



Pacific Gas and Electric's Comments on CAISO's Regulatory Must-Take Generation Revised Straw Proposal

Submitted by	Date Submitted
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Pacific Gas & Electric (PG&E) appreciates the opportunity to participate in the stakeholder process for the California Independent System Operator's (CAISO) Regulatory Must Take Generation.

Summary of CAISO Proposal

In its revised straw proposal ("Revised Proposal"), the CAISO proposes to modify the definition of Regulatory Must-Take Generation (RMTG). CAISO proposes that Combined Heat and Power ("CHP") generators that do not have a valid grandfathered power purchase agreement ("PPA") pursuant to the Public Utility Regulatory Policies Act ("PURPA") can establish a level of non-dispatchable capacity eligible for RMTG scheduling priority (RMTmax) either with the Investor Owned Utility ("IOU") that is its counterparty or with the CAISO directly, absent a PPA with an IOU. The eligibility for RMTG scheduling priority therefore will not depend on status as a QF pursuant to PURPA, but will be limited to the amount of capacity required to meet requirements of the CHP resource's industrial host; i.e., generation up to the "RMTmax" of the generating unit, where RMTmax is the minimum operating level at which the Generating Unit can meet the cogeneration host's thermal and electrical requirements.

The CAISO proposal also clarifies the treatment of CHP resources with respect to forced outage reporting, Standard Capacity Product ("SCP") non-availability charges and SCP availability payments, depending on contract type.

Finally, the CAISO also proposes that CHP resources be eligible for Use Limited status.

Comments

PG&E supports the CAISO objective to limit RMT scheduling priority status. However, PG&E cannot support the Revised Proposal because the "updated" proposed tariff that was presented on the January 17, 2012 conference call completely misses its stated objective. Section (2) would expand the category of facilities eligible to tender RMTG to include all qualifying cogeneration facilities that meet the requirements of 18 Code of Federal Regulations ("CFR") 292.50, (i.e., CHP resources), and even electric generation

facilities that fail to qualify under 18 CFR 292.205 so long as they produce some thermal energy. The structural flaws in the updated proposed tariff cannot be overcome by the RMTmax for two reasons: RMTmax would apply only to CHP resources and the RMTmax is defined as an annually-established single number of any amount of generation short of the generator's maximum generating capacity, which a generator may self-schedule with RMTG priority. (See Revised Proposal p. 11).

The Revised Proposal's definition of "RMTmax" fails to limit mandatory must-take generation to the minimum quantity associated with the seller's minimum operations needed to meet the cogeneration host's thermal and electrical requirements. Because the RMTmax is limited to one value, it necessarily overstates the generation associated with the host's thermal load. The draft admits as much –

RMTmax is the maximum amount of capacity of a CHP resource eligible for RMTG scheduling priority.... Capacity that is at or below RMTmax can be self-scheduled with RMTG priority.
(Revised Proposal, "'RMTmax' definition", p.11.)

As drafted, the proposed changes to the CAISO tariff perpetuate the CHP seller's ability to require IOUs to purchase power that is not associated with heat processes necessary to support the thermal host, which is of particular concern to PG&E at times of minimum load, when an IOU's failure to curtail may subject it to CAISO costs.

PG&E has previously indicated support for RMT treatment of the non-dispatchable output of all CHP facilities, so long as RMT status is limited to the electrical output needed to satisfy the host's thermal requirements. Since the Revised Proposal admits that the single RMTmax value does not accomplish this purpose, RMT status should be afforded only to legacy PURPA, nuclear, and pre-existing PPAs with minimum energy take requirements.

The power purchase agreements adopted through the QF/CHP settlement process provide the framework for the identification of minimum purchase obligations through negotiations. In fact, the Revised Proposal suggests that "RMTmax is agreed upon by the CHP resource owner and the IOU that is the counterparty to its PPA and is the SC for the CHP resource or is determined by an independent engineer..." (Ibid.) The final rules should be redrafted to clarify that RMTmax is not necessarily a single number, and that the CAISO rules are not intended to interfere with the commercial terms and conditions of the PPA by creating a single number RMTmax.

For these reasons, PG&E respectfully opposes the Revised Proposal as drafted. Instead, the definition of RMT, which applies only to "Qualifying Facility Generating Units subject to a mandatory purchase obligation as defined by federal law, nuclear units and pre-existing power purchase contracts with minimum Energy take requirements", should be retained in its current form.

If the Revised Proposal were revised so that RMTmax is limited to the actual generation associated with the thermal host's needs, as PG&E suggests below, the revised proposal could merit support.

PG&E rejects the Proposed Updated Tariff Definition of RMTG because with an ineffective RMTmax, it Provides Unfettered RMT status to Generation that does not qualify as “Must Take” under either Legal or Operational Standards.

However, at the CAISO Stakeholder conference call on 1/17, CAISO staff presented two options for the definition (2) RMT¹. The first is the version that is found in its Revised Proposal:

(A) Generation up to the RMTmax of the Generating Unit delivered from a Generating Unit that meets the minimum operating and efficiency requirements set forth in the Code of Federal Regulations, Title 18, Part 292.205 for a qualifying cogeneration facility; and

(B) Generating Units that produce electric energy and forms of useful thermal energy used by an industrial or commercial host for industrial, commercial, heating or cooling purposes; and

PG&E prefers Option (A) for category (2) because at a minimum, RMT status is limited to CHP facilities that comply with the federal efficiency standards for cogeneration under the Public Utility Regulatory Policies Act (“PURPA”). Option (B) would confer RMT status on generation that fails to provide the benefit of operationally-linked cogeneration. Consistent with its earlier comments, PG&E acknowledges that special priority should be provided to RMTG - if sufficient validation and controls are exercised by the CAISO to assure that only legitimate RMT values are used reflecting the true operating minimums of the host facilities. The current proposed alternative definition (above) does not sufficiently meet this fundamental requirement.

A Single RMTmax Value is inadequate; a more granular RMTmax Value based on a verifiable indicative hourly profile of RMT generation is needed to establish generation based on actual thermal load requirements.

With respect to the definition of RMTmax, PG&E supports the concept of a cap on the capacity that may be designated as RMT together with a mechanism to limit the actual RMT scheduling priority only to the capacity that is truly non-dispatchable in any scheduling period. Given the higher scheduling priority of RMT over other self-schedules, including those from wind, solar and hydro resources, it is extremely important that the CAISO not grant this privileged status without adequate controls and verification.

¹ Regulatory Must-Take Generation Revised Straw Proposal, CAISO PowerPoint Presentation, at Page 7.

A two-step process is needed to address this concern. First, CAISO should clarify that the RMTmax is dependent upon the generator's obligations to the thermal host. Recognizing that resources have time-varying thermal host needs, the CAISO should require that each resource provide its Scheduling Coordinator and the CAISO an indicative annual profile of hourly RMT generation. While non-binding, this documentation will provide a basis for comparison both among resources that have similar characteristics and between daily RMT schedules and the indicative profile. This will provide a reference for identification of resources that may be abusing the RMT protection.

Second, the greater granularity is required to ensure that RMTmax achieves its objective. The CAISO should at minimum require RMTmax values for the following:

1. Winter Months (October through May): Off Peak and On Peak hours (consistent with the WECC/NERC Standards); and
2. Summer Months (June through September): On Peak and Off Peak hours (consistent with the WECC/NERC Standards).

The CAISO should specify that Independent Engineer Costs will be shared equally.

The CAISO proposal contemplates that the two parties may not reach agreement on the RMTmax. PG&E suggests that the most reliable basis of RMTmax is the agreement between the CHP generator and the thermal host, and that the CAISO should specify that any proprietary business information needed to establish RMTmax will be subject to confidential treatment. While the proposal states that the costs of an Independent Engineer will be shared, it does not specify the respective cost allocations. The CAISO should specify that in the case of a CHP resource that has a PPA with an IOU, the costs should be shared equally among the two parties.

The CAISO should not dictate communication protocol between the generator and the Scheduling Coordinator with respect to daily RMTG self-schedules.

In its Revised Proposal, the CAISO identifies the following guiding principle for development of the RMTmax definition.²

- 2) A CHP resource owner communicates with the SC for the resource on a daily basis concerning how much capacity must be self-scheduled with RMTG priority up to the RMTmax of the CHP resource. Capacity above the daily RMTG self-schedule can be bid as normal self-schedules or economic bids.

PG&E is concerned that the daily communication of how much generation should be self-scheduled as RMTG is out of scope for the RMTmax definition. RMTmax as defined, provides an "up to" level. The daily/hourly RMTG self-schedules and the

² Regulatory Must-Take Generation Revised Straw Proposal, Page 11

communication protocol should be determined by the Scheduling Coordinator and the CHP resource.

PG&E Appreciates the Clarifications on Forced Outage Reporting and SCP

PG&E appreciates the CAISO's clarification on the treatment of the CHP resources with respect to forced outage reporting, SCP non-availability charges and SCP availability payments depending on contract type. PG&E is supportive of this portion of the proposal and finds it to be consistent with the intent and outcome of the Standard Capacity Product Outage Reporting stakeholder process.

Clarifications

Use Limited Aspect of Proposal is Unclear

The CAISO proposes that CHP resources will be eligible for "Use Limited" treatment but it is unclear if the CAISO intends for all CHP resources to default to "Use Limited" status as they have traditionally or if the designation will be based on relevant criteria supported by appropriate documentation. Under what circumstances, if any, would a CHP resource not be considered "Use Limited"? PG&E would appreciate if the CAISO could clarify its intention in the next proposal.

Conclusion

PG&E appreciates the opportunity to participate in this stakeholder process on Regulatory Must-Take Generation. The CAISO proposal, while intended to limit the amount of energy that is self-scheduled as RMT falls short of meeting this objective. PG&E rejects the proposal as presented and offers refinements that would be required to ensure that there are adequate controls in place to limit abuse of RMT protection.