

**Stakeholder Comments on:
Revised Straw Proposal - A New Scheduling Class for Regulatory Must-Run Pump Load in the Integrated Forward Market and Modifications to the Definition of Regulatory Must-Take Generation**

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Southern California Edison, Pacific Gas and Electric Company, and San Diego Gas and Electric Company (“IOUs”) provide the following comments on the proposal for changes to Regulatory Must-Run and Regulatory Must-Take generation classification per the whitepaper dated January 26, 2011.

The IOUs support the proposal to create an IFM Regulatory Must-Run (“RMR”) class for must-run pump load.

The IOUs support the California Independent System Operator Corporation (“ISO”) straw proposal to create a new Integrated Forward Market (“IFM”) scheduling priority class for regulatory must-run pump load. In implementing this scheduling class, the ISO should create a sufficiently narrow definition of “must-run pump load” to ensure that load not critical to health and safety cannot gain scheduling priority.

The IOUs oppose the proposal to expand the definition of Regulatory Must-Take generation.

The IOUs have engaged in productive discussions with the combined heat and power (“CHP”) QFs regarding the issue of redefining Regulatory Must-Take Generation (“RMT”). The IOUs request an extension of two additional weeks in the current process to continue working with the CHP QFs to craft language that would be acceptable to all interested stakeholders. This would

allow for another round of stakeholder comments due on February 24, 2011 and would push the posting of the ISO's Draft Final Proposal to March 8, 2011. The IOUs recommend that the ISO be prepared to bifurcate the Regulatory Must-Run proposal from the Regulatory Must-Take proposal in the event that a further delay is needed on the RMT front. This would still allow the Regulatory Must-Run proposal to be brought to the board in March and would allow for a more refined RMT proposal to be presented to the board at the May 2011 meeting.

The IOUs continue to oppose any revisions to the current definition found in the tariff. The ISO's proposed revisions would open RMT to many previously excluded facilities and maintain RMT status for QFs that would otherwise shift into the market under the recent QF Settlement ("Settlement"). Expanding the RMT pool would have the perverse effect of reducing the efficiency of the Integrated Forward Market ("IFM") by reducing system flexibility, thereby making it harder to optimize through an economic solution. Additionally, retaining scheduling priority for these QFs would run counter to the Settlement, which was designed to help QFs transition into full market participation. In the Settlement, the IOUs and the QFs agreed upon a set of procurement mechanisms and contracts.. The ISO should leave the RMT definition as-is and allow existing QFs to move to new market-based contracts which address the circumstances under which the QFs will be curtailed in the future.

If the ISO determines that it will revise the definition, the IOUs suggest the following language to ensure that RMT includes an amount that does not exceed the physical Minimum Load of cogeneration facilities or the lowest operating level of the Generating Units that supports steam production for the steam host's minimum load operations:

The generation resources that the relevant Scheduling Coordinator may bid or schedule directly with the CAISO on a must-take basis are: (1) Generation from Qualifying Facility Generating Units pursuant to a mandatory purchase obligation as defined by federal law; (2) Generation from Generating Units that are qualifying cogeneration facilities (as such term is defined in the Code of Federal Regulations, Title 18, Part 292), for which Generation is limited to the greater of (a) the Minimum Load of the Generating Units, or (b) the lowest operating level of the Generating Units that supports steam production for the steam host's minimum load operations net of any supplemental steam production, as (x) assessed and certified by an independent California-licensed professional engineer, and (y) reassessed and recertified by an independent California-licensed professional engineer in a timeframe determined by the CAISO in its discretion, provided that such reassessment and recertification must occur no less frequently than once every three years; (3) Generation from nuclear units; and (4) the minimum take Generation from Generating Units subject to pre-existing power purchase contracts with minimum Energy take requirements.

While the above language lays out the appropriate direction for any revision of the RMT definition, ISO must work diligently to ensure that it adheres to the intent of the language in implementation.

The IOUs believe that requiring facilities to validate their Minimum Load or the lowest operating level of the Generating Units that supports steam production for the steam host's minimum load operations with a report from an independent California-licensed engineer is a necessary and reasonable step to limit RMT to the generation that the ISO believes warrants this status. Given that these loads change over time, facilities with RMT status should be re-evaluated by an independent engineer at least every three years to reflect any such changes. The need for independent and ongoing evaluation is unique to facilities seeking RMT status, as RMT confers significant benefits to generators and could provide unjustified preferential treatment if generators submit artificially high Minimum Loads. Given these concerns, the IOUs strongly recommend requiring generators requesting RMT status to submit independent evaluations of Minimum Load or the lowest operating level of the Generating Units that supports steam production for the steam host's minimum load operations so that the ISO can fairly determine which facilities and the amount of MW that should receive RMT status.

Conclusion

The IOUs support adopting a new priority scheduling class to accommodate must-run pump load. The IOUs oppose any change to the RMT definition, as proposed revisions to expand RMT do not align with the QF settlement and stand to reduce the efficiency of the IFM. However, if ISO determines to change the definition, the IOUs request that the ISO include language to limit RMT to the physical Minimum Load of cogeneration facilities or the lowest operating level of the Generating Units that supports steam production for the steam host's minimum load operations.