



Comments of Pacific Gas and Electric Company
FERC Order 764 Market Changes Intermittent Resource Protective Measures Draft Final Proposal

Submitted by	Company	Date Submitted
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Pacific Gas and Electric Company (PG&E) offers the following comments in the stakeholder process for the California Independent System Operator’s (CAISO) FERC Order 764 Market Changes: Intermittent Resource Protective Measures Draft Final Proposal (“Proposal”).

PG&E remains fundamentally opposed to offering the additional, unnecessary, special protections to PIRP resources that the CAISO proposes, further delaying the benefits of the full 764 design.¹ PG&E notes that all of its contracts continue to function under the planned FERC Order 764 changes and that PG&E’s contracts considered changes to PIRP in balancing benefits and burden. Therefore, it is inappropriate for the CAISO to try to redesign its markets at the cost of market efficiency to redistribute the treatment of cost as agreed to between contracting parties.

This set of comments doesn’t focus on those objections, but rather on elements of the current Proposal that changed from the Straw Proposal. We emphasize the following points:

- No additional windows to apply for Special Protections are necessary - only resources that have already applied for protections in the CAISO’s process should be considered for special protections.
- If special protections are offered, they should be for a maximum one year in duration.

¹ CAISO staff analysis showed that PIRP resources can expect higher revenues under the 764 Settlement than under PIRP. If a resource chooses to receive a PIRP settlement, the revenues from the superior 764 settlement would flow back to other market participants, including PG&E.

- QF protections are inappropriate – they already have protections for the life of their contract.
- A resource with a large degree of flexibility should not be granted Special Protections -Fifty percent curtailability is an unreasonable qualifying criterion to use to provide protection to the entire output of the resource.
- The effective date should be based on the date of the FERC Order accepting the proposal.

Comments

1) No additional windows to apply for special protections are necessary - only resources that have already applied for protections in the CAISO's process should be considered for special protections

The CAISO indicated to stakeholders during the May 15, 2013 Board of Governors meeting that a one-time window to indicate a VER's need for protective measures would be provided. That statement was supported by two market notices, first alerting VERs of the limited time window and qualifying criteria and second reminding VERs and slightly broadening the criteria.² To now add yet another window for eligibility of protective measures contradicts not only the Board-approved policy direction but also the intent of the one-time special protections offer and the processes for LSEs to work with their counterparties to assess concerns. In addition, there is no legal requirement to open yet another window after FERC filing. The CAISO should file its final FERC Order 764 Compliance Plan and Special Protections design without further special protections request windows.

Based on those previous windows, PG&E has pursued discussions with the counterparties that sought special protections in attempt to resolve contractual concerns, if any, and eliminate the need for special protection requests. But as stated previously, in this regard, all of PG&E's contracts continue to function under the planned FERC Order 764 changes and PG&E's contracts considered changes to PIRP in balancing benefits and burdens.

2) If special protections are offered, they should be for a maximum one year in duration

If special protections are deemed necessary, then PG&E would agree with other parties, including variable energy resource (VER) associations, that a one-year term

² <http://www.caiso.com/Documents/FERCOrderNo764MarketChanges-ProtectiveMeasures.htm> and <http://www.caiso.com/Documents/ReminderFERCOrderNo764MarketChanges-ProtectiveMeasures.htm>

for protective measures is sufficient.³ The California Wind Energy Association (CalWEA) requested a one year transition period where special protections on settlement costs were kept in place (not the currently CAISO proposed three years).⁴ Southern California Edison (SCE) and the Large Scale Solar Association (LSA) also expressed support for this duration of special protections.^{5,6}

Based on stakeholder input and the market efficiency benefits of offering the minimal protections necessary, the CAISO should replace the proposed three-year term for protections with a one-year term. This one-year term provides significant time for resources to prepare for the 764 market and to initiate any necessary technology upgrades to enable them to follow CAISO curtailment dispatch.

A one-year capped term also provides the benefit of eliminating any need for consideration of whether resources can switch settlement approaches year-by-year. This outcome is beneficial because rules governing year-by-year choices for settlement structures involve a trade-off between encouraging resources to settle under the FERC Order 764-based market structure yet avoiding any provision of a “free option” to resources which may opt for a PIRP settlement, even if less profitable. The CAISO’s current proposal eliminates the free option but forces a sub-optimal outcome in so far as resources remain under PIRP for three full years. This entire design complexity should be avoided by limiting special protections to one year.

3) QF protections are inappropriate – they already have protections for the life of their contract

³ CalWEA Comments on FERC Order 764 Market Changes Draft Final Proposal, page 3.

http://www.caiso.com/Documents/CalWEA-Comments-FERC_Order764MarketChangesDraftFinalProposal.pdf

LSA Comments on FERC Order 764 Market Changes Draft Final Proposal, page 1.

http://www.caiso.com/Documents/LSA-Comments-FERC_Order764MarketChangesDraftFinalProposal.pdf

SCE Comments on Intermittent Resource Protective Measures Straw Proposal, page 2.

http://www.caiso.com/Documents/SCEComments-FERCOrder764MarketChanges-IntermittentResourceProtectiveMeasures_StrawProposal.pdf

⁴ Cal-WEA Comments on Intermittent Resource Protective Measures Straw Proposal, page 1.

http://www.caiso.com/Documents/CalWEA-Comments-FERC_Order764MarketChangesDraftFinalProposal.pdf

⁵ SCE Comments on Intermittent Resource Protective Measures Straw Proposal, page 2.

http://www.caiso.com/Documents/SCEComments-FERCOrder764MarketChanges-IntermittentResourceProtectiveMeasures_StrawProposal.pdf

⁶ LSA Comments on Intermittent Resource Protective Measures Straw Proposal, page 1.

http://www.caiso.com/Documents/LSA-Comments-FERC_Order764MarketChangesDraftFinalProposal.pdf

QFs were never in PIRP and have benefited from long-duration contracts. Many QF technologies are extremely old; their upgrades should not be subsidized through out-of-market protections.

QFs under 20MW already have a guaranteed contract path through available programs. QF resources larger than 20 MW are outside the scope of this initiative. It is inappropriate for the CAISO to attempt to add these resources to the protective measures initiative. For these reasons, protections for QFs are completely unnecessary.

4) A resource with a large degree of flexibility should not be granted special protections - fifty percent curtailability is an unreasonable qualifying criteria

The CAISO's modified qualifying criterion that "greater than 50% of the resource is composed of old technology that is unable to curtail output without significant investment"⁷ is an unreasonable standard. At 50 percent curtailability a VER has flexibility comparable to and in some cases exceeding that of conventional generation. If a resource has a maximum output of 200 MW and can curtail to 101 MW, 99 MW of output are curtailable. In this example, greater than 50 percent of the resource would be not curtailable, thus enabling it to apply for special protections and dis-incenting the resource from following schedules. However, we know that such a resource would rarely be unable to stay on schedules as the resource could dispatch down to meet schedules in most cases.

PG&E still suggests the CAISO use a value more indicative of severely limited flexibility. As a data point, PG&E suggests that the only reasonable approach is for VERs that are 100 percent unable to curtail dispatch be considered for special protections, but 90% unable curtail might serve as a reasonable compromise.

The CAISO should also revert to qualifying language in the straw proposal that stated, "the resource is composed of old technology (constructed and on-line by 2005 or earlier) that is unable to curtail without significant investment." By removing the 2005 year of demarcation as a part of the elements necessary to qualify, the CAISO has only opened the door to more resources to apply for out-of-market protections and created room for market inefficiency.

⁷ FERC Order 764 Market Changes – Protective Measures Draft Final Proposal ("Proposal"), page 6. <http://www.caiso.com/Documents/DraftFinalProposal-FERCOrder764MarketChanges-IntermittentResourceProtectiveMeasures.pdf>

Lastly, the CAISO should clarify that, as is currently the case in PIRP, any resource submitting a decremental bid will be ineligible for PIRP settlement and any associated protections for the interval that bid was submitted.

5) The Effective Date should be based on the date of the FERC Order accepting the Proposal

The date FERC rules on Order 764 Market Changes and the associated protective measures should represent the beginning of the protective measures period.

Once FERC approves some version of the FERC Order 764 market changes and protective measures, VERs will definitively know the final design and can plan accordingly. An effective date beyond the date of FERC's decision provides such resources with more time than is necessary for upgrading systems and hardware to accommodate the change. Moreover, excess time, as discussed above, discourages resources from advancing their ability to respond to curtailment dispatch. Such a signal is incongruent to the CAISO's stated need for flexibility in numerous other forums.⁸

In closing, PG&E points to the constantly changing qualifications for protective measures as evidence that the CAISO has moved too far from its intent of a one-time narrow window for consideration of special protections for a small group of resources. With each set of changes to qualifying criteria released by the CAISO, more resources appear to be eligible. PG&E entered into good faith discussions with counterparties after each change the CAISO made. The CAISO should finalize its criteria by which to review parties who've already applied for special protections. No new request windows should be offered. Large renewable QFs should be ineligible. Once resources are deemed ineligible based on the accepted criteria, the CAISO must update those entities seeking protections.

⁸ Initiatives emphasizing a need for flexibility (or dampening variability) include Flexible Resource Adequacy and Must Offer Obligations, the Joint Reliability Framework, the Flexible Ramping Product, the Energy Imbalance Market, Renewables Integration Market Product Review Phase I BCR accounting split between Day-Ahead and Real-Time markets, and likely others.