



**Comments of Pacific Gas and Electric Company**  
***FERC Order 764 Market Changes Intermittent Resource Protective Measures Straw Proposal***

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments in the stakeholder process for the California Independent System Operator's (CAISO) FERC Order 764 Market Changes Intermittent Resource Protective Measures July 26, 2013 straw proposal (Proposal).

PG&E:

- Opposes maintaining the Participating Intermittent Resource Program (PIRP) settlement or granting special protections to specific resources wanting to delay full participation and exposure to the prices in the CAISO market, especially considering that the changes under 764 after elimination of PIRP settlement are expected to make these resources better off.
- Agrees with the CAISO's proposal where it states:  
*As the ISO's FERC Order No. 764 market design changes recognize, it is vital that intermittent resources be able to reduce output during over-generation conditions. This is needed for the ISO to be able to integrate the large amounts of intermittent resources that need to come online to meet California's renewable resource goals. (Pg.3 of CAISO's FERC Order 764 Market Changes Intermittent Resource Protective Measures Straw Proposal)*

Providing exposure to price signals will allow resources to choose when to reduce output to mitigate the impact of their generation at times when it is harmful to the system, whereas insulating them from price impacts increases the likelihood that those resources will continue to generate even as the system heads toward over-generation conditions.

- Suggests amore targeted approach to resolving flexibility issues as they relate to PIRP. Thus far, the CAISO has changed directions in its proposals for special protections numerous times, repeatedly reopening, expanding, or proposing additional windows to seek protection and modifying the criteria with the purpose of insulating intermittent resources from markets. At the same time, in other venues, the CAISO is widely displaying the “duck graph” and calling for action to address the impact of these resources on markets.<sup>1</sup> Here, now, is the time to allow intermittents to be part of the solution instead of continuing to insulate intermittent resources from all market impacts of their deliveries. Renewables can be part of a solution, but only if they have incentives to respond to market signals; and this outcome will only occur if the CAISO stops looking for further opportunities to insulate them from the costs.
- Points out that its contracts continue to function regardless of the elimination of PIRP’s current settlement provisions –the CAISO should not interfere with the contractual relationships of the parties through unnecessary carve-outs in the markets design.

Should the CAISO push forward with a structure for protective measures, such measures should be targeted and finite, and should not create obstacles to resolving any contractual issues that arise on a bilateral basis. Therefore, if not eliminated, the CAISO’s proposed:

- All the qualifications for special protections should serve as the minimum binding requirements for protective measures.
- Annual process to establish protective measures should be eliminated. The CAISO has already provided two one-time (in theory) windows to seek protections; there is no need for even one more, yet alone three as proposed.
- Cost allocation should be made consistent with causation principles

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<sup>1</sup> See ISO Response to Comments on Flexible Resource Adequacy Criteria and Must-Offer Obligation Revised Straw Proposal (Page. 29)

## **Comments**

### **1) Continuing to extend protections to intermittent resource from the market impact of its generation is inappropriate.**

Throughout the FERC Order 764 Market Changes initiative, PG&E supported the enhancements the CAISO made to PIRP. However, we do not support extending the current PIRP settlement or designing out-of-market measures to insulate select resources from market impacts when: a) the redesign is anticipated to make most resources better off than current mechanisms<sup>2</sup>; b) the resources can respond to market prices or make investments that would allow them to respond; c) the existing contract structures could function even with the redesign. The special protections proposed provide poor incentives to schedule properly and lower integration costs.

Eliminating any special protections will allow the CAISO market to function more efficiently, giving the scheduling coordinators of intermittent resources clear price signals to respond to. Extending the current PIRP settlement mechanism, as this special protection proposal does for PIRP resources, only serves to kick the can down the road, further contributing to the potential for overgeneration and other challenges as so aptly illustrated by the duck graph.

### **2) One, one-time window to seek Special Protections should be sufficient - the proposed annual processes to establish protective measures is inappropriate.**

The proposal to establish a recurring annual process for resources to request special protective measures is unnecessary. The CAISO has already had two one-time windows that have closed, during which it allowed all parties that are seeking protection to submit requests.<sup>3</sup> Those processes should therefore establish the entire pool of candidates from which to consider requests. Any additional proposed

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<sup>2</sup> As the CAISO's proposal notes: "..., intermittent resources generally will be paid more in the real-time market under the FERC Order No. 764 market design than under the current market design and PIRP settlement." (*FERC Order No. 764 Market Changes - Protective Measures Page 6*)

<sup>3</sup> In a May 16<sup>th</sup> 2013 Notice, the CAISO stipulated that "resources meeting the criteria must make a request within 30 days from the May 15 Board decision.. (and) the ISO will review the requests and conduct a stakeholder process to determine the appropriate protective measures, which will go to the ISO Board for approval in September 2013." In a subsequent notice however, the ISO clarified that it will also consider other circumstances that were not specified in the criteria to the Board and which a resource believes it would be unfairly harmed as a result of the new market structure.

windows are unnecessary and to propose an annual process is not only administratively burdensome, but serves no need. If a need for a new window to seek protection can be justified, then there should only be one limited time window and annual reconsideration should be firmly rejected. The CAISO should affirm and clarify in its final proposal that special protections do not create a free option for resource to come into receiving special protections after participating and settling under the 764 market design.

**3) All of the proposed qualifications need to serve as the minimum binding requirements for protective measures.**

PG&E opposes any softening of the qualifying criteria or suggestions that resources may be eligible if they meet a portion of the four, but not all four criteria.

On Criteria 1: “The resource is composed of old technology (constructed and on-line by 2005 or earlier) that is unable to curtail output without significant investment.

- Dispatch, control, and telemetry or metering needs only would not qualify
- Turbine replacement would qualify.”

We agree that if the resource is composed of technology able to curtail output without significant investment, clearly such resources should not receive special protections and thus dis-incented to respond to dispatch instructions and the associated price signals the market will produce. In particular, PG&E appreciates the CAISO’s clarification that resources merely needing to install dispatch, control, or telemetry systems and similar such moderate upgrades should not consider those changes unduly burdensome and therefore are not sufficient qualification for protective measures. We disagree, however, with the CAISO’s implication that “older” technology should be defined as pre 2005, where such resources would likely not be able to respond to CAISO instructions. PG&E believes resources of significantly older vintages have an ability to respond, or could get that ability without major investment, and so we encourage a robust review of the technologies considered along with the opportunities to add control and their related cost and timing, with the chance for other parties to intervene before determining that a resource cannot in fact respond to CAISO dispatches and before the CAISO determines the appropriate period. If a resource is able to make investments in a shorter timeframe that would allow it to respond, then the CAISO’s proposal should not provide three years of protection from markets but instead provide only the required timeframe to make adjustment.

On Criteria 2: “There are not options under a bilateral contract to mitigate real-time energy settlement risk.

- Qualifying Facilities (QFs) 20 MW or less are not eligible.
- Any bilateral contract (i.e. PPA) must specify resource is directly or indirectly responsible for costs based on ISO market real-time energy settlement.”

We agree that only resources under a bilateral contract unable to mitigate real-time energy settlement risk should be eligible. Qualifying Facilities (QFs) 20 MW or less that have the option to enter into a contract with a CPUC-regulated investor-owned utility that will provide protection and other bilateral contracts which can mitigate these costs through the contract provisions need not seek such protections. We note, however, that every resource has a scheduling coordinator and at the end of the line one party would bear these imbalance risks. Choosing one subset of participants to be immune from the cost risk (while allocating the costs to all other participants) even when the contract provisions and allocations of risk are clear should not be CAISO’s practice.

On Criteria 3: “During the term of the transition period, the resource owner will seek a long-term PPA and/or will upgrade the intermittent generator so that it can respond to ISO dispatch instructions”

We agree that a demonstration that a resource is in fact taking steps to mitigate these impacts such as upgrading the intermittent generator so that it can respond to ISO dispatch instructions is necessary. This requirement should seek to minimize the number of resources unnecessarily seeking eligibility for protective measures and ensure that resource receiving the protections will in fact improve their status; not just result in uplift costs. PG&E requests that the CAISO include additional follow up in the criteria such that: a) any resources awarded special protections that do not complete investment in the necessary technological upgrades to follow CAISO dispatch signals should not have been eligible for protections and should later return any protection awards to the respective funding LSE(s); b) that the protections only apply the minimum period necessary to implement the upgrades (to prevent resources from delaying upgrades to the end of the period).

### **3) The proposed cost allocation is not consistent with causation.**

As currently written, the CAISO proposes to allocate costs incurred as a result of the Proposal to all load serving entities (LSEs) through the existing PIRP settlement process. This approach appears to violate causation principles. Instead, the costs

for special protections should flow to the LSE counter-party that negotiated the PPA.<sup>4</sup>

Moreover, at the May and July CAISO Board of Governors meetings, the CAISO staff and Board's intention appeared to clearly imply that the LSEs and each of its counterparties should work through the specifics of their negotiated contract before the CAISO imposes special protective measures.

#### **4) Clarify duration of protective measures.**

PG&E finds this section ambiguously worded. In particular, the CAISO states, "The ISO proposes that the duration of the protective measures will be three years from the FERC order approving the Order No. 764 market design changes or until a new PPA is signed for the resource, whichever comes first."

In the interest of clarity and mitigating potential future disagreement between VER owners and LSEs, PG&E requests the CAISO slightly reorder this sentence in the draft final proposal and in the tariff: "The ISO proposes that the duration of the protective measures will be until a new PPA is signed for the resource or three years from the FERC order approving the Order No. 764 market design changes, whichever comes first."

#### **5) Clarify qualifying criteria.**

As previously expressed, the proposed qualifying criteria represent the minimum set of qualifications a resource must meet for PG&E to be amenable to the extension of protective measures to that resource. However, PG&E does find an aspect of the first qualifying criteria to be vague. In particular, the CAISO's statement that, "The resource is composed of old technology (constructed and on-line by 2005 or earlier) that is unable to curtail output without significant investment" is unclear. PG&E requests the CAISO define the term "significant investment" to represent a specific percentage of yearly revenue such that smaller size resources likely would need smaller thresholds. The CAISO should also assure that the cost submitted should be for just the necessary control features and not for a host of other controls being implemented by the resource.

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<sup>4</sup> Specifically, PG&E proposes that costs incurred as a result of settling deviations between a resource's actual energy output and the hourly schedule be netted and allocated to the LSE that has contracted with the VER in question, to the degree feasible.