



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA

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Application of Pacific Gas and Electric Company)
(U 39 E) for Review of Entries to the Energy)
Resource Recovery Account (ERRA) and)
Renewable Portfolio Standard Cost Memorandum)
Account (RPSMA), and Compliance Review of)
Fuel Procurement for Utility Retained Generation,)
Administration of Power Purchase Contracts, and)
Least Cost Dispatch of Electric Generation)
Resources of the Record Period of January 1,)
through December 31, 2010 and for Adoption of)
Electric Revenue Requirements and Rates)
Associated with the Market Redesign and)
Technology Upgrade (MRTU) Initiative.)

(U 39 E)

Application No. 11-02-011

**PACIFIC GAS AND ELECTRIC COMPANY'S (U 39-E) NOTICE OF EX PARTE
COMMUNICATION**

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Dated: **February 21, 2012**

Pursuant to Rule 8.4 of the Commission's Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) files this Notice of Ex Parte Communication. On February 15, 2012, Colin Cushnie, Southern California Edison Company's (SCE) Director of Energy Planning, and Laura Genao, SCE's Director of Regulatory Affairs, along with Roy Kuga, PG&E's Vice President of Energy Supply Management, and Erik B. Jacobson, PG&E's Senior Director of Regulatory Relations, met with Matthew Tisdale, advisor to Commissioner Michel Florio. The meeting began at approximately 1:30 and lasted for approximately 45 minutes, and took place at the California Public Utilities Commission's offices located at 505 Van Ness Avenue in San Francisco. Written materials were used during the meeting and are attached hereto as Exhibit A.

SCE's and PG&E's representatives provided Mr. Tisdale with an overview of the utilities' least cost dispatch process. They also described why the Division of Ratepayer Advocates' (DRA) proposal in SCE's and PG&E's pending Energy Resource Recovery Account (ERRA) proceedings for increased self-scheduling of certain utility-owned generation resources will increase costs to customers and inhibit the California Independent System Operator's (CAISO) ability to optimize the use of the State's generation facilities. SCE further described how DRA's proposed disallowances in its ERRA proceeding regarding CAISO market energy charges are contrary to the filed rate doctrine.

Respectfully Submitted,

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/s/

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Exhibit A

Least-Cost Dispatch

Southern California Edison

Presentation To
The Office of CPUC Commissioner Florio

February 15, 2012

Agenda

- What is Least-Cost Dispatch (LCD)?
- How SCE executes LCD
- How SCE Demonstrates LCD Compliance
- DRA's Recommendations
- Conclusions

What is LCD?

- The Commission defined LCD in Standard of Conduct No. 4 (SOC4)
 - Established in D.02-10-062

“The utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least-cost manner. Our definitions of prudent contract administration and least-cost dispatch are the same as our existing standard.”
 - Clarified in D.02-12-074

“Prudent contract administration includes administration of all contracts within the terms and conditions of those contracts, **to include dispatching dispatchable contracts when it is most economical to do so**. In administering contracts, the utilities have the responsibility to dispose of economic long power and to purchase economic short power in a manner that minimizes ratepayer costs. Least-cost dispatch refers to a situation in which the most cost-effective mix of total resources is used, thereby minimizing the cost of delivering electric services...”

How SCE Executes LCD

- SCE operationalizes LCD under the core principle of variable cost recovery by evaluating short-run marginal costs, subject to operational constraints, and submitting cost-based bids to CAISO
 - If a dispatchable resource can recover its variable costs, it should run
 - If a dispatchable resource cannot recover its variable costs, it should not run
- Variable costs determine when dispatchable resources are economic to operate in cost-based bidding
 - Fuel
 - O&M
 - Non-fuel startup cost (also referred to as “fixed startup cost”)
- Opportunity cost-based bids, including adders reflecting resource use limitations or downstream market opportunities, are appropriate in certain circumstances (e.g., hydro resources and emissions-limited peakers)
- Workarounds, such as self-schedules, are used when market design limitations are projected to impede LCD

How SCE Demonstrates LCD Compliance

- The CAISO market determines the daily dispatchable resource mix, so SCE demonstrates LCD compliance in ERRA by showing that it appropriately presented its resource portfolio to the market
- SCE includes detailed process descriptions in ERRA testimony, with extensive supporting data
- Supporting data includes “deep dives” on three sample days (highest load, lowest load and average load days), effectively constituting “spot checks”
 - Dispatchable resource cost and bid data
 - Dispatchable resource (including hydro) availability
 - Power and natural gas prices
- Other testimony and data
 - Daily resource plans, including economic analysis (all 365 days)
 - Daily Operations Center logs
 - Power and natural gas procurement
 - CAISO costs
 - Discovery (data requests)
 - Provided all dispatchable resource bids for 2009-2010

DRA's Recommendations

- DRA recommends that SCE self-schedule Mountainview “more” irrespective of cost and to the exclusion of the CAISO competitive market
 - Claim that “customers have already paid for” Mountainview, so it should be force-run more, to “get their money’s worth”
 - Claim that Mountainview was “underutilized” because it ran slightly less in 2010 than in 2008 (lower annual capacity factor)
- DRA’s recommendation would require SCE to force-run Mountainview “out of the money” resulting in higher customer costs
- DRA’s recommendation would unnecessarily constrain the CAISO market by reducing Mountainview flexibility, resulting in higher customer costs
- DRA’s recommendation constitutes a preference towards URG that is prohibited under SOC 4
- DRA’s recommendation is focused on Mountainview, but the concept is applicable to all dispatchable resources

DRA's Recommendations (cont.)

- DRA recommends that recovery of \$204 million in CAISO net market costs be “deferred” until SCE demonstrates the costs are reasonable
 - Claim that CAISO market is higher-cost because merchant generators “include profit in their bids”
 - Claim that SCE should have incurred less CAISO market cost by force-running Mountainview “more”
 - Claim that SCE did not demonstrate that CAISO market results aligned with SCE’s forecasts
- DRA’s recommendation presumes SCE should avoid the CAISO market simply because merchant generators are not subject to LCD regulation, regardless of whether the CAISO market offers a lower-cost outcome
- Because SCE operates in conformance with LCD, its incurred CAISO-related costs are consistent with LCD
- DRA’s recommendation violates the federal “filed rate doctrine”

Conclusions

- SCE offers dispatchable resources to the CAISO market under cost-based terms, with the overall goal of efficient market outcomes that benefit customers
 - Force-running resources “out of the money” will reduce resource flexibility and increase costs by forcing CAISO to seek other, more costly alternatives
 - Resource flexibility is critical to the CAISO as the rapidly increasing number of renewable resources must be integrated into daily operations
- DRA’s self-scheduling recommendation, if adopted by the Commission, would force SCE to disregard core LCD principles and would raise overall costs
- DRA’s CAISO cost recovery deferral, if adopted by the Commission, would deny SCE’s recovery of costs legitimately incurred under a federal tariff on behalf of its customers
- *The Commission should reject DRA’s recommendations as inconsistent with LCD principles, inconsistent with the filed rate doctrine, and counter to customers’ best interests*

Backup Slides

CAISO Markets Minimize Total Costs

- The CAISO Integrated Forward Market (IFM) co-optimizes all participants' bids and minimizes total cost
 - Market efficiency benefits all customers
 - Resource flexibility allows the IFM to achieve efficient solutions by not unnecessarily constraining options available to CAISO (e.g., energy vs. ancillary services)
 - IFM co-optimizes energy and ancillary services while observing system and resource constraints (many unknown to market participants)
 - Market participants do not (cannot) know one another's bids
 - Other resources may be offered at prices below SCE's resource costs
- The CAISO Real-Time Market (RTM) also optimizes all participants' bids and resource flexibility is critical to minimizing cost and volatility
 - As in the IFM, resource flexibility allows market efficiency by not unnecessarily constraining options available to the CAISO

Self-Scheduling vs. Bidding

- SCE utilizes self-schedules only when required
 - Must-run resources (e.g., nuclear, baseloaded coal and QFs)
 - Dispatchable resources for testing or maintenance requirements, with cost-based bids representing any remaining available output
 - To compensate for CAISO market limitations (e.g., IFM optimizes resources only one day at a time) and ensure least-cost results

- Self-scheduling resources that could otherwise be economically bid raises costs for SCE customers
 - Can “crowd out” lower cost energy
 - Forces CAISO to procure Ancillary Services from higher cost resources
 - SS resources do not set LMP and are ineligible for Bid Cost Recovery

- Capacity factor is not an appropriate metric for LCD
 - Commitment and dispatch are based on hourly variable resource costs and market prices, consistent with SOC 4
 - As market conditions, fuel prices and resource availability vary throughout a given year, so will a resource’s operating profile, thus arbitrarily setting a floor defined by a prior years’ performance is inappropriate

Key Procurement-related Differences

	Pre-MRTU	Post-MRTU
Supply Scheduling and Resource Dispatch	<ul style="list-style-type: none"> ➤ Market participants (MPs) self-schedule supply resources ➤ DA schedules not fully feasible 	<ul style="list-style-type: none"> ➤ MPs bid supply, market awards become schedules ➤ DA schedules are feasible
Ancillary Services	<ul style="list-style-type: none"> ➤ MPs bid AS quantities after determining self-scheduled energy ➤ AS prices only indirectly correlated to value of energy 	<ul style="list-style-type: none"> ➤ MPs bid energy and AS simultaneously, CAISO selects optimal mix ➤ AS prices reflect lost energy opportunities
Day-Ahead Market	<ul style="list-style-type: none"> ➤ No CAISO DA energy market ➤ MPs depend on bilateral OTC markets to manage RNP 	<ul style="list-style-type: none"> ➤ Bid-based IFM co-optimizes energy, AS and network congestion ➤ DA energy market provides another means of managing RNP
Hour-Ahead and Real-Time Markets	<ul style="list-style-type: none"> ➤ SCE determines how much RNP carries forward from DA market ➤ OTC markets used to manage HA RNP 	<ul style="list-style-type: none"> ➤ RNP reduced to zero in IFM ➤ HA and RT markets only manage changes from DA
Spot Market Prices	<ul style="list-style-type: none"> ➤ DA and HA prices based on OTC markets and do not reflect all costs of congestion ➤ RT prices based on CAISO imbalance energy market, zonal only 	<ul style="list-style-type: none"> ➤ Nodal IFM, HASP and RTM prices for energy, AS, losses and congestion ➤ OTC prices still valid for standard on/off peak energy products
CAISO Dispatch Decisions	<ul style="list-style-type: none"> ➤ MPs required to submit balanced supply/demand schedules, resulted in inaccurate load scheduling ➤ Required significant MOWD and RT re-dispatch by CAISO 	<ul style="list-style-type: none"> ➤ DA demand clears closer to forecast loads ➤ DA supply schedules better reflect RT operations