Pacific Gas and Electric Company

Comments of PG&E on the CAISO's February 6, 2009 Standard Resource Adequacy Capacity Product White Paper

February 20, 2009

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I. Introduction

PG&E commends the CAISO for its further consideration of several important elements of its Standard Capacity Product (SCP) proposal. PG&E confines these comments to the issues addressed in the CAISO's most recent white paper. PG&E's primary outstanding concern pertains to the CAISO's proposal with respect to transition issues. PG&E has several "evergreen" contracts that, according to the CAISO's proposal, would not count towards meeting resource adequacy (RA) procurement obligations. PG&E continues to advocate that all existing contracts, including "evergreen" contracts, count towards meeting RA procurement obligations. In addition, PG&E opposes the asymmetric treatment of non-resource-specific imports in the white paper. The remainder of these comments addresses the issues raised in the CAISO's February 6 white paper in the order in which they are addressed in the document.

II. Availability Standard, Charges, and Credits

A. Month-specific availability targets

PG&E does not object to the CAISO's proposal to develop month-specific availability metrics. Given the CAISO's expressed preference for not carrying availability charge balances forward from month to month, month-specific availability metrics should lead to approximate revenue neutrality, i.e., if the availability metrics reflect accurate expectations of availability in each month, the amount of charges and credits in each month should be approximately equal.

B. Resources included in the calculation of availability targets

The CAISO proposes to exclude two large classes of resources from the calculation of the availability targets: Use Limited Resources (ULR) and non-resource-specific imports. This exclusion may lead to large credits or charges for these resources. For example, suppose that ULRs constitute half of the fleet and their average availability is 80 percent.

Further, suppose that the non-ULR portion of the fleet has an average availability of 90 percent. According to the CAISO's proposal, the target availability level would be 90 percent and ULRs would underperform by 10 percent and be assessed charges. The CAISO should establish that the availability of ULRs is not significantly different from the availability of non-ULRs based on data other than SLIC or delay the application of financial penalties to ULRs until it can accurately reflect their availability in the availability targets.

C. Non-resource-specific imports

With respect to non-resource-specific RA imports, the CAISO's most recent proposal introduces an asymmetry in the treatment of different types of resources—in this case, non-resource-specific imports and other resources—that plagued earlier versions of its SCP proposal. First, it introduces a separate pool of credits and charges for non-resource-specific imports. Second, within that pool, the mechanism for calculating charges and credits creates different incentives than the mechanism for internal resources. The target availability for imports is 100 percent with no dead band. If any non-resource-specific import fails to perform at the target level, non-resource-specific imports that meet the target would earn credits. On the other hand, an internal resource which meets its target would not be eligible for credits.

PG&E recommends that the CAISO treat non-resource-specific imports and other resources symmetrically, i.e., the availability charges and credits for both types of resources should be based on the same availability standard and flow through a common pool. The CAISO seems concerned that non-resource-specific imports may consistently earn credits under such a symmetric treatment. PG&E submits that these credits may reflect an appropriate premium for a firm resource; by offering a firm import, the seller absorbs generation outage risk and non-CAISO transmission outage risk.

D. Ambient outages

As slide 7 of the CAISO's February 13 presentation and the associated discussion on the February 13 conference call made clear, the SCP proposal needs more specificity with respect to what constitutes an Uncontrollable Force. For example, at what point is hot weather an "act of God"?

III. Unit substitution

PG&E continues to object to the CAISO's proposal to retain discretion over the "electrical equivalence" of unit substitutions for local RA. If the CAISO needs are more granular than the Local Capacity Requirements (LCRs), then the procurement obligation should be equivalently granular. In the event that the CAISO needs resources at a specific bus, for example, competitive procurement is unlikely to be workable and it may be more appropriate to procure the required resources through means other than RA purchases, such as Reliability Must Run (RMR) contracts or other similar mechanisms.

IV. Transition issues

The CAISO's current proposal with respect to transition issues is significantly improved from previous versions in that it no longer excludes contracts for which the contracting parties fail to "certify that the availability standards and incentives in their contracts are at least equal to the requirements set forth in the SCP tariff language" from grandfathering. Unfortunately, it continues to exclude "renewals and evergreen type extensions" from grandfathering. PG&E has many QF contracts and at least one seasonal exchange that are evergreen in the sense that they do not terminate absent counter-party action. In addition, PG&E derives substantial amounts of RA from DWR contracts. It is still unclear whether the CAISO intends to grandfather DWR contracts in the event that they are novated. Restructuring evergreen and DWR contracts to conform to SCP would entail significant costs; consequently, PG&E proposes that the CAISO grandfather all contracts signed before January 1, 2009 and clarifies that novation of a DWR contract to an IOU will not affect its grandfathered status.