Regulatory Must-Take Generation

Addendum to Draft Final Proposal

Market and Infrastructure Policy

April 30, 2012
Regulatory Must-Take Generation

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Executive summary

The ISO proposes to afford Regulatory Must-Take Generation (RMTG) scheduling priority to combined heat and power (CHP) resources (also known as cogeneration facilities) consistent with the requirements described below. Current policy is to offer RMTG scheduling priority to a qualifying facility (QF) for 100% of its capacity provided the QF was subject to a “grandfathered” power purchase agreement (PPA) pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA). The implication of this policy is that no RMTG scheduling priority status would apply to a QF once its grandfathered PURPA PPA has terminated. The new policy will allow a CHP resource to establish a level of capacity eligible for RMTG scheduling priority even though the resource is no longer subject to a grandfathered PURPA PPA. In addition, the eligibility for RMTG scheduling priority will not depend on status as a QF pursuant to PURPA but will be limited to the amount of capacity required to meet requirements of the CHP resource’s industrial host as described in greater detail below.

Clarifications to Draft Final Proposal

- The maximum amount of eligible regulatory must-take capacity will be two values. The two values will allow different maximum eligibility amounts for off-peak and on-peak hours. While the on-peak value will be required, the off-peak value is optional and utilized only if both the CHP resource its contractual counter party (or the ISO if there is no contractual counterparty) agree.

- CHP resources are only allowed to request to use the scheduling priority up to the actual MW quantity necessary to meet the expected host’s industrial process requirement in any given hour.

- This proposal does not affect any contractual curtailment provisions between a load serving entity and a combined heat and power resource that allow the load serving entity as the scheduling coordinator to exercise its rights and schedule, in any given hour, below the maximum amount eligible for the scheduling priority or the actual MW quantity necessary to meet the host’s industrial process requirement.

Current tariff requirements

Sections 4.6.3 and 4.6.3.2 of the ISO tariff require that the ISO honor the terms of grandfathered PURPA PPAs so long as they are in effect. Consequently, QFs with grandfathered PURPA PPAs have been exempt from compliance with ISO tariff requirements to the extent the provisions of their PPAs are inconsistent with the requirements of the tariff, i.e., they have not been required to enter into ISO interconnection agreements, nor have they been required to enter into a Participating Generator Agreement (PGA) or Meter Service Agreement (MSA) with the ISO. They have been considered Regulatory Must-Take Generation as defined in the ISO tariff. However, their scheduling coordinators have been required to schedule and absorb settlement consequences.
QFs whose grandfathered PURPA PPAs terminate (or that do not have grandfathered PURPA PPAs) are not eligible for the exemption from compliance with the ISO tariff pursuant to sections 4.6.3 and 4.6.3.2. However, the ISO has incorporated provisions into its tariff that recognize special characteristics that distinguish QFs, particularly QFs that are CHP resources, from other types of generating units. The ISO tariff includes special provisions in section 4.6.3 and a special form of QF PGA that provide for net metering and that are designed to protect QFs that are CHP resources from ISO operating orders and dispatches below their specified minimum operating limits, i.e., from curtailments. These tariff provisions, including the terms of the QF PGA, would need to be revised to implement the ISO’s current proposal.

Regulatory changes

In 2007, after many years of proceedings regarding QF issues, the California Public Utilities Commission (CPUC) issued Decision 07-09-040. This decision included provisions requiring QFs whose grandfathered PURPA PPAs have terminated to enter into new standard forms of PPAs that include, among other provisions, requirements to comply with the ISO tariff. Subsequently, representatives of the investor-owned utilities, CHP resources, ratepayer advocates, and the CPUC staff entered into settlement negotiations in an effort to develop a “global settlement” of QF/CHP issues outstanding in various CPUC proceedings, including discussion of the implementation of the directive of CPUC D.07-09-040 that QFs must comply with the ISO tariff going forward. The QF/CHP global settlement negotiations also included discussion of the intent of the IOUs to file an application with the Federal Energy Regulatory Commission (FERC) to be relieved of the mandatory obligation pursuant to PURPA to purchase all power produced by QFs in their service areas.

On October 8, 2010, the QF/CHP global settlement parties filed a settlement agreement with the CPUC. The settlement agreement included four versions of new standard PPAs for CHP resources, forms of standard amendments to grandfathered PURPA PPAs, provisions for the IOUs to file an application with FERC for termination of their mandatory purchase obligation for QF power for QFs larger than 20 MW, and an agreement by the ISO providing an up to 180-day exemption from ISO tariff revenue metering and telemetry requirements from the date of PPA execution for QFs entering into a standard PPA pursuant to the settlement.

On December 21, 2010, the CPUC issued D.10-12-035 approving the settlement agreement. The IOUs filed their application for relief from the PURPA mandatory purchase obligation for QFs larger than 20 MW on March 18, 2011, and FERC issued an order granting their application on June 16, 2011. However, regarding the CPUC’s approval of the settlement agreement there have been several applications for rehearing and a petition for modification of CPUC D.10-12-035 on which the CPUC has issued further decisions, culminating in the CPUC’s issuance on October 11, 2011 of D.11-10-016 granting the joint petition filed on July 28, 2011 by California Municipal Utilities Association and the parties to the global settlement for modification of CPUC D.11-07-010, which had also approved the settlement agreement. The CPUC issued D.11-07-010 on July 15, 2011, granting the joint petition of CMUA and the parties to the global settlement for modification of CPUC D.10-12-035 originally approving the settlement agreement. In D.11-10-016 the CPUC ruled that the settlement will only be effective when both D.11-10-016
and D.10-12-035 are final and non-appealable. On November 23, 2011, this condition was satisfied and the settlement became effective on that date.

In light of these regulatory changes, the ISO tariff must address the following categories of QF and CHP resources:

<table>
<thead>
<tr>
<th>Category</th>
<th>Known as</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Grandfathered QFs</td>
<td>QFs under grandfathered PURPA PPAs (PURPA PPAs entered into on or prior to December 20, 1995, or, in the case of a participating generator employing landfill gas technology, on or prior to December 31, 1996). These have been historically exempt from compliance with the ISO tariff and will continue to be exempt until the contracts terminate. These are scheduled by the IOU and scheduling coordinator (SC) that is the counterparty to the PURPA PPA. All of the capacity and output of the QF is treated as RMTG under the current ISO tariff and will continue to be treated as RMTG.</td>
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<tr>
<td>2</td>
<td>QFs with legacy PURPA PPA amendments</td>
<td>Legacy QFs are QFs that are currently under grandfathered PURPA PPAs and have elected one of the pro forma amendments selecting one of several different payment options established pursuant to the QF/CHP global settlement but with no extension of the term of the existing PURPA PPA. Included in this category are similar amendments to existing PURPA PPAs filed with and approved by the CPUC prior to the effective date of the global settlement that continue to require the resource to be a QF while not extending the term of the original agreement.</td>
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<tr>
<td>3</td>
<td>QFs or CHP resources with variations of legacy PURPA PPA amendments</td>
<td>These are QFs or CHP resources with amendments to existing PURPA PPAs that do not fall into category 2 above, including (a) amendments that may require ISO tariff compliance or (b) do not require the resource to maintain QF status or (c) that extend the term of the agreement or provide for an increase in the capacity of the resource or (d) change in the electrical characteristics of the resource. All of the agreements and amendments that the ISO has reviewed to date do not include any extension of the term of the agreement.</td>
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<tr>
<td>4</td>
<td>CHP resources with transition PPAs</td>
<td>These are CHP resources with pro forma agreements established pursuant to the QF/CHP global settlement that</td>
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allow CHP resources with existing PURPA PPAs (including CPUC authorized extensions) scheduled to expire prior to 2015 the option to maintain status quo until July 1, 2015.

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<tr>
<th>Category</th>
<th>Known as</th>
<th>Proposed Treatment</th>
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<tr>
<td>5</td>
<td>CHP resources with CHP RFO PPAs</td>
<td>These are CHP resources with pro forma agreements established pursuant to the QF/CHP global settlement that apply to CHP and other generators five MW and greater and require ISO tariff compliance.</td>
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<tr>
<td>6</td>
<td>CHP resources with optional as available CHP PPAs</td>
<td>These are CHP resources with pro forma agreements established pursuant to the QF/CHP global settlement that apply to CHP resources with nameplate capacity greater than 20 MW but with annual average deliveries less than 131,400 MWh and require ISO tariff compliance.</td>
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<tr>
<td>7</td>
<td>QFs with PPAs for QFs of 20 MW or less</td>
<td>These are QFs 20 MW or less with PURPA PPAs that require ISO tariff compliance.</td>
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**Proposed treatment under ISO tariff**

The following table describes the ISO’s proposed treatment for each category of QF and CHP resource:

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<tr>
<th>Category</th>
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<tr>
<td>1</td>
<td>Grandfathered QFs</td>
<td>These QFs would continue to be considered as operating under grandfathered PURPA PPAs exempt from the ISO tariff, and the energy would be scheduled as Regulatory Must-Take Generation as it is today. Once the contracts expire, the resources would no longer be exempt from the ISO tariff. Since they are exempt from the tariff, these QFs and their SCs would also be exempt from any outage reporting and standard capacity product (SCP) non-availability charges or SCP availability payments.</td>
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<td>2</td>
<td>QFs with legacy PURPA PPA amendments</td>
<td>Same treatment as Category 1.</td>
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<tr>
<td>3</td>
<td>QFs or CHP resources with variations of legacy PURPA PPA amendments</td>
<td>These resources would no longer be considered exempt from ISO tariff compliance, but would be exempt from outage reporting and SCP non-availability charges and SCP availability payments under the legacy exemption. Based on the amendments reviewed and approved by the</td>
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<td><strong>CPUC</strong> to date, except for the elimination of the requirement for the resource to maintain its QF status and the requirement to comply with the ISO tariff, these amendments are generally very similar to the category 2 legacy agreement amendments. These resources would have to enter into a PGA with the ISO, which would include the option to enter into a revised version of the QF PGA that would apply to CHP resources. Since these resources are under existing PPAs, they would be treated like category 2 resources with respect to exemptions from any outage reporting and SCP non-availability charges or availability payments. These resources, however, would be subject to new rules for determining the portion of capacity eligible for RMTG status and be subject to ISO tariff requirements applicable to use limited resources discussed below. As these resources are not included within the scope of the ISO’s letter agreement providing an up to 180-day exemption from ISO tariff revenue metering and telemetry requirements from the date of PPA execution for QFs entering into a standard PPA pursuant to the QF/CHP global settlement, they will need to apply for any exemptions on the basis of their specific circumstances, and the ISO will determine the scope of any exemption based on criteria pursuant to the ISO tariff.</td>
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<td><strong>4</strong></td>
<td>CHP resources with transition PPAs</td>
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<td><strong>6</strong></td>
<td>CHP resources with optional as available</td>
</tr>
<tr>
<td>CHP PPAs</td>
<td>QFs with PPAs for QFs of 20 MW or less</td>
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QFs 1 MW or greater would be subject to the ISO tariff, and would have the option to be subject to the ISO tariff if between 500 kW and 1 MW. These QFs would continue to be treated as RMTG resources for 100% of their capacity, i.e., they would be exempt from the new proposed rules for determining the RMTG portion of their capacity due to their size. These QFs would be subject to the outage reporting requirements as well as SCP non-availability charges and availability payments. These QFs are also eligible for an up to 180-day exemption from ISO tariff revenue metering and telemetry requirements from the date of execution of a standard PPA pursuant to the QF/CHP global settlement.

### Proposed changes to tariff definitions

**“Regulatory Must-Take Generation” definition**

Currently, the ISO tariff specifies that *Regulatory Must-Take Generation* has special treatment with regard to certain tariff requirements. The tariff currently defines Regulatory Must-Take Generation as follows:

> Those generation resources identified by CPUC, or a Local Regulatory Authority, the operation of which is not subject to competition. These resources will be scheduled by the relevant Scheduling Coordinator directly with the CAISO on a must-take basis. Regulatory Must-Take Generation includes generation from Qualifying Facility Generating Units subject to a mandatory purchase obligation as defined by federal law, nuclear units and pre-existing power purchase contracts with minimum Energy take requirements.¹

The ISO has been approached by representatives of QFs and other facilities that intend to produce electricity in conjunction with an industrial or commercial process. These representatives are seeking clarity concerning how their resources will be treated in light of the evolution of state and federal policies affecting QFs. The ISO has been considering the need for these changes for quite some time in light of CPUC policies requiring QFs to comply with the ISO’s tariff, thus ending grandfathering QF exemptions from the ISO tariff. Another motivating factor is the QF/CHP global settlement discussed above, pursuant to which many QFs are transitioning to ISO tariff compliance and many will be entering new power purchase agreements independent of the settlement. These considerations are immediately relevant to the QFs in categories 3, 4, 5, 6, and 7 above, as they will become subject to the terms of the ISO tariff in the very near future, if not already.

¹ ISO tariff appendix A “Master Definitions Supplement.”
These changes in the regulatory framework applicable to CHP facilities create a significant uncertainty how the current tariff definition of Regulatory Must-Take Generation would apply to these facilities. Moreover, the ISO believes that this definition would benefit from updating to make it applicable based on the configuration of the technologies and processes of industrial facilities that are capable of producing electricity but also provide heat, electricity, or other product or service to an industrial or commercial host, thereby ending regulatory must-take status simply based on QF status or any contractual must-take requirement set forth in a PPA. Importantly, for those resources eligible for regulatory must-take status, only the non-dispatchable generation from these types of facilities will be eligible for Regulatory Must-Take Generation status. The ISO intends classification of a portion of a facility’s generation as Regulatory Must-Take Generation to provide a higher degree of assurance that physically non-dispatchable generation will not be curtailed. The ISO strongly encourages the provision of dispatchable generation from these types of facilities while retaining the current regulatory must-take scheduling priority for their non-dispatchable generation. This treatment is comparable to the protection against curtailment currently afforded QFs in section 4.6.3.4.4 of the ISO tariff and section 4.2.5 of the QF PGA. The ISO would need to amend the tariff and QF PGA provisions to be consistent with any changes to the definition of Regulatory Must-Take Generation.

Perhaps the most difficult issue raised by the ISO’s effort to focus treatment as Regulatory Must-Take Generation on technological and process aspects of a generating facility and its associated industrial or commercial host is the matter of determining the portion of generation from the facility that is truly non-dispatchable. The ISO proposes to have the CHP resource owner and the IOU that is its SC attempt to reach agreement on the amount of non-dispatchable capacity from the CHP resource. If the CHP resource owner and IOU cannot agree, to have a mutually agreed upon independent engineer make this determination with the costs split evenly unless the parties agree otherwise. If the CHP resource does not have an IOU as its SC, then the CHP resource owner would have to reach agreement with the ISO regarding the amount of non-dispatchable capacity, subject to the use of an independent engineer in the event of a disagreement, with costs to be borne by the CHP resource owner.

The ISO proposes to revise the tariff definition of Regulatory Must-Take Generation to remove the limitation based on PURPA and to make it more generally applicable to industrial facilities with the capability to produce electricity in conjunction with the operation of their industrial processes and to other facilities producing electricity in conjunction with useful thermal energy. The revised definition would include the following characteristics:

1) The ISO proposes to remove the limitation that these types of facilities are not subject to competition. The ISO proposes that any industrial facility or other facility producing useful thermal energy with non-dispatchable generation capacity be eligible for this classification.

2) The ISO proposes to remove the limitation that this definition only applies to QFs subject to a mandatory purchase obligation as defined by federal law. Although the utilities have obtained FERC direction that the PURPA mandatory purchase obligation no longer applies to them for QFs larger than 20 MW pursuant to the settlement.
The ISO does not intend for the current definition of Regulatory Must-Take Generation to end QF eligibility for must-take treatment of non-dispatchable generation capacity.

3) The ISO proposes to revise the definition to emphasize and clarify the distinction between non-dispatchable and dispatchable generation capacity from these types of facilities. The ISO believes that the special treatment of must-take generation should be focused on the truly non-dispatchable portion of a facility’s output and that a facility for which a portion of its generation is dispatchable should be encouraged to submit economic bids (or self-schedules) for that portion of generation in the ISO’s markets and not have that portion of generation capacity be subject to a blanket must-take requirement.

4) The ISO is willing to continue must-take treatment of generation from facilities that continue to be subject to a grandfathered PURPA PPA, as well as those that are subject to any new QF power purchase agreement that is implemented pursuant to the mandatory purchase obligation of PURPA for a QF 20 MW or smaller, as the termination of the mandatory purchase obligation does not extend to those units. The ISO proposes to remove the category of generating units subject to pre-existing contracts with minimum energy take requirements from this definition, as the ISO is unaware of any such units that aren’t covered by some other provision of the proposed new definition.

The ISO proposes the following revision to the definition of Regulatory Must-Take Generation:

Those Generation resources identified by CPUC, or a Local Regulatory Authority, the operation of which is not subject to competition. These resources will be scheduled by that the relevant Scheduling Coordinator self-schedules directly with the CAISO on a must-take basis. Regulatory Must-Take Generation includes:

(1) Generation from Qualifying Facility Generating Units subject to

(a) an Existing QF Contract or

(b) a QF power purchase agreement for a QF 20 MW or smaller pursuant to a mandatory purchase obligation as defined by federal law;

(2) Generating Units that produce electric energy and forms of useful thermal energy used by an industrial or commercial host for industrial, commercial, heating or cooling purposes; and

(3) Generation from nuclear units and pre-existing power purchase contacts with minimum energy take requirements.

The ISO previously proposed two options for non-QF resources or criteria 2 above. The ISO decided against requiring the CHP resource to meet the minimum operating and efficiency requirements set forth in the Code of Federal Regulations, Title 18, Part 292.205 for a qualifying cogeneration facility because this would overly restrict participation in ISO markets from CHP resources. The ISO believes that in order to increase participation by CHP resource in the ISO market it is necessary to provide the RTMG scheduling priority necessary to ensure host
thermal requirements are provide higher scheduling priority and not tie eligibility either to QF status or any federal efficiency standard. The ISO believes the determination of the RMTmax by the CHP resource and the IOU as the amount of capacity needed to meet the needs of the industrial host will limit concerns of the RMTG scheduling priority being abused. CHP resources providing limited thermal energy will have lower RMTmax values.

“RMTmax” definition
The following principles describe how the RMTmax will be determined. These rules will also be reflected in the tariff language.

1) RMTmax is the maximum amount of capacity of a CHP resource eligible for RMTG scheduling priority. While this value could be equal to PMax for some resources, it is expected to be less than PMax. Capacity that is at or below RMTmax can be self-scheduled with RMTG priority.

2) A CHP resource owner communicates with the SC for the resource on an as-needed basis concerning how much capacity must be self-scheduled with RMTG priority up to the RMTmax of the CHP resource. Capacity above the daily RMTG self-schedule can be bid as normal self-schedules or economic bids.

3) RMTmax is agreed upon by the CHP resource owner and the IOU that is the counterparty to its PPA and is the SC for the CHP resource or is determined by a mutually agreed upon independent engineer hired and paid for by the CHP resource owner and IOU if the CHP resource owner and IOU cannot agree. The costs will be split evenly unless the parties agree otherwise.

4) If there is no IOU counterparty to a PPA for a CHP resource, the CHP resource owner and the ISO must come to agreement on the RMTmax. If they cannot come to agreement, the RMTmax must be determined by an independent engineer agreed to by the ISO and the CHP resource owner and paid for by the CHP resource owner.

5) RMTmax must be reestablished at least annually. The RMTmax may be changed more frequently as often as the CHP resource owner and IOU agree through the Master File change process which requires approximately ten business days to become effective. The RMTmax is a single value to be used for all hours.

6) The SC can schedule up to the RMTmax and will receive RMTG scheduling priority; however, the schedule should not exceed the actual MW quantity necessary to meet actual host thermal requirements for a given hour.

The ISO proposes the following definition of RMTmax as a reasonable balance between the ISO’s need to ensure that this concept is limited to truly non-dispatchable capacity of a Generating Unit and the Generator’s and thermal host’s reasonable right to confidentiality regarding the thermal host’s operations:
For a Generating Unit that provides Regulatory Must-Take Generation the minimum operating level at which the Generating Unit can safely and reliably meet the cogeneration host’s thermal and electrical requirements, which is determined as follows:

(a) established by agreement of the Generating Unit’s owner or operator and its Scheduling Coordinator, if the Scheduling Coordinator is an IOU, or by agreement of the Generating Unit’s owner or operator and the CAISO, if not, or

(b) in the event agreement cannot be reached, certified by affidavit of an independent California-licensed certified engineer; and

(c) reassessed and recertified by affidavit as often as necessary if agreed by the Generating Unit’s owner or operator and its Scheduling Coordinator and at a minimum once every year using the procedure set forth in (a) or (b) above.

Other related tariff additions

In addition to definitional changes, the ISO will also be revising the tariff to include the following provisions relating to how RMTmax is established.

Any independent assessment of a Generating Unit’s RMTmax shall include at a minimum consideration of the Generating Unit’s thermal commitment to its thermal host and its commitment to serve the electrical needs of its thermal host, as well as the projected thermal and electrical needs for the operating processes of the thermal host, and shall be subject to any confidentiality and non-disclosure requirements imposed by the Generator or thermal host on the independent engineer.

In the event the services of an independent engineer are needed, the Generating Unit’s owner or operator and the IOU that is the Scheduling Coordinator for the unit shall retain and share the costs of the engineer, or, if an IOU is not the Scheduling Coordinator for the unit, the Generating Unit’s owner or operator shall retain and be solely responsible for the costs of the engineer, subject to approval of the engineer by the CAISO.

One logistical aspect of the ISO’s proposal is that the ISO does not propose to revise the name of the term “Regulatory Must-Take Generation.” This approach would minimize the need for revisions to tariff sections just to revise the references to this term and would avoid the need to have to review agreements and other external documents to consider whether references to that term in those documents will also need to be revised to conform to a change in the name of this term. In addition, the ISO’s scheduling software refers to this priority as “RMT.”

In conjunction with the proposed revisions to the definition of Regulatory Must-Take Generation, the ISO anticipates having to make other minor revisions to the tariff to implement its intended revision to the scope and treatment of must-take generation. Provisions that the ISO anticipates revising include sections 4.6.3, 9.3.5.2, and 10.1.3.3 with regard to the references in those provisions to existing agreements with the Regulatory Must-Take Generation resources. The ISO also anticipates revising provisions of the tariff linking Regulatory Must-Take Generation...
status to QF status, including revising the applicability of the provisions of section 4.6.3 and the pro forma Qualifying Facility Participating Generator Agreement in appendix B.3, which currently apply only to QFs, to other Regulatory Must-Take Generation.

In connection with these anticipated additional revisions, the ISO also anticipates the need to revise the terms “QF PGA” and “Qualifying Facility Participating Generator Agreement” to be consistent with the proposed revisions to the definition of Regulatory Must-Take Generation. Just as the ISO has had to consider whether to revise the term Regulatory Must-Take Generation, the ISO needs to determine whether it would be less complicated to retain the term QF PGA but to revise its meaning to reflect the new scope of Regulatory Must-Take Generation. Depending on the ISO’s determination, there may also be a need to revise article 3.4 of the Large Generator Interconnection Agreement. Finally, the ISO will need to determine whether revisions are needed to tariff section 40.8.1.8 regarding qualifying capacity for resource adequacy purposes and, if so, what those revisions should be. The ISO will address these issues in the tariff stakeholder process following ISO Board approval of the policy changes.

The ISO anticipates that these revisions will not require substantial changes to the ISO’s systems. The ISO’s systems are already programmed to recognize the special category and treatment of Regulatory Must-Take Generation. The ISO expects that its proposal will simply continue to recognize must-take generation capacity for resources that have non-dispatchable generation capacity—but only for the non-dispatchable generation capacity—while ending this treatment for resources that do not have non-dispatchable generation capacity and no longer qualify for regulatory must-take status under any other prong of the revised definition. However, due to the number of other changes to the ISO’s systems that are in process, the changes to implement this initiative are likely to have to be combined with another set of changes, which may affect the timing of implementation.

Resource adequacy issues (Categories 3, 4, 5, 6, and 7 only)

**Standard capacity product treatment**

On November 30, 2011, FERC conditionally accepted the ISO’s tariff filing which exempts SCs for certain QFs that provide resource adequacy (RA) capacity from forced outage reporting requirements under section 40.9.5 of the tariff for the purposes of SCP availability determination.\(^2\) The tariff revisions ultimately became effective December 1, 2011 and the ISO amended its tariff to add sections 40.9.2(7) and 40.9.2(8). The current exemption applies to RA capacity under an existing regulatory must-take generation agreement that (1) is already grandfathered under the current tariff section 40.9.2(2) or 40.9.2(3) or (2) was executed before the August 22, 2010 deadline to be eligible for the section 40.9.2(2) exemption and was extended by the CPUC. In addition, the CPUC extended-type resources are exempt from receiving SCP availability incentive payments and paying SCP non-availability charges. As part of this initiative, the ISO proposes to amend section 40.9.2 to permit resources that have

qualified for an SCP exemption, but lose their QF status, to maintain the exemption for the balance of the term of the applicable agreement provided all other conditions continue to be met.

**Use-limited status**

The ISO anticipates permitting CHP resources to be eligible for treatment as “use-limited” under the tariff and related business practices manuals. This would involve submission of an application and ISO assessment of eligibility. See ISO tariff section 40.6.4 and section 6.1.3 of the Business Practice Manual for Reliability Requirements. These provisions describe how resources apply for status as use-limited resource adequacy resources.

CHP eligibility as use-limited resource adequacy resource cannot be established based on standard contractual limitations, such as MWhs and starts, but can be based on a demonstration that treatment as a non-use limited resource adequacy resource, in which the ISO would co-optimize non RMTG capacity, would unduly interfere with the operation of the thermal host or undermine a regulatory policy objectives concerning efficiency or green house gas emission.

**Next steps**

February 6 – Stakeholder conference call

February 13 – Comments due

March 22, 23 - Request Board approval

March – Tariff language development process begins