

***Comments of Pacific Gas and Electric Company on CAISO Straw Proposals
Concerning the Need for Local Generation Capacity Procurement***

July 15, 2005

Introduction

Pacific Gas & Electric Company ("PG&E") appreciates the opportunity to comment on the local area resource adequacy ("Local Area RA") straw proposals issued by the California Independent System Operator ("CAISO") concerning resource adequacy requirements ("RAR") under consideration by the California Public Utility Commission ("CPUC"). These comments address the document entitled "Local Capacity Technical Analysis," including the study methodology and criteria, as well as the document entitled "RAR Local Capacity Procurement Straw Proposal." These proposals were introduced on June 23 in preparation for the Local Capacity Requirement Study Stakeholder Meeting of June 29, 2005. PG&E's comments are in addition to those made by PG&E in response to the CPUC's Phase 2 Workshop Report, which were submitted to the CPUC on July 13, 2005, a copy of which is included with these comments.

Comments on Study Methodology and Criteria

PG&E appreciates the time and effort expended by the CAISO Staff in preparing the straw proposals and in further checking and refining the study results (for example, at the June 29 meeting, the CAISO staff agreed to confirm that the identified load pockets were correctly designated).

PG&E does not challenge the preliminary results of the CAISO's technical analysis, given their preliminary nature and that the CAISO has stated that it will confirm that each load pocket in the study was indeed correctly identified. However, as explained in detail in PG&E's response to the CPUC's Phase 2 Workshop Report, PG&E believes the CAISO's analysis significantly exceeds accepted, existing transmission planning standards, including the CAISO's own standards, resulting not only in troubling inconsistencies but, more importantly, undermining actual reliability while grossly increasing the cost burden on California's energy consumers. The conclusions of the study would increase Local Area RA requirements, currently supplied by Reliability Must-Run ("RMR"), from approximately 14,500 MWs (based on the CAISO's initial 2006 RMR assessment as presented at the June 29th stakeholder meeting) to approximately 18,250 MWs, an increase of over 25%. More stringent criteria (and the numbers that flow from them) should not be proposed to the CAISO Board until the CAISO provides stakeholders with the justification for its departure from accepted NERC/WECC Planning Standards and its own transmission planning standards (as promised in the June 29, 2005, workshop), which should include a cost/benefit analysis, and the stakeholders have had sufficient time to evaluate these departures. These criteria should not be implemented unless and until CAISO Board approves them, and the CPUC RA rules are modified to adopt those standards, as appropriate. PG&E also calls on the

CAISO to recognize that load shedding, demand response and other manual or automatic adjustments must count towards meeting the Local Area RA requirements, to ensure that California energy consumers are not paying twice for the reliability measures that they adopt and to avoid undermining the important energy policies served by these measures.

In Decision 04-01-050, the CPUC determined that a 15-17% planning reserve margin for a 1-in-2 adverse weather load forecast will achieve the appropriate resource adequacy (“RA”) balance between maintaining reliability and the economic burden imposed on California consumers. That planning reserve margin was based on the CPUC’s review and consideration of the mix of transmission and generation resources and their respective characteristics. The CAISO’s proposals would effectively cause this planning reserve margin to expand enormously, with a commensurate increase in cost.¹ Worse yet, these implementation proposals may result in a degradation of actual reliability, due to an increased use of Special Protection Schemes to shed load to satisfy the more stringent criteria.

Specifically, the criteria used for determining procurement of local resources would require that the same amount of local load be served as if the transmission system is intact². After a system has suffered a prior outage, controlled involuntary load shedding is clearly allowed in NERC/WECC Planning Standards for such contingencies. NERC/WECC Standards, Table I, Footnote b, for Category B (N-1) contingencies, states that “[p]lanned or controlled interruption of electric supply to radial customers or some local network customers, connected to or supplied by the faulted element or by the affected area, may occur in certain areas without impacting the overall security of the interconnected transmission systems. To prepare for the next contingency, system adjustments are permitted, including curtailments of contracted firm (non-recallable reserved) electric power transfers.”³ In addition, in the same table, Footnote d states, for Category C (N-2) contingencies, “depending on system design and expected system impacts, the controlled interruption of electric supply to customers (load shedding), the planned removal from service of certain generators, and/or the curtailment of contracted

¹ The CAISO proposes to apply standards in local areas that are in excess of the existing grid planning standards and the criteria currently in use to determine the need for RMR contracts. Areas in which the CAISO has exceeded approved standards include:

- Requiring procurement of energy and capacity to support 100% of the local area load projected for 1 in 10 adverse weather load forecast after excessive multiple contingencies.
- Using load projections based on 1-in-10 year adverse weather conditions in local area RA analyses (even though RMR contracts assume load projections based on 1-in-5 year adverse weather conditions), but failing to recognize the contribution of Demand Reduction programs.

² See CAISO June 29, 2005 workshop on Local Reliability Requirement Presentation, [available at www.caiso.com/docs/2005/06/28/2005062816522619093.pdf](http://www.caiso.com/docs/2005/06/28/2005062816522619093.pdf)

³ Available at http://206.71.72.51/documents/library/procedures/planning/WECC-NERC_Planning%20Standards_4-10-03.pdf

firm (non-recallable reserved) electric power transfers may be necessary to maintain the overall security of the interconnected transmission systems.”⁴ Category C contingencies include the scenario in which a prior contingency has occurred, the system was then adjusted, and a second contingency followed. Even the CAISO’s own Grid Planning Standard allows for involuntary load shedding for Category C contingencies. The Grid Planning Standards state that “[i]nvoluntary load interruptions are an acceptable consequence in planning for CAISO Planning Standard Category C and D disturbances (multiple contingencies with the exception of the combined outage of a single generator and a single transmission line), unless the CAISO Board decides that the capital project alternative is clearly cost effective (after considering all the costs and benefits).”⁵

If involuntary load curtailment, as part of system adjustment, is not allowed after successive removal of the second generator in a local area, followed by more overlapping outages, this proposal would require the load serving entities (“LSEs”) to contract enough generation in the local areas to support standards that would substantially exceed what has been well established to date. Such application without prior CAISO Board approval would tantamount to significantly increasing Grid Planning Standards (and hence increasing the cost to ratepayers) without the appropriate CAISO review and authorization process.

Even if involuntary load curtailment is allowed, applying these more stringent standards would force increased use of Special Protection Schemes to shed load, or undertake other automatic actions, such as tripping generators or opening circuits. Since the probability of mis-operation of Special Protection Schemes is higher than the probability of occurrence of the multiple contingencies against which the Special Protection Schemes are supposed protect, the ratepayers would end up paying significantly more for a less reliable system.

RMR Contracts and Transition Period

PG&E does not object to the CAISO proposal to use the existing RMR criteria in the 2006 LARS process to obtain local reliability services through RMR. As the results of the local reliability study are not implementable in their present form, PG&E believes that 2006 RMR contracts will likely need to remain in place until the local reliability criteria are resolved and cost benefit studies carried out. Optimistically, local reliability criteria may be resolved when MRTU is implemented.

CAISO Local Reliability Contract

PG&E supports development of a CAISO Local Area Reliability Contract (“LARC”) as a backstop mechanism. In most, if not all local areas or sub-regions, suppliers will have local market power and the ability to drive or determine the price for

⁴ Id.

⁵ Available at www.caiso.com/docs/09003a6080/14/37/09003a608014374a.pdf

local capacity required under RA rules. As has been well established in the case of RMR contracts, the FERC is the proper regulatory authority to oversee mitigation of such market power. Stakeholders should begin collaborative work on developing the price, terms and conditions of the LARC so that it can be available if needed to mitigate local market power. As the backstop contract will be necessary to mitigate market power, PG&E believes that it must be in place prior to initiation of any local procurement requirement. While PG&E anticipates that development of the LARC will rely on lessons learned from development of the RMR contract, and thus will not take as long, the experience of development of the RMR contract suggests that development of the LARC will be a significant effort and cannot be expected to be finished and approved for use by FERC for Summer 2006.

Dispatch and Operational Characteristics

Any dispatch rights by the CAISO under the Local Area RA requirements should be consistent with existing CAISO obligations to first honor economic dispatch principals and the preferences of Scheduling Coordinators as expressed by their bids.

Conclusion

PG&E supports Local Area RA requirements that are consistent with the CPUC's decisions establishing the appropriate reserve margin and with the CAISO's and other established transmission planning and contingency standards. The CAISO's responsibility to ensure reliability would not be well served by unique, overly stringent standards that would vastly increase costs without demonstrable benefit, and at the risk of increased reliability problems.