

Comments On Regulatory Must-Take Generation

January 10, 2012 Revised Straw Proposal and January 17th Stakeholder Call

Doug Davie, Wellhead Electric Company, (916) 447-5171, ddavie@wellhead.com

Wellhead would like to thank the CAISO for pursuing this initiative that will make changes to the Tariff to account for different/unique attributes of Combined Heat and Power projects. The CAISO has correctly recognized that even though a CHP project has business commitments (a “host”) which can limit its operating flexibility, CHP projects can have significant operating flexibility that may be needed by the CAISO. Properly designed, the Tariff will encourage the development of CHP projects with maximum operating flexibility. The changes proposed by the CAISO are clearly headed in the right direction and Wellhead supports key elements of the proposal as discussed below.

In designing and implementing the appropriate Tariff changes, the CAISO needs to ensure that it accounts for the fact that a CHP project’s operation:

- is not static; it may change over the course of time as the business needs of the host change;
- will take account of daily, monthly, annual variations or other requirements as the host responds to its business externalities and competitive realities; and
- may be very different from another CHP project serving a host in the same business class;

The design of the CHP facility can also significantly impact the flexibility a project has to meet the host needs while providing services needed by the CAISO. Just as each host has its particular characteristics, so does each CHP project. The Tariff language needs to ensure that it meets the range of situations in which CHP projects are likely to exist; highly prescriptive, detailed requirements will serve only to unnecessarily constrain the potentially significant flexibility and innovation that a CHP project can provide.

The current market structure whereby a generating project’s fundamental characteristics can be changed periodically in the RDT is a good starting platform. It may even be that there is no need to modify or change the current practices; but there should be appropriate discussion to ensure this mechanism provides sufficient flexibility to meet the range of likely CHP projects looking to sell power to California LSEs and participate in the CAISO markets.

The definition of Regulatory Must Take Generation is another critical matter. During the January 17th stakeholder call, the CAISO said it was now looking at two alternative definitions for (from projects not subject to a PURPA must-take requirement) which have dramatically different impacts on the power generation services a CHP project could provide. Under the first alternative, the CHP project would have to meet the requirements of CFR18 Part 292.205 (which Wellhead notes are the same requirements for projects that have a PURPA must-take requirement). This definition would require the project to meet very strict efficiency metrics resulting in the CAISO having little or no ability to impact the dispatch of the project. This is because CAISO decisions could adversely impact the projects ability to meet the highly specific CFR requirements. Under the second alternative, the CHP project would have much greater flexibility in providing the CAISO dispatch of the project’s capabilities because the definition would simply require that the project provides useful thermal energy used by an industrial or

commercial host for industrial, commercial, heating, or cooling purposes. Wellhead strongly supports the second alternative and notes that only that definition is consistent with the stated objective of revising the definition “*to remove the limitation based on PURPA and to make it more generally applicable to industrial facilities with the capability to produce electricity in conjunction with the operation to their industrial processes and to other facilities producing electricity in conjunction with useful thermal energy.*” Adopting this definition of Regulatory Must Take Generation will ensure that eligible projects provide the efficiency benefits of CHP while maximizing the amount of generation which the CAISO can dispatch or curtail.

As discussed in the last stakeholder call, there is also the need for further clarification of how CHP projects are going to be integrated into existing market structures/operations.

- Does the existing RDT (and change thereto) allow the amount of RMT be set and varied in a way that ensures maximum flexibility in project operations in the CAISO market structure while maintaining alignment with the host’s requirements? Are the market incentives properly aligned with this objective?
- How will the CAISO determine the NQC of the project? How will NQC be different and/or account for Use Limited Hours? How will the amount of RA be set?
- How will Standard Capacity Product incentives and penalties for RMT generation be calculated/applied? What will be different during Use Limited Hours?
- How will Use Limited Resource designations be handled when a portion of the project is RMT and the balance dispatchable?

In addressing these issues, Wellhead strongly urges the CAISO to keep it as simple as possible. In the stakeholder call, the CAISO outlined a couple of examples that seem to demonstrate how simple it could be.

The CAISO has proposed that the RMT maximum (RMTmax) be set at the minimum operating level at which the project can safely and reliably meet the host’s maximum requirements. Wellhead agrees this straight forward and simple definition is correct. As demonstrated in the examples, during any given hour, this definition would allow the CHP project to self-schedule the appropriate amount of RMT to meet the host’s requirements (which amount would not exceed RMTmax and could be as low as zero) in any hour. The balance of the CHP project’s availability would then participate in the CAISO markets and be subject to applicable must-offer requirements and/or curtailments (i.e. would not get RMT protection from curtailment but would have all other market participation options/requirements). In combination with the proposed eligibility definition above, this RMTmax definition ensures that 1) a host’s needs are met and 2) the maximum amount of generation can be made available for dispatch by the CAISO. Wellhead also notes that this approach would ensure the maximum amount of CHP generation was allowed and incented to provide incremental and decremental bids rather than self-scheduling (i.e. this works with the CAISO’s ongoing efforts to reduce self-scheduling of generation).

Regarding RA, Wellhead believes the quantity should be provided to the CAISO by the receiving LSE in accordance with the RA rules (i.e. an amount up to the NQC agreed to by the LSE and the generator). The amount of RA could be more or less than the RMTmax and the rules/requirements would apply, as applicable, to the RMT and non-RMT portions of the project.

Wellhead's also requests that the CAISO make it clear that projects which are developed and/or contracted around these particular Tariff provisions will be grandfathered from future Tariff provisions that would penalize the project or require investments that were not known at the time of the project development/contract. This is not a new concept or approach for the CAISO, it is the same practice the CAISO has used in the past, for example, when new Tariff requirements are implemented for SCP penalties/incentives. The CAISO needs to continually be telling market participants that they can reasonably rely upon the rules and practices in place when they make business decisions.

Wellhead looks forward to working with the CAISO and other stakeholders for make these changes to the Tariff to ensure that CHP projects are able to fully participate in the CAISO markets and make the full flexibility of such projects available to the CAISO while achieving the additional benefits of more efficient use of fossil fuels.