



**COMMENTS OF THE COGENERATION ASSOCIATION OF CALIFORNIA
AND THE ENERGY PRODUCERS AND USERS COALITION
ON CAISO'S FINAL STANDARD CAPACITY PRODUCT PROPOSAL**

CAISO's draft final proposal (Final Proposal) on a standardized capacity product (SCP) concludes that the application of SCP terms and conditions to QFs should be considered at a later date.¹ The Cogeneration Association of California and the Energy Producers and Users Coalition (CAC/EPUC) support the CAISO's conclusion. Deferring this issue to allow a more careful evaluation of combined heat and power (CHP) qualifying resources (QF)² issues is necessary to allow the development of an updated QF net qualifying capacity (NQC) counting protocol, as acknowledged by the CAISO.³ More importantly, however, further evaluation is important to ensure that CHP QF policy is integrated in a manner that precludes the application of duplicative obligations and penalties to these resources. The Final Proposal's grandfathering section is not sufficient to avoid this result. It is appropriate to allow additional time and consideration to develop CHP QF recommendations to ensure that the CAISO proposal adequately reflects CPUC QF policy. At the same time, it is critical that the CAISO commit to undertaking and completing this task in advance of implementation actions directly affecting CHP QF resources.

¹ CAISO Draft Final Proposal, at 4.

² These comments are limited to addressing the needs of combined heat and power qualifying facilities.

³ CAISO Draft Final Proposal, at 23-24.

I. FUTURE REVIEW OF QF ISSUES MUST ACCOUNT FOR CPUC AND STATE ADOPTED POLICY AND CHP QF CONTRACTS UNDER NEGOTIATION

Considering the role of State policy will be critical in the CAISO's efforts to integrate CHP QFs. In particular, the CAISO must understand and acknowledge the process used by the CPUC to promote the execution of CHP QF contracts. Unlike other resources, the CHP QF contracting process has and continues to be largely through CPUC directed standard offer contracts. The terms of many of these contracts contain CPUC-prescribed performance standards and nonperformance penalties. Once executed, these contracts will last for up to ten years, not the typical one year term of bilaterally negotiated RA contracts. While there remain several CHP QFs that do not have executed contracts, the process to develop these contracts is well underway and should be recognized. It is vital that the CAISO SCP accommodate the CPUC process and its underlying policy objectives even if it departs from the concept of a "standardized product."

In order to memorialize this issue in the CAISO proposal, CAC/EPUC propose the following addition to page 23 of the Final Proposal (in red):

Deferral for Wind, Solar, QF and Demand Response Resources

There are several types of RA resources whose QC value is calculated each year based on historical actual hourly output data, which, by its nature, may include some outage hours that occur during the period during which actual output is measured in determining the QC. These RA resources include wind, solar and Qualifying Facility resources. Therefore, if the availability standard discussed herein were to be applied to these types of resources, then those resources may be put in a position where outages may be double-counted. The ISO supports a uniform standard that will apply to all RA resources, but recognizes that some changes may need to be made to the CPUC and LRA counting procedures to reflect that the QC of these types of resources is already de-rated to reflect actual output and may include

some level of outages. Therefore, the ISO proposes that the availability standard and incentives initially will not apply to RA resources whose QC value is calculated each year based on historical actual hourly output data that may include some outage hours that occur during the period during which actual output is measured. This means that wind, solar and Qualifying Facility RA resources initially will not be subject to these the availability standard and incentives of the SCP. The deferral of these provisions to these types of RA resources is temporary, and in the future the ISO will revisit the applicability of these provisions to wind, solar and Qualifying Facility RA resources. The ISO will coordinate with the CPUC and LRAs on changes that may be made in the future to prevent double-counting of outages. **The ISO will also establish whether the application of SCP availability standards will subject QFs to duplicative obligations and penalties as a result of CPUC-adopted QF contracts prior to imposition of this protocol on QF resources.**

II. PROPOSED GRANDFATHERING SECTION WOULD REQUIRE MODIFICATION TO ACCOMMODATE CHP QFs

The grandfathering proposal, as currently drafted, does not reflect the needs of the vast majority of CHP QFs and would only provide limited protections to a few of California's CHP QF resources. If the CAISO seeks to integrate CHP QFs using this concept in the future, further evaluation of the grandfathering section will be required.

CAISO's grandfathering provision is not sufficient to accommodate CHP QFs because it would not allow all CPUC-approved CHP QF contracts to govern the performance obligations of CHP QFs. Under CAISO's grandfathering proposal, only contracts in existence can be grandfathered in full. Those contracts that are entered into prior to FERC approval would only be grandfathered for up to five years. This proposal does not account for those QFs that have been actively engaged in the CPUC QF policy proceeding for over four years, to secure an executable CPUC-crafted contract. Similarly, it does not

protect CHP QFs that have interim contracts from the application of duplicative obligations and penalties.⁴ Even if standard offer CHP QF contracts were finalized and executed tomorrow, the Final Proposal would only allow the terms of these contracts to be grandfathered for five years rather than the contract's full term.⁵ If these CPUC contracts cannot be executed until after FERC approval of the SCP proposal, none of the executed contracts would be grandfathered. Further development and modification to the grandfathering section will be required, therefore, if the CAISO contemplates using this section to accommodate CHP QFs.


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⁴ The QFs with interim contracts also seek an executable CPUC-crafted contract.

⁵ These contracts may have terms that extend for up to ten years.