[4] As an example, PG&E notes the proposal that was submitted in the on-going 2017-18 TPP to replace and retire the RMR generator in Oakland. Notably, this proposal is for solutions to go in service in time to mitigate a 2023 RMR need – i.e., five years following the submission in the TPP request window.

Plan (LTPP) processes at the CPUC are failing to allow uneconomic generation to retire when more cost effective solutions (e.g. transmission, storage, or distributed resources) may be available. CAISO and the CPUC must work together with stakeholders to develop a better approach for dealing with expected upcoming requests, which might require additional fixes to the CAISO tariff. The to-be-developed better approach should enable full consideration of whether such resources should be allowed to retire without replacement. For those resources where retirement without replacement is determined not to be the most appropriate or least-cost path, the process should enable a careful evaluation to determine the appropriate replacement solution (which may include a combination of both wires and non-wires elements).

In summary, PG&E requests the following:

1. Track 1 of the Review RMR/CPM initiative should be accelerated to achieve an estimated completion date of Q3 2018.
2. Track 2 of the Review RMR/CPM initiative should be launched immediately (January 2018) and broadened in scope to include a full review of all relevant sections of the CAISO tariff, and should proceed on an expedited schedule to facilitate a Board approval in Q3 2018.[5]
3. The scope of Track 2 should include both changes to the longer-term planning processes to identify and address needs associated with units at risk of retirement in the next five years, as well as the mid-term concerns associated with resources at risk to retire and request RMR treatment during 2018, 2019, and 2020.[6]
4. CAISO should consider the staffing of various initiatives to simultaneously prioritize both Tracks of the RMR/CPM initiative and ensure they are achievable under an accelerated timeframe.

PG&E recognizes that the above proposed timetable is aggressive and may not be achievable, even with a concerted effort by CAISO staff. However, given the magnitude of the challenges from new RMRs that may emerge in the next few years, and the potential cost implications for California customers, PG&E believes that the highest possible priority should be given to these matters.

2. PG&E seeks clarification of the intended scope of the "High-DER regulatory framework" initiative

During the Stakeholder call on December 14, CAISO presented a chart of the "Three-year Policy Roadmap of New Initiatives" (see Slide 17). Under the theme of "Shape Electric Sector Decentralization" at the bottom, the chart groups together three initiatives, two of which (ESDER 3 and ISO/UDC DER coordination) are familiar to PG&E. The third item "High-DER regulatory framework" is introduced here for the first time without further explanation. PG&E seeks clarification of the intended scope of this initiative and how it is different from that of the other two initiatives within this theme.

[5] CAISO practice is to seek approval by the Board at its September meeting for existing RMRs to be renewed for the following calendar year, in order to afford a 60-day review period at FERC for the associated contracts and rates to go into effect on January 1. For any alternative to be considered that would potentially mitigate the need for a renewal or new RMR designation to go into effect, it, too, would likely need to be presented to the CAISO Board no later than September.

[6] On April 24, 2017 during the Joint Agency IEPR Workshop on Risk of Economic Retirement for California Power Plants, CAISO staff stated that 2,000 MW of generation have told them of their plans to retire.