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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Establish
Policies, Processes, and Rules to Ensure
Reliable Electric Service in California in the
Event of an Extreme Weather Event in 2021.

Rulemaking 20-11-003
(Filed November 19, 2020)

**RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) TO THE
EMAIL RULING DIRECTING PARTIES TO RESPOND TO PROPOSALS AND
QUESTIONS REGARDING EMERGENCY CAPACITY PROCUREMENT BY THE
SUMMER OF 2021**

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I. INTRODUCTION

Pursuant to the December 11, 2020 *Email Administrative Law Judge (“ALJ”) Ruling Directing Parties to Serve and File Responses to Proposals and Questions Regarding Emergency Capacity Procurement by the Summer of 2021* (“Email Ruling”) as part of Rulemaking (“R.”) 20-11-003, Pacific Gas and Electric Company (“PG&E”) respectfully provides its response to the proposals and questions outlined in the Email Ruling regarding the parameters the California Public Utilities Commission (“Commission”) could set on capacity procurement to deem it *per se* reasonable.

II. BACKGROUND

In October 2020, the California Independent System Operator Corporation (“CAISO”), the Commission, and the California Energy Commission (“CEC”) published a Joint Agency Preliminary Root Cause Analysis Report identifying several actions to address the contributing factors to the August 2020 rotating outages. The actions identified in the report include “expedit[ing] the regulatory and procurement processes to develop additional resources that can be online by 2021.” The need for expedited action is additionally supported in some parties’ opening comments in this proceeding.

On December 11, 2020, the Email Ruling directed parties to serve and file responses to the following proposal and questions regarding the parameters the Commission could set on such procurement to deem it *per se* reasonable:

A. Procurement Type:

- The procured capacity must have a commercial operation date (“COD”) by summer 2021 (proposal for COD is June 1, 2021).
- The resource types that should be considered for procurement include
 - i. Incremental efficiency upgrades to existing power plants,
 - ii. Re-contracting for generation that is at-risk of retirement,
 - iii. Incremental energy storage capacity, and
 - iv. Firm forward imported energy contracts.
- RA only contracts or contracts that include tolling agreements may be proposed.
- Potential resources can include Utility Owned Generation.

B. Procurement Process:

- The authorized contracting vehicles should include bilateral negotiations and the offers from recent IRP request for offers (“RFO”) bid stacks.

C. Procurement Cost Recovery and Ratemaking Treatment:

- The electric investor-owned utilities should procure these resources on behalf of all customers in their service territories. The costs should be recovered through the existing cost allocation mechanism, which allows capacity benefits to be allocated to and net costs to be recovered from all benefiting customers on a non-bypassable basis.

D. Process for Commission Review:

- Given the tight time frame of this procurement, a Tier 1 Advice Letter approval process would ensure cost recovery certainty and allow for expedited procurement, except for proposed Utility Owned Generation contracts, which will require a Tier 2 Advice Letter approval process.

III. PG&E’S RESPONSE TO PROPOSALS AND QUESTIONS REGARDING THE AUTHORIZATION OF EXPEDITED PROCUREMENT FOR SUMMER 2021

PG&E appreciates the Commission proposing actions that can be taken to streamline the process for expedited incremental procurement and acknowledges the challenging and complex task that the Commission is tackling in this proceeding, especially given the wide range of options and limited timeframe to address one of two primary issues—that is, how to increase energy supply during the gross peak demand and net peak demand hours in the event that an extreme and/or extended heat storm similar to August 2020 occurs in summer 2021. PG&E

supports the Commission’s consideration of safety, reliability, load and supply impact, and cost allocation in putting forth its proposals. PG&E provides additional recommendations in response to the questions below.

PG&E generally supports the Commission’s proposals but continues to believe that conducting additional analyses is a necessary and critical step to determine the near-term reliability needs for summer 2021. In addition to developing a more robust understanding of any potential resource shortfall, the Commission should endeavor to develop a more complete understanding of the resources that may be available to reduce that potential shortfall, including resources not already under a resource adequacy (“RA”) contract, resources at risk of retiring, and new resources expected to come online prior to summer 2021 or summer 2022 as a result of the procurement order from Decision (“D.”) 19-11-016 (“IRP Decision”).^{1/} Absent the Commission undertaking an analysis, it will be extremely challenging to identify the feasibility of actions that can be taken to address summer 2021 reliability concerns and whether the concerns are expected to persist through summer 2022. Given the timeframe, some actions are likely more feasible to meet summer 2021 reliability concerns (such as firm forward imported energy contracts) while other actions are likely more feasible to meet summer 2022 reliability concerns (such as incremental efficiency upgrades to existing power plants requiring new interconnection agreements).

1. In considering incremental authorization for procurement, what parameters should the Commission place on contracts regarding pricing, contract term, and operational characteristics?

PG&E recommends that the Commission place parameters on incremental procurement based on the identified need. For example, if the identified need requires incremental procurement for summer 2021 and/or summer 2022, procurement authorized in this proceeding should not extend into summer 2023. Further, based on the Joint Agency Preliminary Root

^{1/} See CPUC Energy Division, *Status of New Resources Expected* (November 2020), available at <https://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442466860>.

Cause Analysis Report showing that system shortages occurred close to the net peak load, incremental procurement should be able to meet net peak load conditions.

2. Should the Commission limit the total volume of incremental procurement authorized?

PG&E supports the Commission limiting the total volume of incremental procurement authorized based on what the Commission's analysis indicates is needed and what is available to meet summer 2021 and/or summer 2022 reliability concerns.

3. Should procurement that cannot achieve a commercial operation date by June 1, 2021 also be considered in this procurement authorization?

Given the short timeframe to procure incremental capacity and the uncertainty around when this incremental capacity may be required, the Commission should consider incremental procurement based on the identified need. For example, the "summer season" is typically defined as May to September. As a result, incremental procurement that is available on July 1, 2021 to meet the summer 2021 needs or specifically an August need should be considered in this procurement authorization. Additionally, if a resource is intended to address a summer 2022 need and can be made available before the identified need date, it should also be considered.

4. Are there any additional considerations regarding the procurement type that the Commission should consider in issuing a procurement authorization?

PG&E provides additional considerations regarding three of the identified procurement types: (1) incremental efficiency upgrades to existing power plants, (2) incremental energy storage capacity and (3) firm forward imported energy contracts. PG&E supports both increasing capacity from existing resources where doing so would not exceed existing interconnection agreements and the procurement of firm import energy.

With regard to incremental efficiency upgrades to existing power plants and incremental energy storage capacity, PG&E urges the Commission to consider the feasibility of safely implementing these supply-side solutions which would likely require increasing the allowable capacity under the resource's existing interconnection agreement in time for summer 2021. Increasing a resource's capacity beyond its existing interconnection agreement amount requires

careful study to ensure grid safety and reliability. This interconnection upgrade study process generally takes 12 to 36 months to complete and may identify infrastructure upgrades necessary to allow the additional capacity to safely connect to the grid. Accelerating this timeline will require Federal Energy Regulatory Commission (“FERC”) waivers and must be done carefully. Hastily adding capacity to the grid without proper study has the potential to undermine grid reliability, a result contrary to the purpose of this proceeding. Instead, it is likely more feasible for the Commission to explore the possibility of increasing the amount of available energy from existing power plants through upgrades that do not exceed the allowed capacity under that resource’s existing interconnection agreement. For example, upgrading cooling systems to minimize ambient de-rates at thermal power plants may increase the amount of energy provided during summer heat events.^{2/} Similarly, while these upgrades may ameliorate some risks to system reliability, proper study must be conducted to ensure the safe operations of the power plant and electric grid.

Second, PG&E supports the procurement of incremental imports from neighboring balancing authority areas and reiterates its reply comments that this type of procurement is likely better suited under a centralized approach, preferably through CAISO’s backstop authority mechanism (or capacity procurement mechanism (“CPM”)). PG&E believes that it is reasonable to conclude that there is a limited pool of incremental imports to select from, effectively creating a supplier’s market. Individual load serving entities (“LSE”) could be challenged by very high prices due to the short time period, tightness in the market, and competition from multiple buyers. While directing the procurement to the IOUs may alleviate some of the supplier market concerns, it is not clear how effective it will be.

^{2/} See California ISO Report on System and Market Conditions, Issues and Performance: August and September 2020, p. 21, available at <http://www.caiso.com/Documents/ReportonMarketConditionsIssuesandPerformanceAugustandSeptember2020-Nov242020.pdf>.

5. Are there additional specific issues the Commission should consider in authorizing procurement to ensure that the procurement is cost-effective under the existing circumstances, would address system needs, and be in the public interest?

PG&E believes that the Commission should work to ensure that steps taken in this proceeding enhance reliability without unduly increasing costs for California's customers. Commensurate with this goal, it would be unwise to heavily rely on CAISO's Reliability-Must-Run ("RMR") contracts. PG&E recommends the CAISO utilize its CPM authority, rather than RMR contracts, should it become apparent that CAISO backstop procurement is necessary to fill an RA gap. Utilizing CPM will allow contracts to be made effective more quickly and at a lower cost. Additionally, year-long RMR contracts are unnecessary to address the reliability concerns for summer 2021. Shorter, less expensive CPM contracts will, if required, help to ensure system reliability without unnecessarily increasing consumer costs.

As noted in PG&E's reply comments in this proceeding, some of the procurement should be centralized depending on the availability of supply-side solutions, since market power could otherwise be exerted by resource suppliers. The Commission should consider the use of the CAISO's CPM as a tool available to conduct such centralized procurement, particularly in supply-constrained market conditions.^{3/} The cost recovery of a CPM provides a fair and equitable means, by sharing costs across all LSEs.

6. Are there other expedited processes besides bilateral negotiations or revisiting offers from recent IRP RFO bid stacks that could be used to ensure cost-competitive resources are procured to be online for Summer 2021?

PG&E does not have a response to this question at this time.

7. Can or should actions be taken to expedite the permitting and interconnection processes associated with this procurement?

PG&E supports the Commission taking action to expedite the permitting and interconnection process. The typical duration for interconnecting a new generator takes roughly 12 to 36 months. As stated above, expediting the interconnection processes would require a

^{3/} CAISO Fifth Replacement Electronic Tariff, Section 43A, available at <http://caiso.com/Documents/Section43A-CapacityProcurementMechanism-asof-Apr1-2019.pdf>.

FERC waiver of the Wholesale Distribution Tariff for distribution connected resources and the CAISO Tariff for any identified Delivery Network Upgrades for the resource to participate in the RA program. Further, expediting the interconnection process would require a FERC waiver of the interconnection study process timelines, and possibly even a broader Section 205 filing. Any waiver request must be made in good faith, limited in scope, address a concrete problem, and not have undesirable consequences, such as harming a third party.

PG&E notes that, for retail generation that offsets a customer's own load (*e.g.*, net energy metering and Rule 21), D.20-09-035 required numerous interconnection process upgrades to streamline and improve the transparency of the interconnection process. The changes ordered are being rolled out over the next few months. PG&E believes the impacts of these improvements should be considered before additional changes are made in this proceeding. Other possible improvements (such as expediting the local permitting process) will take significant time to explore, implement and coordinate, and likely would not be ready for the summer of 2021.

As highlighted above, expediency of the permitting and interconnection process must not compromise the safe and reliable operations of the electric grid.

8. What existing investor-owned electric utility procurement processes (for example, Procurement Review Group consultation independent evaluator oversight, etc.) should be utilized for this procurement?

Although this procurement is expected to occur on an expedited basis, PG&E recommends that the Commission maintain existing standards for procurement, including the Procurement Review Group ("PRG") and Cost Allocation Mechanism ("CAM") PRG reviews and Independent Evaluator ("IE") oversight to ensure transparency throughout the procurement process.

9. What information must be included in any filings seeking final approval from the Commission, including in any potential advice letter filings that might be evaluated and resolved by the Commission's Energy Division?

Similar to existing standards for procurement, PG&E recommends that filings include a summary of the resources being selected for incremental procurement, including the expected incremental capacity and a brief discussion of the procurement and selection method and criteria. Additionally, a confidential appendix should include contract pricing and net market value along with the agreement between the counterparties, including a summary of key contract terms. The Commission's timely acceptance of any filing and approval of cost recovery is critical; therefore, filings must include sufficient information to ensure cost recovery certainty. Lastly, PG&E recommends that an IE report also be included to assess the reasonableness of the incremental procurement.

10. Are there any additional considerations regarding the procurement process that the Commission should consider in issuing a procurement authorization?

PG&E has been working to secure additional reliability resources as ordered in the IRP Decision and in response to the August 2020 rotating outages. As the Commission is aware, there is very limited availability of incremental capacity to come online quickly and a limited set of options for supply-side solutions. While PG&E understands the urgency of the need for incremental procurement and will actively seek incremental capacity, PG&E emphasizes that this procurement should be considered on a reasonable effort basis. Penalties should not be assessed if procurement cannot be fully prescribed to meet specific incremental capacity targets under such a short timeframe when limited incremental capacity is available.

11. Are there any additional considerations regarding cost recovery and ratemaking treatment the Commission should consider in issuing a procurement authorization?

PG&E supports the Commission’s proposed use of the existing CAM for cost recovery of the associated procurement costs for incremental procurement done by the IOUs on behalf of all customers. CAM provides an existing, tested mechanism for fair and equitable cost recovery.^{4/}

In consideration of cost recovery, PG&E requests that the Commission affirmatively state that re-vintaging of Power Charge Indifference Adjustment (“PCIA”)-eligible resources shall not occur due to incremental procurement authorized in this proceeding, namely for efficiency upgrades, capital investments, operational changes, re-contracting, or other means explored with respect to existing PCIA-eligible contracts and resources. If re-vintaging of the PCIA-eligible resources were to occur, some departed load customers of earlier PCIA customer vintages would be able to avoid the costs of resources that were actually procured on their behalf when those customers received bundled service from the IOUs, resulting in a cost shift to the remaining bundled service customers.

12. Are there any additional considerations regarding the process for commission review that the Commission should consider in issuing a procurement authorization?

PG&E generally supports the Commission’s proposal to streamline the process for Commission review with slight modifications. PG&E recommends that a Tier 1 advice letter process be limited to IOU procurement authorized in this proceeding through firm import energy contracts. Procurement by the IOUs through a Tier 1 advice letter should provide cost recovery through the existing CAM given that the procurement will be on behalf of all customers in the respective IOU’s service territory.

For Commission-directed IOU procurement for incremental efficiency upgrades or operational changes to existing generation facilities that increase generation output, PG&E recommends that a Tier 2 advice letter process be used. A Tier 2 advice letter process for these types of procurement will ensure parties have an opportunity to review the proposed

^{4/} Senate Bill 790, Stats. 2011, ch. 599; PUC § 365.1(c)(2)(A)-(B).

procurement. This would include the use of a Tier 2 advice letter for efficiency upgrades to utility-owned generation to the extent that the work has not been authorized in the General Rate Case (“GRC”) or where implementing the changes in time to meet the objectives of this rulemaking results in additional costs. For example, if accelerating or reprioritizing work to increase generation output by the summer of 2021 results in increased costs beyond those forecasted in the GRC, then the Commission should authorize recovery of those costs through a Tier 2 advice letter. While PG&E prefers that re-contracting for generation that is at-risk of retirement be procured by the CAISO, should the Commission direct the IOUs to conduct the procurement instead of the CAISO, PG&E recommends a similar Tier 2 advice letter process for this type of procurement as well.

IV. CONCLUSION

PG&E appreciates the opportunity to submit these responses and looks forward to working through the issues identified herein with the Commission and the parties.

Respectfully submitted,

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