Comments of Pacific Gas and Electric Company
Subject: Regulatory Must-Take Straw Proposal

Submitted by	Company	Date Submitted
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PG&E appreciates the opportunity to submit the following comments on the CAISO's straw proposal on Regulatory Must-Run and Must-Take Generation.

1. Scheduling priority for regulatory must-run pump load

PG&E acknowledges the critical nature of certain pump loads and agrees that special priority consideration in the CAISO scheduling process is warranted in order to ensure that these pumping facilities are not interrupted in a way that leads to a violation of federal or state legal and regulatory requirements. Creating a new scheduling priority class in the IFM with a proposed penalty price of $5100/MWh, and expanding the definition of Regulatory Must-Run to include "applicable pump load" seems reasonable.

However, PG&E would like to highlight that defining what constitutes "applicable pump load"[1] will have important impacts on how the revision gets implemented. If the CAISO defines this new category very broadly, then it's possible that some portion of pump loads could obtain this special priority even if there aren't environmental regulatory drivers to justify those hypothetical loads being part of this class. The definition of applicable pump load should clearly refer to the federal and state standards and regulatory requirements listed on page 3 of the Straw Proposal.

Even with the proper definition in place, PG&E is concerned that the CAISO may not be in a good position to monitor and regulate the use of this priority scheduling benefit to ensure that it is not over-used or abused. PG&E requests further detail in the next draft proposal that outlines how this monitoring can be accomplished and what the consequences might be for its misuse.

2. Definition of Regulatory Must-Take Generation

PG&E agrees that the CAISO Tariff needs to be consistent with the evolution of federal and state policies affecting Qualifying Facilities ("QFs"). However, PG&E also believes the following:

- **Expanding the definition of Regulatory Must-Take (RMT) as described in this proposal is not necessary to achieve that consistency.**

[1] CAISO Straw Proposal page 3.

In PG&E's view, elevating a contractual requirement to purchase power to the status of a regulatory mandate and including both in the same definition within the Tariff is inappropriate and would result in an unjustified expansion of the facilities who qualify as "must-take" resources.

For QFs subject to a legacy QF contract pre-dating the formation of the CAISO, and for QFs less than 20 MW with a new power purchase agreement entered into pursuant to the Public Utility Regulatory Policies Act ("PURPA"), PG&E acknowledges the regulatory must take status will continue.

Purchases from facilities larger than 20 MW under new PPAs resulting from the QF Settlement do not qualify for the regulatory must-take obligation imposed by FERC under PURPA's must purchase obligation and therefore do not merit "must take" status going forward. PG&E believes that it is appropriate to treat these resources with the same priority as any other resource. To the extent the facilities are not selling to an IOU, they have the ability to submit economic bids and self-schedules for the dispatchable and non-dispatchable portion of their electricity generation. On site energy usage, or over-the-fence sales to the thermal host would not be affected by any change in regulatory-must take status as these sales are not bid to the CAISO.

- **Broadening the definition of Regulatory Must-Take as described in the proposal runs counter to the CAISO's efforts to "minimize reliance on administrative measures to successfully participate in ISO markets and to provide incentives to supply economic bids."[2]**

  The CAISO has begun a process to phase out various market protections for certain non-generic capacity resources through the proposed revisions to PIRP in Phase 1 of the Renewable Integration Initiative. The market efficiency arguments for moving forward with these revisions are discussed in the Straw Proposal on Reforms to Energy Market and PIRP Rules and Procedures. Given this initiative, PG&E would like to better understand any market-based arguments for why protections for a specific class of non-generic capacity should be expanded under this RMT proposal.

  If the CAISO believes that it is under a regulatory obligation to extend these provisions to a specific class of resources, PG&E requests that the CAISO spell out explicitly the legal requirements that it is interpreting it must adhere to.

With respect to the specific sections of the proposed modification of the definition of "Regulatory Must Take," PG&E provides the following additional comments:

2(a) PG&E is concerned that "other QF generating units" is too broad a definition, and might include units beyond those it is intended to include. This revision appears to open up "must-take" status to any QF capacity, including those QFs who are not under a power purchase agreement executed pursuant to PURPA. Thus the definition could substantially

[2] CAISO's *Straw Proposal on Reforms to Energy Market and PIRP Rules and Procedures*, Dec. 22, 2010, p. 13.

increase the amount of capacity eligible for "must take" status and make it more difficult for the CAISO to balance the system.

2(b) The proposed definition would allow a combined heat and power (CHP) facility of any size to obtain "must take" status, including facilities that do not have such status now because they are either not making sales under PURPA or do not have QF status. While the proposal appears to be targeted towards allowing the uninterrupted production of thermal output, it does not limit the amount of energy subject to the "must take" requirement to that which is needed to maintain the thermal output. Therefore a large merchant facility that has even a small thermal output would now be a "must take" resource for the full amount of its "non-dispatchable capacity" even if the facility is not a QF. This provision also unnecessarily expands the definition of "must take" resources and, as noted above, may make it more difficult for the CAISO to balance the system, particularly after significant amounts of new renewable resources are added to the generation mix

2(c) PG&E requests a justification from the CAISO for including subcategory 2(c) within the broadened definition of Regulatory Must-Take. Carving out a special subcategory for a specific type of industrial process (in this case injecting carbon dioxide for enhanced oil recovery) does not seem appropriate, and we ask that the CAISO provide an explanation for why this carve-out is necessary.

Additional Information Requested:

1. While the CAISO proposes to extend the RMT status to only the non-dispatchable capacity of generator types in category (2) of the proposed definition, it does not provide stakeholders with a methodology for how it plans to distinguish between dispatchable and non-dispatchable capacity.

   At this time, PG&E questions whether the CAISO *should* put itself in the position of making this determination, but perhaps more importantly, it's unclear whether the CAISO *can* make this determination given the operational idiosyncrasies of each resource. PG&E would like to see a detailed proposal or methodology for making this determination before we can adequately assess the implications of this aspect of the proposed revision. The proposal should address questions such as whether the non-dispatchable capacity can vary by hour, day or month and how that determination is made.

2. PG&E would like to understand the CAISO's perspective on how this broader definition of Regulatory Must-Take will impact the amount of self-scheduled MW capacity that qualifies for this status as compared to today's market. Self schedules are an issue of concern in the Renewables Integration Initiative, where the CAISO has made specific reference to QFs.[3]

[3] CAISO's *Straw Proposal on Reforms to Energy Market and PIRP Rules and Procedures,* Dec. 22, 2010, p. 11*:* "…the portion of the power generated by the QF that is scheduled on the grid is inflexible and it is for this reason that those resources are consistently self-scheduled. Such CHP contracts are encouraged by the CPUC as they have positive environmental attributes. Ironically, adding additional resources to the fleet that need to be self-scheduled, such as these QFs, makes it significantly more difficult to integrate renewables as the state strives to meet the RPS."