Comments of Pacific Gas and Electric Company
Flexible Resource Adequacy Criteria and Must-Offer Obligation
December 13, 2013 Working Group Meeting

Submitted by	Company	Date Submitted
Marie Fontenot (415) 973-4985 Peter Griffes (415) 973-3335	PG&E	December 20, 2013

Pacific Gas and Electric Company (PG&E) offers the following comments in the stakeholder process for the California Independent System Operator's (CAISO) Flexible Resource Adequacy Criteria and Must-Offer Obligation (FRAC-MOO) Initiative following the December 13, 2013 working group meeting.

PG&E appreciates the ongoing work, discussion and stakeholder collaboration dedicated to the FRAC-MOO initiative. That said, PG&E is concerned the CAISO is introducing significant design changes very late in the stakeholder process. We are also concerned about the compressed schedule to address these important issues (e.g., stakeholders will not be given two weeks to respond to CAISO proposals) and the ability to achieve a consensus in time for the 2015 Resource Adequacy (RA) compliance year. It is PG&E's belief, the CAISO and stakeholders need to take the time needed to develop a workable and efficient flexible RA design.

PG&E's specific concerns are addressed, by topic, below.

Must Offer Obligation

1) The 24-hour must offer obligation is inconsistent with two years of flexible RA discussion and has not been justified by the CAISO.

PG&E is unaware of any discussion of a 24-hour flexibility requirement since the Joint Parties' discussions on flexibility began, approximately two years ago. All discussions and all descriptions of the flexibility requirements prior to the most recent proposal addressed a 17-hour requirement, hours ending 6 through 22. The CAISO's proposed 41% expansion of the must offer obligation will limit the ability of scheduling coordinators to manage their resources. Such a sweeping change needs to be well supported by analysis. The CAISO has not provided any analysis, and, as a result, PG&E does not support this change. Moreover, since this is such a significant shift in the proposal, stakeholders must be given adequate time to do their own analysis and modeling in order to respond thoughtfully to this proposal.

2) The CAISO has not adequately justified the proposed percentages for each bucket.

The bucket percentages (i.e. the percent of the flexibility requirement that can be satisfied by resources of a particular bucket type) can have a significant impact on compliance cost. As a result these percentages need to be given careful consideration which is supported by analysis. The CAISO has yet to release any substantive analysis supporting the percentages, and the proposed values have not been adequately justified. Compelling analysis needs to be developed and made available to stakeholders as soon as possible if the CAISO decides to further pursue this approach.

Moreover, as discussed below, it is the CPUC's jurisdictional responsibility to establish a procurement RA framework for its jurisdictional LSEs, and, if a bucket approach is chosen by the CPUC, to set the procurement percentages of the buckets.

3) The CAISO and stakeholders need to better understand the customer cost and greenhouse gas (GHG) implications of the proposed bucket approach.

PG&E is concerned with the CAISO's plan to limit the amount of flexible capacity provided by emission-free resources like hydro and dispatchable variable energy resources (VERs) without understanding the trade-offs of this approach and the implications of the largely arbitrary bucket percentages.

As discussed above, the setting of bucket percentages can have a cost impact to California customers, especially in later years. Additionally, this approach will likely increase GHG emissions at a time when the state is under pressure to meet emission targets. There needs to be a full stakeholder discussion, informed by analysis, which explores the CAISO's reliability concerns, customer cost and GHG emissions. The CAISO and stakeholders need time to adequately understand these trade-offs.

4) The setting of bucket definitions and percentages is the jurisdiction of the California Public Utilities Commission (CPUC).

The CPUC has the authority over resource adequacy for its jurisdictional load serving entities (LSEs) and has historically set the generic RA procurement targets on a forward basis.[1]

Similarly, the CPUC should have jurisdiction to determine the procurement framework (i.e. bucket or some other approach) for the flexible RA. For a bucket approach, the CPUC should set the rules to determine which resources qualify for the each bucket and how much of the flexibility requirement can be served by resources from a particular bucket. Finally, the CPUC should be the party that administers the procurement framework for its jurisdictional LSEs.

Allocation

PG&E remains convinced that the allocation methodology first described in our comments on the Third Revised Straw Proposal[2] is the approach most consistent with cost causation.

Allocating the load portion of the flexibility requirement on a non-coincident ramp basis is the best way to ensure that all entities pay a fair share of the requirement. PG&E believes that entities benefitting from procured flexibility should be required to pay a portion of the procurement costs, just as entities benefitting from the investment of transmission are required to pay for a portion of the costs of that transmission.[3] This is the key underlying argument of PG&E's proposed allocation methodology – that all entities will utilize and benefit from procured flexible capacity, regardless of coincidence of their contribution to the system net load ramp.

PG&E also notes that the CAISO's observation in the Dec. 13th presentation that multiple ramps drive the system requirement for flexibility further supports the allocation to load based on each LSE's largest ramp.

---

[1] Under California statutory law resource adequacy and long-term procurement planning are under the jurisdiction of the CPUC. Public Utilities Code Section 380 provides that the CPUC, in consultation with the CAISO, shall establish resource adequacy requirements for all load serving entities that "facilitate the development of new generating capacity and retention of existing generating capacity that is economic and needed."

[2] PG&E Comments on FRAC-MOO Third Revised Straw Proposal. http://www.caiso.com/Documents/PG_E-Comments-FlexibleResourceAdequacyCriteriaMustOfferObligation-ThirdRevisedStrawProposal.pdf

[3] FERC Transmission Planning and Cost Allocation by Transmission Owning Utilities, Notice of Proposed Rulemaking, Issued June 17, 2010, Docket RM10-23-000, p79-80. http://www.ferc.gov/whats-new/comm-meet/2010/061710/E-9.pdf

Finally, PG&E supports allocating the flexibility requirement caused by VERs to VERs. An allocation to VERs is fair, helps create efficient procurement outcomes and does not put grid reliability at risk. This approach is consistent with the CAISO's allocation of the flexible constraint cost and allocation of reserve costs in other FERC-jurisdictional balancing areas.