Comments of Pacific Gas and Electric Company

on the

California ISO Report on Basis and Need for CPM Designation for Sutter Energy Center

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company ("PG&E") provides these comments on the *California ISO Report on Basis and Need for CPM Designation for Sutter Energy Center* ("Sutter Report") issued by the California Independent System Operator ("CAISO") on December 6, 2011.

PG&E appreciates the CAISO's focus on long-term reliability and the need to have appropriate and sufficient resources available to meet the operational needs facing California's electric system over the next ten years. However, at this time PG&E believes the CAISO's proposal is premature, and therefore cannot support the proposal to award a 2012 Capacity Procurement Mechanism ("CPM") designation to Calpine's Sutter plant, or any other plant at this time, to meet projected resource needs in 2017-2018.

As explained in more detail below, the CAISO's proposal is premature since the CAISO has not yet initiated the stakeholder process it is considering to evaluate a longer-term procurement mechanism (PG&E supports accelerating the stakeholder process), and is in the middle of conducting a renewable integration study, the results of which are not yet available. Rather than making special accommodation for the Sutter or any other plant at this time, the CAISO should continue its analysis to enable the California Public Utilities Commission ("CPUC") to make a conclusive determination in the Long Term Planning Process ("LTPP") and define the specific operating characteristics it needs for renewable integration. The CPUC should take the lead on procurement policies and rule making. The CAISO is responsible for operational reliability. The CPUC needs to modify the current Resource Adequacy ("RA") structure and issue LTPP decisions to address the long term needs of the system.

Finally, PG&E is not convinced that the CAISO has demonstrated that the Sutter plant is uniquely situated under the CAISO's broad, longer-term reliability finding. Thus PG&E is concerned that awarding a CPM designation to the Sutter plant based on a general long-term need may result in a flood of similar requests from other generators and undermine the RA market..

I. A CPM Designation for Sutter is Premature.

The Sutter Report indicates that the CAISO is considering initiating a stakeholder process to consider a longer-term procurement mechanism for the CAISO in January 2012.[1] It is premature to make an extraordinary CPM designation for any plant prior to the conclusion of that stakeholder process. Designating the Sutter plant now is both beyond the CAISO's current authority and premature given the fact that the long-term capacity procurement mechanism stakeholder process has not even been initiated.

The CAISO Tariff is clear that the Sutter proposal is currently beyond the CAISO's authority. The CPM approved by FERC allows the CAISO to designate a unit under the CPM if there is a risk the unit will retire in a given year and the unit will be needed for reliability purposes the following year.[2] FERC did not authorize the CAISO to use the CPM mechanism to conduct long-term planning or to procure resources that may be needed five to six years in the future, as is the case here.

Under California statutory law, resource adequacy and long-term capacity procurement is under the jurisdiction of the CPUC, not the CAISO. Public Utilities Code section 380 provides that the CPUC, in consultation with the CAISO, shall establish resource adequacy requirements that:

(1) *Facilitate development of new generating capacity and retention of existing generating capacity that is economic and needed.*

(2) Equitably allocate the cost of generating capacity and prevent shifting of costs between customer classes.

(3) Minimize enforcement requirements and costs.[3]

Section 380(h) further provides that the CPUC shall "determine and authorize the most efficient and equitable means for achieving all of the following:

(1) Meeting the objectives of this section.

(2) Ensuring that investment is made in new generating capacity.

(3) *Ensuring that existing generating capacity that is economic is retained*.

(4) Ensuring that the cost of generating capacity is allocated equitably."[4]

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[1] Sutter Report at p. 9.

[2] CAISO Tariff, § 43.2.6.

[3] Public Utilities Code section 380(b) (emphasis added); *See also* D.10-06-018 (regarding Commission implementation of Section 380).

Clearly, the CPUC and CAISO need to work together collaboratively to address these important issues that impact customer costs and reliability.

II. Long-Term Need Is Currently Being Analyzed.

The determination of resource need for the years leading up to and including 2020 is being examined in Track I of the CPUC's 2010 LTPP proceeding. R.10-05-006. A settlement in that proceeding, to which the CAISO is a party, concluded that "the resource planning analyses presented in this proceeding do not conclusively demonstrate whether or not there is need to add capacity for renewable integration purposes through the year 2020." Furthermore, the CAISO must identify the specific operating characteristics of power plants its needs for renewable integration.

In light of this conclusion, the CAISO formed an advisory group to review and improve input assumptions and methodology used in the 2010 LTPP. Subsequent analysis by the CAISO is scheduled to be ready by the end of the first quarter of 2012. In addition, in early 2012, as part of the CAISO's integration study update, the CAISO is to consider alternatives to meet integration needs. PG&E supports continuation of this analytical activity and supports the CAISO's leadership in this analytical effort.

The appropriate forum for determination of long-term need is currently at the CPUC, in the 2010 LTPP and its successor proceedings. Parties differ in their judgments of this need. The CAISO, in the Sutter Report and elsewhere, has stated that by 2020 there is a need for 4600 MW of resources with appropriate operating flexibility to ensure integration of intermittent renewable resources into the electric grid. This may or may not be an appropriate amount of the need. Regardless, it is at the CPUC that the CAISO should make its case.

In those successor proceedings, the CPUC and CAISO should also work together to establish a multi-year forward commitment for all California LSEs in order to promote forward investment in and retention of, the generation necessary to integrate intermittent renewable resources.

III. The CAISO Has Not Demonstrated That Sutter Is Uniquely Situated, And Making A CPM Designation May Create A Bad Precedent.

Using the short-term CPM mechanism for long-term procurement sets a poor precedent for other similarly situated resources, and could cause a flood of retirement applications. Generators may be incented to make "me too" filings with the CAISO, claiming economic hardship and threatening to shut down unless they are given a CPM designation. The CAISO could be inundated by requests from generators seeking long-term commitments from the CAISO. Such an outcome undermines the entire RA market.

IV. Conclusion

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[4] Public Utilities Code section 380(h) (emphasis added).

For the foregoing reasons, at this time PG&E opposes the proposal to award a CPM designation to the Sutter plant.