

**Subject: CAISO Straw Proposal for Must-Run Pump Load and  
Modifications to the Definition of Regulatory Must-Take  
Generation**

Submitted by	Company	Date Submitted
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**INTRODUCTION**

SDG&E appreciates the opportunity to comment on the California Independent System Operator’s (CAISO’s) Must-Run Pump Load and Regulatory Must-Take Generation Straw Proposal, dated December 14, 2010, and discussed in a stakeholder call on December 22, 2010.

The CAISO proposes to modify its tariff in two basic ways: (1) to create a new scheduling priority class for regulatory must-run pump load in the Integrated Forward Market, and (2) to revise the tariff definition of Regulatory Must-Take Generation for qualifying facilities (QFs) in California. With respect to the latter, the CAISO proposes to remove the limitation based on the Public Utility Regulatory Policies Act of 1978 (PURPA) to make the definition more generally applicable to industrial facilities with the capability to produce electricity in conjunction with the operation of their industrial processes and to other facilities producing electricity in conjunction with useful thermal energy.

While SDG&E has reservations regarding the implications of the CAISO proposal to “relax transmission constraints” for regulatory must-run pump load, SDG&E will not, at this time, oppose the CAISO’s the proposal. However, as discussed below, SDG&E does oppose the revised must-take definition because it expands the category of generators eligible for regulatory must-take status with potential adverse economic consequences for market efficiency.

**DISCUSSION**

Regulatory Must-Run Pump Load

The CAISO’s proposed new scheduling priority for regulatory must-run pump load would be affected by “relax[ing] relevant transmission constraints” in the Integrated Forward Market such that the final day-ahead schedule for regulatory must-run pump load would never be different than the pump load operator’s desired schedule. SDG&E has three concerns with this proposal.

First, it appears that this proposal could affect market participants *other than* the regulatory must-run pump load. “Relax[ing] relevant transmission constraints” changes day-ahead grid power flows and therefore day-ahead Locational Marginal Prices (LMPs), to some degree, for all market

participants. SDG&E does not know whether these changes could be significant and does not know which market participants might be better off and which would be worse off.

Second, SDG&E does not understand the need for the changes to begin with. All market participants deviate from day-ahead schedules to some degree. Even if a regulatory must-run pump load received a 0 MW day-ahead schedule, it could nevertheless pump in real-time with knowledge that (a) the real-time LMP at its location could be extraordinarily high, and (b) the pump would be physically curtailed in the event a binding transmission contingency actually occurred. Furthermore, the CAISO's own analysis indicates the proposal would have had no effect on day-ahead schedules for pump facilities managed by the California Department of Water Resources for the period since MRTU start-up.

Third, because the price charged for uninstructed real-time deviations—the price that regulatory must-run pump loads currently pay for deviations from day-ahead schedules—includes certain uplift costs, the CAISO's proposal, in theory, shifts some amount of uplift costs away from regulatory must-run pump loads onto other market participants. The CAISO implies that its proposal is not discriminatory because water services “are vital to the state and the health and welfare of California residents” and “may be also subject to federal and state laws.” But this is true for many non-water services that either use, or produce electricity and that would not qualify for the regulatory must-run designation.

As a general matter, SDG&E supports market structures that give all market participants the ability to compete for grid access on an economic basis; i.e., where each market participant is free to express its needs through a price/quantity bid that is considered on an equivalent basis with all other market participants' price/quantity bids. If regulatory must-run pump load needs the ability to submit price/quantity bids as high as \$5100/MWh to reflect that water services “are vital to the state and health and welfare of California residents,” then the price/quantity bid cap in the CAISO's markets should be raised to \$5100/MWh.

#### Regulatory Must-Take Generation

The proposed revised definition of regulatory must-take generation is as follows:

The following Generation resources that the relevant Scheduling Coordinator may bid or schedule directly with the CAISO on a must-take basis: (1) Generation from Qualifying Facility Generating Units subject to an Existing QF Contract pursuant to a mandatory purchase obligation as defined by federal law; (2) the non-dispatchable capacity of Generation from (a) other QF Generating Units, (b) other Generating Units of facilities producing electricity in conjunction with useful thermal energy, or (c) Generating Units of facilities producing electricity as part of a process to capture and inject carbon dioxide for enhanced oil recovery; (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.

The proposed changes expand the population of the generators that would qualify as regulatory must-take beyond those that currently qualify under the existing CAISO tariff. From a policy perspective, the proposed changes move in the wrong direction and offer even greater opportunities for generators to bypass the CAISO's markets through use of self-schedules rather than bids. This in turn could result in adverse consequences for market efficiency.

SDG&E has long supported market mechanisms that provide price signals that align the CAISO's responsibility for reliable grid operations with market participants' commercial incentives.

Unfortunately, generation self-schedules are price-insensitive and the CAISO has no direct way of aligning its operational requirements with the planned operation of these facilities. It seems strange that the CAISO would expand the number of generators that qualify for regulatory must-take at the same time the CAISO is trying to limit the amount of self-scheduling.<sup>1</sup>

The ISO is considering changes to reduce the level of self-scheduled resources and increase the operating flexibility including potentially lowering the existing -\$30/MWh bid floor to allow scheduling coordinators to include full opportunity costs in their decremental bids. Allowing the bid price floor to reflect the opportunity costs of combined heat and power facilities would move the market toward greater efficiency, in contrast to expanding regulatory must-take. In addition, such an approach avoids arbitrary determinations of what is curtailable and non-curtailable. It would also avoid any potential conflicts with QF contracts that have specific economic curtailment provisions in overgeneration situations.

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<sup>1</sup> . In the recent Straw Proposal on Reforms to Energy Market and PIRP Rules and Procedures, the CAISO doesn't make explicit changes to the self-scheduling rules. This is because the other changes proposed -- lowering the bid floor and phasing-out PIRP -- are believed to provide the proper incentives to reduce self-scheduling.