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COMMENTS OF THE COGENERATION ASSOCIATION OF CALIFORNIA AND THE ENERGY PRODUCERS AND USERS COALITION ON CAISO STANDARDIZED CAPACITY PRODUCT DEVELOPMENT

This summer the CAISO initiated a Standardized Capacity Product stakeholder process raising several issues to be addressed for the development of a standardized capacity product (SCP). This effort provides several opportunities for stakeholder input. These CAC/EPUC[1] comments address SCP issues generally, but specifically relate to the interface of the CAISO program with Combined Heat and Power (CHP) resources.

The CAISO white paper clarifies that the SCP is geared "*to facilitate the selling, buying and trading of capacity to meet RA requirements facilitate load-serving entity compliance with resource adequacy (RA) obligations*." [2] In theory, the broad goal of establishing general standard generator obligations may be desirable for an SCP program. But pragmatically, realistically and specifically for critical CHP resources, broad standard obligations will not effectively or efficiently accommodate all resources. CHP resources have markedly different operating

[1] CAC represents the combined heat and power and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Mid-Set Cogeneration Company, Kern River Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company. EPUC is an *ad hoc* group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, BP West Coast Products LLC, Chevron U.S.A. Inc., ConocoPhillips Company, ExxonMobil Power and Gas Services Inc., Shell Oil Products US, THUMS Long Beach Company, Occidental Elk Hills, Inc., and Valero Refining Company – California.

[2] CAISO Issue Paper, at 3.

characteristics than a conventional electric generator. Any successful SCP program must accommodate these CHP operations.[3]

CHP resources have and will continue to make significant contributions to the State's demand for efficient and reliable capacity. For this reason, CHP is a resource that the CAISO cannot afford to overlook as it implements the SCP program. In order to ensure that CHP resources continue to efficiently supply RA capacity, two fundamental tenants need to be embraced by the CAISO SCP:

1. The development of the SCP must not expand the obligations currently memorialized in the RA tariff, absent the assured ability to recover the costs of increased obligations; and

2. Like current tariffs, the SCP must reflect the must take, non-dispatchable operating requirements of CHP resources.

The incorporation of these principles in the CAISO SCP and RA program is discussed below. In addition, the comments explain why the QF accommodation proposed by AReM, *et al.*, should be rejected.

I. STANDARDIZED CAPACITY PRODUCT SHOULD NOT EXPAND THE SCOPE OF CURRENT RESOURCE ADEQUACY.

Several stakeholders note that obligations in the CAISO's RA tariff should not be expanded through this stakeholder process:

- <u>AReM, Calpine Corporation, Constellation Energy, Direct Energy, LLC, J. Aron & Company and Sempra Energy Solutions LLC</u>: *This SCP effort should assume no changes to the current RA program and RA-MOO. It should focus on tariff amendments needed to clarify the <u>existing</u> obligations of the RA suppliers under a standardized capacity product.*[4]

- <u>PG&E</u>: *Section 40.6 of the MRTU tariff sets forth the availability obligations of RA Resources. Any modification to these availability obligations is beyond the scope of this stakeholder process. The purpose of this stakeholder process is not to modify what is required of RA*

[3] Note that CHP facilities comprise a subset of QFs.
[4] AReM, et al. 9/11/08 SCP Comments, at 2.

Capacity. Rather, the more limited purpose of this stakeholder process is to develop a standardized means for transferring, from entity to entity, the right to count RA Capacity, associated with a particular RA Resource, in an LSE's resource adequacy plans or compliance filings.[5]

- CPUC Staff: *. . .the CAISO's SCP should be limited to performance obligations and penalties on generators to create efficiencies in the LRAs' RA programs; it should not be used to increase the burden on participants in RA programs or to interfere with the LRAs' RA programs. CPUC is not conceding or granting any authority over the CPUC's RA program to the CAISO*.[6] (emphasis added)

- RTO Advisors: *The proposed February SCP filing should be based on the existing RA requirements and RA counting rules established by the CPUC. Any changes to these requirements and rules must be considered and resolved separately in the RA proceedings at the CPUC*.[7]

- Northern California Power Agency: . . . *the scope of this effort should be limited to the development of this tool for facilitating transactions between entities that wish to trade in Resource Adequacy capacity and not at revising or replacing the entire existing Resource Adequacy structure.*[8]

- JP Morgan: *The CAISO should not include within the scope of this effort reexamination or refinement of the CPUC's established Resource Adequacy program rules*.[9]

CAC/EPUC agree that the goal of the CAISO stakeholder process should be to develop an SCP that will not expand the current obligations in the RA tariff. Changes that alter or expand existing obligations are beyond the scope of this proceeding.

This issue must not be considered in a vacuum. Currently the CPUC is developing a standard offer contract for QF resources. That program provides for a fixed capacity price and is predicated upon a capacity product reflected in a 2005-2006 Market Price Referent (MPR) option. This MPR price did not and

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[5] PG&E 9/11/08 SCP Comments, at 2.
[6] CPUC Staff 9/11/08 SCP Comments, at 2.
[7] RTO Advisors' 9/11/08 SCP Comments, at 3.
[8] NCPA 9/11/08 SCP Comments, at 2.
[9] JP Morgan 9/11/08 SCP Comments, at 2.

does not contemplate any greater obligations on the QF supplier than existing (or even historical) RA capacity. If the CAISO changes RA obligations, and accordingly costs, of CHP resources that supply RA, there must be a commensurate and assured ability for the facility to secure recovery. There is no such provision for this assurance.

II. STANDARDIZED CAPACITY PRODUCT MUST ACCOMMODATE CHP RESOURCES.

Accommodation of CHP characteristics in the SCP terms and conditions is crucial to the RA program, and to the State's efforts to reduce greenhouse gases. Like the existing tariff, the new SCP must ensure CHP will be accommodated. This will require (i) recognition of CHP operating characteristics and (ii) updating terminology to ensure inclusion of all CHP.

A. CAISO Must Ensure that the SCP Recognizes CHP Operating Characteristics

CHP is a significant contributor to the RA program. A cursory review of the net qualifying capacity (NQC) data indicates that CHP provides over 3600 MW of reliable capacity to the CAISO. Over 62% (i.e., over 2200 MW) of that capacity is used to ensure local reliability. CHP comprises one of the most reliable categories of generating resources in the State of California. However, CHP, unlike other electric generating facilities, has a primary obligation to provide thermal energy to critical California industries. CHP is a thermal generating facility and not a load-following electric power plant. As a result of this primary thermal obligation, CHP cannot ramp up and down like conventional generators to accommodate fluctuations in electric load. While CHP provides reliable capacity, it cannot be forced into an SCP mold that considers merchant generator operating characteristics only.

To ensure the RA program benefits from CHP, CAISO must ensure that the SCP accommodates the operating characteristics of the facilities. CHP operating characteristics vary from facility to facility but they can be memorialized. A model for this accommodation exists in the current CAISO tariff. For those QFs that have signed QF participating generating agreements (QF PGA) operational characteristics are reflected in Schedule 1 of the QF PGA. This allows a specific tailoring of the thermal operation demands of a CHP resource and the commensurate electrical operating characteristics of this type of resource. For those QFs without a QF PGA, a similar form can be used to reflect facility-specific operational characteristics.

B. CAISO Must Ensure that the SCP Will Include All CHP Resources

The current tariff accommodates CHP operating characteristics by providing certain exemptions to "*a QF that is still under a power purchase agreement with a host utility*" or "*existing contracts for regulatory must-take*."[10] These provisions should be updated to ensure that CAISO will continue to take account of CHP characteristics even when they secure new QF contracts. The reasons for this update are apparent. The operational characteristics of a CHP facility do not change simply because of a change in contract status between new and old.

[10] *See i.e.*, Section 5.1.5 and 40.6A.2 of CAISO conformed tariff (dated March 2008).

III. AREM, ET AL'S RECOMMENDATION TO HAVE UTILITY PERFORM WHERE QFS ARE CURRENTLY EXEMPTED INAPPROPRIATELY EXPANDS EXISTING RA OBLIGATIONS AND SHOULD BE REJECTED.

The AReM, Calpine, Constellation, Direct Energy, J. Aron & Company, and Sempra Energy Solutions' proposal to accommodate QF operational characteristics inappropriately expands the scope of current RA obligations and should be rejected. The proposal recommends that *all* RA suppliers bear *exactly* the same obligations to the CAISO as a conventional generator although resources such as QFs currently have certain exemptions from RA obligations.[11] To account for existing QF exemptions, the AReM, et al. proposal seems to recommend that the utility bear the responsibility of satisfying RA obligations where the QF is exempted:

> *The signatories agree that all obligations for performance should be on the supplier and that there are no circumstances where the LSE should be required to take action with respect to performance (availability) standards. The only exception may be for certain QF facilities where the LSE who is buying the output of the QF facility is responsible for meeting the supply obligations (in these instances, however, the LSE simply is acting on behalf of the supplier).*[12]

The proposal of AReM, et al. effectively creates obligations that are not reflected in existing tariffs and then charges a QF's interconnected utility with the responsibility to perform these new obligations. Neither a QF nor its interconnected utility should bear obligations that are not a part of the current program. As discussed in Section I, expanding the current RA program is beyond the scope of this stakeholder proceeding. Placing new obligations on an

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[11] As noted above in Section II(B), QFs are currently exempted from certain RA obligations to account for operational characteristics.

[12] AReM, et al. 9/11/08 Comments on CAISO White Paper, at 5.

interconnected utility that currently do not exist, therefore, is beyond the scope of this proceeding and should be rejected.

Respectfully Submitted,

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