

PUBLIC UTILITIES COMMISSION

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October 7, 2004

Advice Letter 2554-E

Ms Rose de la Torre
Pacific Gas and Electric Company
77 Beale Street, Room 1088
Mail Code B10C
San Francisco, CA 94105

**Subject: Submission of PG&E's and the California Independent System Operator's
Local Area Reliability Unit Commitment and Dispatch Procedure**

Dear Ms de la Torre:

Advice Letter 2554-E is effective October 5, 2004. A copy of the advice letter is sent herewith for your records.

Sincerely,

A handwritten signature in cursive script that reads "Paul Clamor".

Director
Energy Division



REVISED

Brian K. Cherry
Director
Regulatory Relations

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San Francisco, CA 94105

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September 15, 2004

**Advice 2554-E
(Pacific Gas and Electric Company ID U 39 E)**

Public Utilities Commission of the State of California

**Subject: Submission of Pacific Gas and Electric Company's (PG&E)
and the California Independent System Operator's Local Area
Reliability Unit Commitment and Dispatch Procedure**

PG&E and the California Independent System Operator (ISO) hereby submit for filing the Local Area Reliability Unit Commitment Procedure (Procedure) developed in compliance with Decision (D.) 04-07-028 (Appendix A).

Purpose

This advice filing is made pursuant to D. 04-07-028¹ which directed PG&E (and the other investor-owned utilities (IOUs)) to schedule and procure sufficient and appropriate resources, both system-wide and locally within its service territory, to meet its customers' needs, and to permit the CAISO to maintain reliable grid operations.² This advice filing presents for Commission review and approval, the anticipated scheduling and dispatch procedure that PG&E and the ISO agree will enhance the reliability of the electric system in PG&E's service territory. Cost recovery of the reliability-related costs will be submitted in a subsequent filing based upon D. 04-07-028 and appropriate FERC orders.

Background

On July 8, 2004, the Commission issued D. 04-07-028, to clarify and modify prior Commission orders concerning the IOUs' obligation to proactively assist the ISO in managing system-wide transmission congestion and assuring local area reliability. The Decision requires the IOUs to consider reliability factors and incorporate all known and reasonably anticipated ISO-related costs (including congestion, re-dispatch and must-offer costs), when evaluating resource options.³ The Decision arose from an Assigned Commissioner's Ruling on Reliability Issues dated June 10, 2004 (ACR), which found that the reliability of the state's electric system would be enhanced if the ISO took all necessary steps to provide all load serving entities with the information they need to procure and

¹ "Interim Opinion Regarding Reliability Issues" issued on July 8, 2004, hereafter Decision or D. 04-07-028.

² D. 04-07-028, *mimeo* at pp. 28-32.

³ Specifically, D. 04-07-028 modifies D.02-10-062, D.02-12-074, D.03-12-062 and D. 04-01-050 in Rulemaking 01-10-024.

schedule resources in a manner that supports reliable grid operations, and the utilities used such information when scheduling resources.⁴

In compliance with D. 04-07-028 and the ACR, PG&E and the ISO discussed how best to implement the requirements set forth therein. The ISO confirmed that under current system conditions, current PG&E procurement and scheduling practices, and with the availability of the RMR units presently under contract, no further actions are needed by PG&E to fully comply with the Decision. Accordingly, PG&E believes that it is in compliance with D. 04-07-028, for which the Company would like this Commission's concurrence.

The ISO has also developed a new procedure (called "M438") that allows the ISO to clearly communicate its known local reliability needs in PG&E's service territory and further describes how PG&E will endeavor to commit and schedule in the ISO's day-ahead market to reduce the ISO's Must-Offer waiver denial and real time redispatch requirements for the local area generation that PG&E either owns or has contract rights to dispatch, that is in addition to any RMR units under the operational control of the ISO. The ISO has agreed to notify PG&E of any revisions to M438 that necessitate modification to PG&E's current requirements.

PG&E and the ISO have discussed M438 and the underlying principles upon which they are based, both of which are included as a part of the attached Appendices A and B. M438 is a dynamic document that will be updated as needed to reflect changes in system conditions. The current version of M438, attached as Appendix B, is effective September 3, 2004. PG&E is submitting these procedures to the Commission for approval to ensure that they are consistent with the Commission's directives, and that all costs reasonably incurred by PG&E in performing the reliability-related activities resulting from implementing M438 will be fully recoverable by PG&E as part of PG&E's approved procurement plan.

D.04-07-028's Modification of PG&E's Approved Procurement Plan

In addition to modifying and clarifying prior Commission decisions, D. 04-07-028 modifies PG&E's approved procurement plan. Specifically, D.04-07-028 modifies the following aspects of PG&E's approved procurement plan:

The Decision Clarifies the Definition of "Least Cost Dispatch": "Accordingly, a utility scheduling practice or procurement plan that focuses solely on least cost energy, without regard to deliverability of the procured energy to load or to local reliability, is not in compliance with our prior decisions, approved short-term procurement plans, and Assembly Bill (AB) 57."⁵

The Utilities' Least-Cost Scheduling and Procurement Activities Must Include ISO Reliability-Related Costs: ". . . utilities should not limit their assessment to least

⁴ D.04-07-028, *mimeo* at p. 7

⁵ *Id.* at pp. 9-10.

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cost day-ahead scheduling and procurement practices but must incorporate all CAISO-related forward commitment costs that result from the utilities' scheduling and procurement decisions. These costs should include all known or reasonably anticipated CAISO-related costs including congestion, re-dispatch, and must-offer costs."⁶

The Utilities' Least-Cost Scheduling and Procurement Activities Must Incorporate Available ISO Information: "We expect each utility to use whatever information it may lawfully obtain, and that the CAISO may lawfully disseminate. . . , to improve upon the current situation"⁷

The Utilities Should Minimize Use of RMR Contracts: ". . . while the Commission understands that some limited (and cost efficient) continuation of RMR contracts may be necessary as a backstop mechanism in the future, a policy that encourages the CAISO to assume greater procurement responsibility in connection with local area reliability would be shortsighted. Moreover, consumers would be ill served by such a shortsighted policy. Therefore, we encourage a comprehensive planning approach via IOU scheduling and procurement to minimize the need for RMR contracts. This policy will facilitate better overall resource planning and reduce the potential vulnerability to price and market design changes that could dramatically increase the cost of RMR contracts in the future."⁸

The Prior Restriction on Use of Bilateral Contracts Is Relaxed: "Today we relax the restrictions on negotiated bilateral contracts so that the utilities may take appropriate actions to reduce overall costs and increase local area reliability. In addition to the limited circumstances enumerated in D.03-12-062 at Conclusion of Law 15, we authorize the utilities to engage in bilateral negotiated contracts for capacity and energy from power plants where the purpose is to enhance local area reliability [footnote omitted]. Utilities may include such transactions in their quarterly compliance filings, for approval if there is no objection."⁹

The Prior Limitations on the Use of Spot Market Transactions is Relaxed: "To the extent that utilities see the need to engage in spot-market transactions to enhance local area reliability, whether on their own accord or in response to information provided by the CAISO, they should do so whether or not those transactions will raise the total percentage above 5% of the total monthly need. The utilities should not be restricted by this general guideline from taking actions that enhance local area reliability and reduce overall costs. Of course the utilities may include in their quarterly compliance filings any transactions above the 5% guideline, for approval if there is no objection."¹⁰

⁶ *Id.* at p. 10.

⁷ *Id.* at p. 12.

⁸ *Id.* at pp. 15-16.

⁹ *Id.* at p. 17.

¹⁰ *Id.* at p. 18; the Commission noted, however, that the vast majority of the IOUs' procurement practices should continue to take place in the forward markets. *Id.* at p. 19.

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Cost Recovery For Reliability-Related Transactions is Approved: "Utilities may recover costs incurred for reliability purposes consistent with this order [D.04-07-028]. That is, actions taken in furtherance of the directives in this order are deemed consistent with the utilities' already approved short-term procurement plans and thereby subsumed with the protection provided by AB 57."¹¹

Request for Commission Approval

PG&E and the CAISO respectfully request that the Commission approve ~~issue~~ the Principles and Procedures in Appendices A and B and that they are in conformance with D. 04-07-028, and incorporating them into PG&E's approved procurement plan. Commission approval confirms the following directives in D. 04-07-028:

- The Principles and Procedure comply with the Commission's directives in D. 04-07-028;
- The activities and transactions described in the Principles and Procedure are consistent with PG&E's approved procurement plan;
- The activities described in the Principle and Procedure establish the AB 57 upfront achievable standards and criteria under which PG&E shall conduct local reliability commitment and dispatch under its approved procurement plan.

No cost information is required for this advice filing. Furthermore, this advice filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any other schedule or rule.

Protest

Anyone wishing to protest this filing may do so by sending a letter by **October 5, 2004**, which is 20 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. Protests should be mailed to:

IMC Branch Chief – Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102
Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4005 and Jerry Royer, Energy Division, at the address shown above. It is

¹¹ *Id.* at p. 22.

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also requested that a copy of the protest be sent via postal mail and facsimile to Pacific Gas and Electric Company on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company
Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177
Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

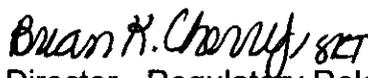
Effective Date

This advice filing shall become effective as of upon Commission approval.

Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and to R.04-04-003. Address changes should be directed to Rose de la Torre at (415) 973-4716. Advice letter filings can be accessed electronically at:

<http://www.pge.com/tariffs>


Director - Regulatory Relations

Attachments

cc: Service List - R. 04-04-003

APPENDIX A
Advice 2554-E

**Pacific Gas and Electric Company's and the
California Independent System Operator's Local
Area Reliability Unit Commitment and Dispatch
Procedures**

September 15, 2004

PG&E-ISO Local Area Reliability Unit Commitment and Dispatch Procedure

GUIDING PRINCIPLES

In discussions with PG&E, the ISO has confirmed that under current system conditions, PG&E's current procurement and schedule practices, and with the availability of RMR units, PG&E would have no additional requirements, at this time, to meet the directives of the Commission's D. 04-07-028 (Decision), issued on July 8, 2004. As such, PG&E believes that it is in compliance with the Decision for which the Company would like this Commission's concurrence.

However, both the ISO and PG&E want to have a set of procedures (called, "M438" or "Procedures") in place that will accommodate future system condition changes to assure that system reliability will be maintained. The following guiding principles were used to develop these Procedures:

- Nothing in the Procedures will conflict with any provisions in the ISO Tariff or to alter any rights or obligations of PG&E under those provisions, including the Must Offer Obligations contained in ISO Tariff Section 5.11.
- Any ISO information relied upon by PG&E must be clear, unambiguous and satisfy the "achievable, up-front standards and criteria" requirements of PG&E's AB57 procurement plan.
- PG&E's ability to alter its day-ahead commitment and dispatch of resources pursuant to these Procedures is limited to the amount and characteristics of dispatchable resources PG&E has under its direct operational or contractual control at the time. The ISO shall continue to schedule any RMR units as it deems necessary.
- If procurement of additional reliability resources is demonstrated to be required in the future, PG&E and ISO will develop a separate set of "Reliability Procurement Procedures".
- ISO and PG&E intend for these Procedures to be consistent with the direction given by the Commission in D. 04-07-028 concerning scheduling and dispatch of PG&E's generation portfolio.
- The Procedure shall become effective upon PG&E's receipt of written approval from the Commission and shall terminate on December 31, 2005, unless extended by Commission order. Either the ISO or PG&E may terminate this Procedure at any time by giving the other party five (5) days advance written notice.

PROCEDURES

- I. The ISO will create local-area Capacity Commitment Tables that establish the minimum on-line capacity needed from designated units and will post these Tables on its web site. The capacity shown in these Tables are those needed in addition to any RMR capacity.
 - The ISO will pre-define specific local areas (i.e., load pockets) within which minimum levels of on-line capacity are required. Each local area will be defined in such a way that clearly designates which generating units fall inside the subject area.
 - The ISO will define the individual components that it uses to develop the loads used in its Capacity Commitment Tables as well as the “ISO PG&E territory peak load forecast” described in Section II below. .
 - For each local area of concern to the ISO, the ISO will develop a Capacity Commitment Table (Table or Tables) that shows the minimum amount of capacity from designated units the ISO requires to be on-line in that local area. Minimum online capacity will be a function of forecast daily peak load for a designated region (such as PG&E’s service territory), which may be different from the local area of concern.
 - The ISO may group designated units based on their relative effectiveness in meeting specific local area needs or in mitigating specific local area constraints. If so, the Table will show the amount of capacity from each group that is needed at each level of forecast daily peak load.
 - Units that are committed per the Table must be operating at least at minimum dispatchable loading level during hours of the day that are designated in the Table or in an attachment thereto. However, if no such designation is provided, the committed units must be operating at least at minimum loading from 7 a.m. Pacific Prevailing Time to 10 p.m. Pacific Prevailing Time.
 - As system conditions warrant, the ISO will update each Table as necessary.
 - The Capacity Commitment tables shall be made available on the CAISO’s website to all market participants in a timely nondiscriminatory manner.
 - The capacity values shown in each Table represent minimum commitment targets for designated units without regard to which entity (i.e., Investor Owned Utility, non-IOU Load Serving Entity, Municipal Utility, other) has direct operational or contractual control of these units. To the extent PG&E has rights to commit and dispatch generating units within the designated local area, PG&E will commit units to the level indicated in the applicable Table(s), based on the peak hour load forecast as discussed further below, notwithstanding the commitment and dispatch decisions of other entities, about which PG&E has no information. It is understood that PG&E is not required to “meet” the capacity target on each Table, but only to commit designated units for which it has direct operational or contractual control up to the minimum commitment target.

II. PG&E will use the ISO's Capacity Commitment Tables to determine the minimum commitment and dispatch requirements for designated local area generating units under its control

- PG&E will incorporate each applicable Capacity Commitment Table (initially, this will be a single Table for the entire "PG&E Service Territory") into its day-ahead planning process as follows:
 - First, PG&E will determine the "least-cost" commitment and dispatch of all generating units under its control.
 - Second, PG&E will check the unit commitment results against the applicable Table(s) to determine the extent to which there are any designated units not committed for least-cost dispatch, but are required for local area reliability per the applicable Table (these may be units that were not committed at all, or units that were committed for insufficient hours in the day).
 - PG&E will use the most current ISO PG&E territory peak load forecast to determine minimum unit commitment levels.
 - For day-ahead planning and commitment decision-making, PG&E will use the Table(s) posted on the ISO web site as of 0900 hrs (PPT) two days prior to the ISO's Operating Day. PG&E normally prepares its day-ahead plan one day before day-ahead schedules are due the ISO, but will advance day-ahead planning by one or more days as needed to accommodate intervening weekend days and holidays (e.g., planning for day-ahead schedules submitted to the ISO for a Sunday "Operating Day" is done on Thursday for submittal of schedules to the ISO on Friday).
 - Third, PG&E will re-assess its system dispatch to determine any impacts from the constraints identified in the previous steps. The results of this re-assessment will be the basis for determining day-ahead schedules and will also be used as input to the calculation of the re-dispatch-related Reliability Premium.
- PG&E will submit balanced day-ahead schedules to the ISO that include the required minimum commitment of designated units. Any changes to PG&E's schedule resulting from the previous steps will not result in any of the following:
 - Issuance of Must-Offer Waiver Denials,
 - ISO payment of Minimum Load Cost Compensation, and
 - Production of unscheduled energy that must be sold in the ISO's real-time market. This reduction in unscheduled energy will result in a corresponding reduction in the ISO's real-time re-dispatch burden.
- PG&E may subsequently change the schedule for designated reliability units as needed, provided such changes maintain adherence to the applicable Table to the fullest extent possible (including substituting, to the extent possible, for a designated reliability unit that has become unavailable after day-ahead). Reasons for changing the day-ahead schedule include, but are not limited to:
 - Re-balancing resources to meet changing generation and load forecasts, and

- Making cost-effective bilateral sales or purchases.
- In the event a designated unit is not required to be committed by the applicable Table, PG&E will not be required to commit or schedule the unit in the day-ahead market.
- Any designated units not committed and scheduled per this Procedure (this includes units that were committed in day-ahead and have reached the end of their commitment period) will remain subject to the ISO's normal Must Offer rules and process.
- PG&E will retain full discretion over the disposition of energy produced by designated units committed by the ISO under its normal Must-Offer process (i.e., PG&E will choose whether to receive MLCC payments from the ISO or incorporate the Must-Offer minimum load energy into its final schedule).

III. Identification and Recovery of Dispatch Reliability Premium

- In accordance with D. 04-07-028, PG&E will pursue cost recovery of the additional reliability-related costs incurred as a result of implementing the requirements of these Procedures. The ISO will assist PG&E in this process as appropriate.
- For monitoring purposes, PG&E will submit its calculation of the additional reliability related costs to the ISO for each day of a month, no later than the 25th day of the following month with final calculation of the reliability cost as can reasonably be determined at that point in time. The ISO will maintain this information as confidential pursuant to a confidentiality agreement to be executed by PG&E and the ISO.

IV. Operating Procedure M-438, including Attachments A and B (See Appendix B)