



## Pacific Gas and Electric's Comments on Phase 2 of Standard Capacity Product

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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the stakeholder process for the CAISO's Phase 2 Standard Capacity Product (SCP) Initiative and to submit comments regarding the February 19, 2010 Straw Proposal. PG&E's comments address five issues: 1) Scope of SCP 2 Proposal, 2) Replacement Rule, 3) Resources Whose Qualifying Capacity Value is Determined by Historical Output from the CPUC or Local regulatory Agency, and 4) Clarifications of Existing SCP Tariff Provisions, and 5) Grandfathering of Intermittent Resources.

**PG&E is supportive of the CAISO's proposal for items #1, #3 and #4. PG&E does not support the CAISO's proposal for issue #2, the Replacement Rule. Additionally, PG&E supports a grandfather date for intermittent resources 60 days after the CAISO makes its SCP 2 filing with FERC (item #5).**

### 1) Scope of SCP II Proposal

#### CAISO Proposal

The CAISO proposes to defer issues dealing with Demand Response (DR) resources. This deferral pertains to both retail and wholesale products. The CAISO cites the lack of adequate tracking and reporting mechanisms at this time as a reason for deferring.

The CAISO also proposes to remove issues dealing with Non Resource Specific - RA (NRS-RA) from the draft final proposal.

#### Comments

**PG&E supports the CAISO's proposal to exclude DR and NRS-RA from SCP II.**

There are a number of challenges dealing with translating the terms associated with conventional resources and applying them to DR resources. The SCP is built on a generation model that does not always have direct analogues to DR. For instance, DR resources do not have name plate capacities, "scheduled outages", "forced outages", or a "must offer requirement". Further any attempt to find a solution to integrating DR into

the SCP would require an extended and lengthy stakeholder process, which realistically cannot be concluded by the March 25 -26 Board of Governors Meeting. In addition, changes to both retail and wholesale DR programs are currently being discussed in ongoing proceedings. DR should be considered for SCP only after these activities are completed.

PG&E also supports the CAISO decision to defer issues dealing with NRS-RA. The NRS- RA stakeholder initiative has been delayed and the generated bid functionality will not be in place before the January 2011 implementation of SCP II. Accordingly, it makes sense to exclude this issue from draft final proposal.

## 2) Replacement Rule

### CAISO Proposal

The CAISO proposes to require the supplier to specify the non-RA resource that will be available to replace the RA capacity during a planned outage. The designated non-RA resource would then be treated as an RA resource in the CAISO markets for the period of the original resource's outage.

The CAISO also proposes that the supplier have the opportunity to replace the RA resource during the planned outage period with a non-RA resource in accordance with the same substitution rules already approved for unit substitution under SCP. For local RA requesting a planned outage, the supplier must make a best effort to replace that resource with a non-RA resource in the same local area. If a supplier is not able to find a local non-RA resource, then resources outside the local area must be offered. If the CAISO finds that it requires ICPM capacity in a local area during the time the RA resource is out of service, a supplier who could not provide replacement capacity in the same local area will be responsible for a portion of the ICPM costs.

### Comments

**PG&E does not support the replacement rule proposal and recommends the CAISO adopt a more flexible system for outage replacement.** PG&E is concerned that both the rigid replacement requirement for system RA outages and the "best-effort" replacement requirement for local RA outages will result in unnecessary RA procurement and increased customer cost without a commensurate increase in reliability. Because the replacement requirements are enforced independent of a reliability assessment, there may be many instances in which LSEs are forced to procure additional, but unneeded, RA. Replacement shouldn't be required as long as the overall RA total for all LSEs combined for a given month is over 115%. PG&E is supportive of greater replacement flexibility than the CAISO proposal and encourages the CAISO to incorporate some type of needs assessment into the replacement framework.

PG&E does support making the supplier responsible for replacing RA capacity during a planned outage but within a less rigid replacement framework. Moving the responsibility to the supplier furthers the standardization of the capacity product and makes RA capacity more fungible and tradable. Without this rule, seemingly standard RA products could require different levels of LSE action to replace RA capacity during planned outages. This runs counter to the notion of a standard product. Instead, to be truly standard, all RA products should require no action on the LSE's part to meet RA performance requirements.

### **3) Resources Whose Qualifying Capacity Value is Determined by Historical Output from the CPUC or Local regulatory Agency**

#### CAISO Proposal

The CAISO proposes that the CPUC modify its counting rules for Renewable resources and Qualified Facilities by using proxy energy output values during the hours that the unit is on a forced outage.<sup>1</sup> The result is that the Net Qualifying Capacity (NQC) value will only reflect planned and not forced outages. The NQC will be used as the basis of the SCP availability standard. Consistent with this proposal, the CAISO proposes to subject intermittent resources to the same availability standard, availability incentives, unit substitution and grandfathering rules that are currently in effect and applicable to other RA resources.

#### Comments

**PG&E supports the CAISO's proposal.** This proposal presents a simple solution and will allow for the application of SCP availability requirements to intermittent resources

### **4) Clarifications of Existing SCP Tariff Provisions.**

#### CAISO Proposal

The CAISO proposes to delete the words "*non-ambient de-rates*" in Tariff Section 40.9.4.2.

The CAISO also proposes to change the wording of Tariff Section 40.9.6.3 "*credited against the Real-Time neutrality charge for that Trade Month in accordance with Section 11.5.2.3*" to read "*credited against the Real-Time neutrality charge to metered CAISO Demand for that Trade Month*

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<sup>1</sup> The second approach conforms to the methodology that the CPUC previously approved to account for planned outages in the QC calculation for these types of resources

Comments

**PG&E supports the CAISO's proposal.**

**5) GRANDFATHERING OF INTERMITTENT RESOURCES**CAISO Proposal

It is PG&E's understanding that the CAISO intends to exempt intermittent resource procured before June 28, 2009 (the grandfather date for the SCP I requirements) from SCP II requirements.

Comments

**PG&E does not support a grandfather date of June 28, 2009 for intermittent resources.** It is important to note that LSEs have executed agreements for intermittent resources after this date but before the completion of the SCP Phase II initiative. As such, these contracts were negotiated without knowledge of the final rules, and use of this date would be unjust.

We remind the CAISO that in the FERC's SCP I ruling the Commission mandated the grandfathering provision become effective 60 days after the date of the CAISO's filing with FERC (April 28, 2009), resulting in grandfather date of June 28, 2009.<sup>2</sup> A similar approach should be taken with establishing a grandfather date for the SCP II requirements for intermittent resources - 60 days after the CAISO files its SCP II tariff with FERC.

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<sup>2</sup> Order accepting in part and rejecting in part tariff revisions subject to modification re California Independent System Operator Corporation under ER09-1064.