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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-4062**
February 15, 2007

REDACTED
RESOLUTION

Resolution E-4062 Agreement between Pacific Gas & Electric (PG&E) and State of California Department of Water Resources (DWR) for demand response during the summer of 2007 is approved.

By Advice Letter (AL) 2936-E Filed on November 20, 2006.

SUMMARY

This Resolution approves PG&E's agreement with DWR to provide demand response during the summer of 2007. In the past, DWR has provided up to 200 MW of demand reductions through the Demand Reserves Partnership program. This agreement will insure continuing participation by DWR in California's demand response programs at a time when additional capacity is necessary in the face of increasing demand for electricity and the possibility of future heat storms.

BACKGROUND

The Demand Reserves Partnership (DRP) program is a demand response (DR) program developed by the California Power Authority (CPA) and the California Department of Water Resources (DWR). The program is based on a five-year contract (starting in 2002) between the CPA and DWR in which DWR secures power from the CPA through reductions in demand, rather than from generation.

DWR operates the largest participant in the DRP program, the California State Water Project (SWP), which contributes approximately 200 MWs of demand response per month. The DRP program will not continue when the CPA-DWR contract expires in May 2007. D.06-03-024 approved 2006-2008 demand response programs and associated budgets for PG&E and the other California utilities.

D.06-03-024 states in its discussion of the DRP program that, "the utilities would continue these programs until they expire in May 2007 and, no later than June 1, 2006, they would file advice letters or applications proposing new programs and budgets, following consultation with intervenors."

Hence, PG&E and the other California utilities proposed the creation of the Capacity Bidding Program (CBP) to replace DRP beginning in May 2007. The CBP was approved by the Commission on October 19, 2006 by Resolution E-4020[1], which authorized PG&E and the other California utilities to implement the Capacity Bidding Program (CBP) to replace the California Power Authority Demand Reserves Partnership program.

However, the CBP is designed only for retail customers. In its CBP proposal, PG&E indicated its intent to negotiate a separate demand response contract with wholesale customers such as the SWP. Hence, Resolution E-4020 ordered PG&E to submit their agreement with DWR within 30 days. Accordingly, PG&E submitted AL 2936-E on November 20, 2006.

In AL 2936-E, PG&E presents its agreement with DWR (Agreement) and requests that the Commission:

- approve the Agreement in its entirety;
- find that the Agreement costs are eligible for recovery in the Energy Resource Recovery Account (ERRA); and
- find that the 200 MW of demand response from DWR continue to count towards PG&E's resource adequacy requirements, as it was under the DRP program.

The Agreement covers summer 2007 only. The terms of the Agreement are similar to those of both the DRP program and its successor, the CBP. DWR will receive capacity payments, based on the amount of capacity nominated each month. DWR will receive reduced payments if the demand reductions are between 50% and 100% of the nominated amount, and will incur a penalty if the demand reduction is less than 50% the nominated amount. The exact reduction and penalties are determined by a schedule agreed upon by PG&E and DWR,

[1] http://www.cpuc.ca.gov/PUBLISHED/FINAL_RESOLUTION/61087.htm

and is classified as confidential by PG&E. DWR also receives energy payments, based on their reduction in energy consumption in kWh, when an event is called. The exact amount of the capacity and energy payments are determined by a schedule agreed upon by PG&E and DWR, and is classified as confidential by PG&E.

PG&E can trigger a demand reduction event at its discretion during the hours 11 a.m. – 6 p.m. on weekdays from June 1 through September 30, 2007, for a maximum number of hours per month as determined by the Agreement. The maximum number of hours per month is classified as confidential by PG&E. PG&E will provide notification of an event at least one hour prior to the close of the CAISO hour-ahead market, such that these demand reductions can be called on either a day-ahead or day-of basis.

The detailed confidential information in the Agreement can be found in Appendix A

NOTICE

Notice of AL 2936-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A. PG&E also notified the service list of A.05-06-006 et al. by email.

PROTESTS

PG&E's Advice Letter 2936-E was timely protested by the Division of Ratepayer Advocates (DRA) on December 11, 2006. The Department of Water Resources submitted reply comments on December 14, 2006. PG&E submitted a reply to DRA on December 15, 2006.

DISCUSSION

DRA, in its protest, points out that the Agreement allows DWR to provide various levels of demand response in specific increments. **DRA questions the size of the increments and asks that the Agreement be amended so that DWR has the option to provide additional capacity to PG&E in increments that are less than those specified by the Agreement.** DWR, in its response, states that for technical reasons it is not able to provide demand response in amounts less than the incremental levels specified in the Agreement.

Energy Division defers to DWR as the ultimate authority on the technical capacity of its pumping facilities to reduce demand when needed, and recommends that the Agreement be approved as is in its entirety.

DRA also points out that pursuant to Commission Decision (D.) 05-10-042, **the California Energy Commission (CEC) is responsible for determining the amount of demand response capacity that is counted towards PG&E's 2007 Resource Adequacy requirements.** DRA recommends that, therefore, the Commission should **not** find that the 200 MW of demand response from DWR continue to count towards PG&E's resource adequacy requirements, but instead should defer that determination to the process established in D. 05-10-042.

PG&E states that the CEC has already determined that the 200 MWs from the DRP replacement program shall count toward PG&E's 2007 Resource Adequacy requirement and has provided written confirmation of the CEC's forecast to Energy Division. (As discussed earlier, the DRP replacement program is the proposed Agreement along with the recently-approved Capacity Bidding Program.) Because the terms of the proposed Agreement are substantially the same as the terms of the existing DRP program, Energy Division recommends that the Commission find that the 200 MWs from the Agreement continue to count toward PG&E's 2007 Resource Adequacy requirement, consistent with the CEC's forecast**.**

This Agreement covers only 2007. Energy Division is concerned that this resource continues to be available beyond 2007. Energy Division recommends that the Commission direct PG&E to file a new Agreement with DWR which covers a minimum of two years commencing in 2008.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

All parties in the proceeding have stipulated to reduce the 30-day waiting period required by PU Code section 311(g)(1) to 20 days. Accordingly, this matter will be placed on the first Commission's agenda 27 days following the mailing of this draft resolution. By stipulation of all parties, comments shall be filed no later than 15 days following the mailing of this draft resolution, and reply comments shall be filed no later than 20 days following the mailing of this draft resolution.

PG&E submitted comments on the draft Resolution on February 5, 2007. No party filed reply comments. PG&E asked that the Commission add language to the Resolution which explicitly approves changes in their tariff sheets to allow for recovery of costs associated with bilateral demand response agreements in the Energy Resource Recovery Account. The resolution has been changed accordingly.

FINDINGS

1. D.06-03-024 directed Pacific Gas & Electric and the other California utilities to file Advice Letters to propose a successor to the California Power Authority Demand Reserves Partnership program.

2. PG&E proposed the Capacity Bidding Program (CBP) to replace the retail portion of the Demand Reserves Partnership and stated its intent to sign agreements with its wholesale DRP customers.

3. The CBP was approved on October 19, 2006 by Resolution E-4020, which order PG&E to submit its wholesale contract with DWR within 30 days.

4. PG&E submitted its contract with DWR for approval, requesting also that the Commission find that is costs are eligible for recovery in the Energy Resource Recovery Account (ERRA); and that the 200 MW of demand response from DWR continue to count towards PG&E’s resource adequacy requirements, as it was under the DRP program.

5. The Agreement is approved in its entirety.

6. The Agreement costs are eligible for recovery in the Energy Resource Recovery Account (ERRA) and PG&E’s tariff sheets should be changed accordingly.

7. The California Energy Commission has already determined PG&E's 2007 Resource Adequacy contribution for the DRP replacement program. The 200 MWs from the proposed Agreement should continue to count toward PG&E's 2007 Resource Adequacy requirement, consistent with the CEC's forecast**.**

8. To ensure continuing availability of this resource, PG&E shall file a new Agreement with DWR which covers a minimum of two years commencing in 2008.

THEREFORE IT IS ORDERED THAT:

1. The request of Pacific Gas & Electric to contract with State of California Department of Water Resources (DWR) for demand response per the proposed Agreement during the summer of 2007, as requested in Advice Letter 2936-E, is approved.

2. The costs from the Agreement are eligible for recovery in PG&E's Energy Resource Recovery Account (ERRA) and the associated changes to Preliminary Statement CP are approved.

3. The 200 MW of demand response from DWR per the proposed Agreement continues to count towards PG&E's 2007 resource adequacy requirements.

4. PG&E is directed to file a new Agreement with DWR by November 1, 2007, which covers a minimum of two years commencing in 2008

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February 15, 2007; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners

APPENDIX A -- CONFIDENTIAL

Confidential information redacted