

Stakeholder Comments

Subject: Decision on Regulatory Must-Take Generation Scheduling Priority

| Submitted by | Organization | Date Submitted |
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The California Energy Commission (Energy Commission) supports the proposed scheduling priority changes for Combined Heat and Power (CHP) resources. Spurred into action by the Qualified Facility (QF) Settlement and the suspension of grandfathered QF contracts, the California Independent System Operator (ISO) has responded with a proposal that balances the changing needs of the electric grid with the operational realities that support California's industry and jobs.

The proposed tariff will alter the amount of CHP that is designated as Regulatory Must Take (RMT) generation, but will not reduce the overall amount of existing capacity. The ISO proposes a more nuanced approach that respects the thermal needs of CHP users by maintaining their RMT designation in order to increase market participation and electric system flexibility. The Energy Commission supports the use of RMT designation for CHP facilities because it enables the most efficient use of fuel to meet thermal demands and is consistent with the *Energy Action Plan*, *California Air Resources Board AB 32 Scoping Plan*, and the Governor's goal for new CHP.

This tariff change clears a regulatory path for market transformation to occur. It encourages CHP resource participation in energy and ancillary service markets with generation capacity that is in excess of primary industrial process needs. This tariff change will assist in the development of new CHP resources, bringing about new business models to take advantage of this opportunity. To the extent that market transformation occurs depends heavily on the decisions of CHP users and their ability to develop and implement new business models.

The Energy Commission also supports this tariff change because it takes into account existing Power Purchase Agreement contracts. The tariff makes it clear that contract rights trump RMT priority. The Energy Commission believes that the ISO has taken sufficient precaution to avoid conflict between existing contractual rights and these tariff changes to mitigate any opportunities for abuse.

The Energy Commission remains concerned about the possibility that there may be a gap between the time when the CHP resource's grandfathered power purchase agreement expires and the effective date of the tariff amendments. The Energy Commission encourages expeditious filing with the Federal Energy Regulatory Commission to keep this gap as short as possible and to take action to prevent curtailment of CHP resources that self-schedule during any contractual lapse which may impact their ability to meet onsite process needs.

The tariff also recognizes that old RMT contracts made sense in the past, but with increasing amounts of renewable generation being added to the grid every year, the ISO will need more dispatchable resources to help manage system operations. An appropriate balance is struck between respecting the non-dispatchable capacity of CHP generators while encouraging available dispatchable capacity to participate in ISO markets in order to support a new portfolio of renewable energy resources in the future. New CHP will have the opportunity to meet the needs of the electric system that are created by the increase in renewable resources. CHP facilities may be designed to meet ramping and intermittency issues, while increasing system reliability and energy security.

An alternative proposal presented by the Joint IOUs (Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Edison) appears to undermine California's policy goals. The Joint IOU comments state the position that "CHP resources....should be treated no differently than other merchant generators under the CAISO Tariff." This proposal would eliminate CHP's RMT status and suggests that CHP facilities use back-up boilers to meet thermal demand when curtailed.

The logic employed in the Joint IOU filing does not take into account all the parameters in which CHP systems operate. When looking at CHP systems it is necessary to take into account the host site's thermal demands as part of their operating parameters. The "reasonable parameters" provided in the Joint IOU proposal does not extend this characterization to CHP resources. However, the filing does recognize the RMT status for nuclear units and the reasonable parameters under which those facilities operate. Nuclear facilities are designated RMT, and rightfully so, because of the operating characteristics of that technology. It would be unreasonable to force these facilities to abide by a set of rules that they cannot follow because the physical operation of these systems will not permit it. When looking at CHP systems and the thermal needs of the host sites as a whole, the same logic should apply.

In addition, the use of back-up boilers may increase overall emissions. If back up boilers are available, they would be permitted and required to operate within their current permit limits. Depending on how these back-up units operate would change the emissions level of these facilities. Most facilities with back-up boilers have not invested in new efficient boilers as they chose to use CHP, a more efficient option, instead. This forces facilities to return to older, less efficient technology to meet their thermal needs and defeats the purpose of installing CHP. In addition, forcing facilities to have new highly efficient boilers in addition to CHP makes installing CHP redundant and would result in an overall increase in emissions. This is contrary to California's goals of reducing greenhouse gas emissions. The Energy Commission does not support this alternative proposal.

In conclusion, the proposed revised tariff will increase the visibility, availability, and dispatchability of existing and new CHP generation that will be beneficial to planning, forecasting, and operation of the grid. The changes to the tariff reflect a forward thinking approach for system dispatch while continuing to support California's energy efficiency and environmental policies. We look forward to working with the ISO and other stakeholders on the tariff once it is approved by the California ISO Board of Governors.