California ISO

Standard Capacity Product

Recommendation – Qualifying Facilities' Outage Reporting Issue

August 30, 2011

Standard Capacity Product

Recommendation – Qualifying Facilities' Outage Reporting Issue

Table of Contents

1 Issue

Effective January 1, 2011 phase II of the standard capacity product (SCP) was implemented [1] and extended the SCP rules to resource adequacy (RA) resources whose net qualifying capacity value is determined by historical output. This subset of RA resources includes existing Qualifying Facilities (QF) [2] under grandfathered Public Utility Regulatory Policies Act (PURPA) power purchase agreements.[3] However, for the QFs that provide RA capacity, there is an impediment to their ability to meet the requirements of the CAISO tariff since grandfathered QFs are exempt from the ISO tariff and not required to enter into an ISO participating generator agreement or QF participating generator agreement. The investor owned utilities (IOUs) – as scheduling coordinators for these QF resources--have advised the ISO that they do not have visibility to the QF resources' forced outages and that under their existing power purchase agreements the IOUs are unable to obtain the necessary outage data in order to accurately report them to the ISO as required by SCP.

There are two categories of QF resources that are impacted by the SCP forced outage reporting provisions. The first are the QFs whose contracts were in effect before August 22, 2010. Under the ISO tariff, these QF contracts have been grandfathered from the application of SCP non-availability payments and availability incentive charges. Although these resources are not subject to the monthly SCP availability calculations and potential charges or payments, they are still required to provide forced outage reporting. This information is used to calculate the monthly availability standards used as a benchmark for SCP resource incentives and charges.

The second category is the QFs whose contracts the IOUs refer to as *CPUC-extended contracts.* The California Public Utilities Commission (CPUC) held a proceeding to provide new contract settlement options to many of the QF resources, in which the parties reached a settlement on the issues, known as the *QF Settlement*.[4] Contracts that would have expired during this proceeding were extended so that they could negotiate new contracts using the new settlement contract options that were set to become available. Under the ISO tariff, the CPUC-extended contracts were not eligible for grandfathering from the SCP provisions based on their new effective dates, so under current SCP rules they are required to report forced outages *and* are subject to availability payments and non-availability charges.

QFs entering into one of the new power purchase agreements under the QF Settlement must comply with the ISO tariff, including entering into a participating generator agreement or a QF participating generator agreement. Similarly QFs with existing power purchase agreements that enter into a new QF contract or amend an existing QF contract outside of the options available under the QF Settlement, must comply with the ISO tariff, including entering into a participating generator agreement or QF participating generator agreement. This group of QFs will not be exempt from the outage reporting requirements.

---

[1] For more information visit the Standard Capacity Product Phase II page on the ISO website.

[2] Background regarding Qualifying Facilities can be found on the Federal Energy Regulatory Commission website at http://www.ferc.gov/industries/electric/gen-info/qual-fac.asp

[3] Other types of resources are also included within "*Resource Adequacy (RA) resources whose net qualifying capacity value is determined by historical output;*" however those resources are not within the scope of this issue or recommendation.

[4] For the related CPUC proceeding see http://docs.cpuc.ca.gov/published/proceedings/R0404025.htm

The IOUs and the ISO have been working together to resolve this issue where the QFs that are RA resources are subject to ISO forced outage reporting requirements but the scheduling coordinators for those resources do not have the necessary outage data to report and these QFs are otherwise exempt from the ISO tariff.

Based on IOU requests, FERC has extended a temporary waiver for outage reporting, availability payments and non-availability charges until September 30, 2011. The next section provides more detail regarding the FERC process.

For the complete set of documents related to this initiative please go to the Standard Capacity Product Temporary Waiver webpage on the ISO website.

2 FERC process timeline

June 22, 2010 – ISO filed SCP II tariff amendment to extend SCP rules to QFs

- Requires forced outage reporting for grandfathered and non-grandfathered QFs;
- Includes availability payments and non-availability charges for non-grandfathered QFs in accordance with each resource's monthly availability.

August 20, 2010 – FERC Order accepting SCP tariff revisions

- Generally accepts the ISO's filing;
- Orders the cutoff date for grandfathered contracts to be August 22, 2010.

December 31, 2010 and January 14, 2011 – Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) filed requests for a temporary waiver from the SCP II forced outage reporting requirements for QF resources.

March 31, 2011 – FERC granted the waiver until June 30, 2011. This order required PG&E and SCE to submit a joint report informing FERC of the efforts they made with QF RA resources to resolve contractual issues or explain why they are unable to resolve these issues. The order provided a temporary waiver of the following tariff sections:

- Section 40.9.5 – Outage Reporting;
- Section 40.9.6 – Non-Availability Charges and Availability Incentive Payments.

June 20, 2011 – PG&E and SCE file a joint progress report and a motion for extension of the waiver until September 30, 2011. The progress report referred to the IOU's joint proposal posted on the ISO website which recommended:

- Exempting scheduling coordinators for grandfathered and CPUC-extended[5] QF contracts from the forced outage reporting requirement in section 40.9.5;
- Exempting scheduling coordinators from non-availability charges and availability incentive payments for CPUC extended contracts.

[5] CPUC-extended contracts are contracts that would have expired during the CPUC's QF settlement process but were extended until the new contracts are available under the QF Settlement (D.10-12-035). The final effective date of the QF Settlement is not yet known. At that time the CPUC-extended QF contracts would terminate within 120 days or sooner, depending upon the parameters of each contract. The QF Settlement will be voted on at a CPUC meeting, most likely September 11 or September 22, 2011. If approved on September 22, 2011, the decision could be effective on October 22, 2011 and all CPUC-extended QF contracts would then be terminated by January 22, 2012. Note, however, that this date could be delayed by petitions for rehearing or other actions in the proceeding.

June 30, 2011 – FERC extends the temporary waiver until September 30, 2011, and requires PG&E and SCE to file an additional joint progress report by August 31, 2011.

3 Stakeholder Process

The ISO and the IOUs initiated a stakeholder process to discuss this issue with the stakeholder community and vet a proposed solution. The IOUs prepared a joint proposal which was posted on the ISO website on June 10 and the following week the ISO hosted a joint conference call to discuss the issue. The ISO committed to posting its recommendation after gathering input from stakeholders. The stakeholder comments are listed below, followed by the ISO's recommendation.

3.1 Comments on Joint Proposal

Please visit the Stakeholder comments page to review the comments in their entirety.

Stakeholder	Comment Excerpts	Response
Cogeneration Association of CA and Energy Producers and Users Coalition	"The IOU proposal is a sound solution to the issue and should be adopted in its entirety."	
California Cogeneration Council	"The CCC supports the recommendations of the IOUs in the Joint Proposal."	
The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, CA (Six Cities)	Have not developed a position but had the following questions: 1) What would be the impact on the ISO's Resource Adequacy program of exempting 4000 MW of RA capacity from outage reporting and availability requirements? 2) Could the proposed exemption give rise to a greater need for backstop procurement of backstop capacity by the ISO? 3) If it does, who will pay for	1) Most of the RA QF resources are grandfathered so their forced outages would only affect the calculation of the availability standards for the next year. Since the QFs are a small portion of the overall RA capacity, the impact is minimal.[6] 2) The ISO does not believe that there would be a greater need for backstop capacity. See above. 3) See response to 2).

[6] For example, in July, 2011, there are approximately 4800 MW of QF RA capacity reported in supply plans; nearly 4000 MW is grandfathered.

	the backstop capacity? 4) By what time do the IOUs expect that the contracts they propose to exempt will be replaced with new contracts that will comply with the SCP requirements?	4) The IOUs' Proposal (P. 4) estimates that the exemption will apply to approximately 400 QF contracts accounting for about 4,000 MW of RA capacity in 2011. The table below in Section 3.2 illustrates how the estimated RA values for these contracts reduce over time based upon their expiration dates. As can be seen, the projection shows significant reduction in future years. The actual exempted MWs may be even lower if any exempted QF resources elect to terminate their existing contract prior to its expiration date.

3.2 ISO Recommendation

The ISO continues to believe that it is important the QFs' RA capacity be included in the development of availability standards, and therefore such resources should continue to be subject to the forced outage reporting requirements under section 40.9 of the ISO tariff even to the extent that such resources are not subject to the non-availability charges or availability incentive payments.[7] However, the ISO understands that it may not be feasible to require forced outage data for RA resources operating under QF contracts when those contracts do not require the QF resource owners to provide that data to the respective IOU. Given that this data would have little impact on the overall calculation of the availability targets, the ISO recommends amending the tariff to include a temporary exclusion for these QF resources for the length of the contracts inhibiting the ability to collect the required outages data. The ISO recommends this exemption because the majority of these QF contracts will expire and/or be replaced by the new contracts available under the QF Settlement that do contain provisions that require the QFs to provide outage information, which may then be submitted to the ISO. The table below provides an estimate of the RA capacity (MW) over time for the QF contracts at issue based on the ISO's August 2011 monthly net qualifying capacity (NQC) RA values.[8]

---

[7] ISO Management Memorandum to the ISO Board of Governors *Decision on Standard Resource Adequacy Capacity Product and Resource Adequacy Must Offer Obligation*, dated March 18, 2009 (http://www.caiso.com/Documents/090326DecisiononStandardResourceAdequacyCapacityProductandResourceAdequacyMust-ferObligation-Memo.pdf). In that memorandum, ISO management articulated that "[u]nder the standard RA capacity product, resource availability will be measured on a monthly basis and compared against a single availability target based on the historic performance of the RA resource fleet during the peak hours of each month of the previous three years."

[8] Given that RA and NQC values are subject to change, this table reflects what the IOUs indicate is their best estimate available at the time the IOUs' Proposal was written; the actual RA values for these contracts may change in future years.

End of Year	Estimated RA MWs by Year	Approx. % of 2011 Estimated 4000 MW
2011	4000	100%
2012	2800	70%
2015	2300	60%
2020	600	15%
2025	275	10%
2030	60	2%

Based on the IOU's proposal, stakeholder input and internal discussion, the ISO proposes to develop and file modifications to Section 40.9 of the tariff language to:

- Exempt scheduling coordinators for grandfathered and CPUC-extended QF contracts from the forced outage reporting requirement;
- Exempt scheduling coordinators for CPUC-extended QF contracts from non-availability charges and availability incentive payments.[9]

4 Next Steps

September 9, 2011 – Conference call regarding recommendation

September 14, 2011 – Stakeholder comments due on recommendation

September 15, 2011 - Post tariff language for a FERC filing consistent with the ISO's recommendation.

September 22, 2011 - Gather stakeholder comments regarding tariff language.

September 26, 2011 - Stakeholder conference call.

September 30, 2011 - File tariff language.

The ISO suggests that the IOUs request an extension of FERC temporary waiver to bridge between the expiration of the existing waiver and FERC's issuance of an order approving the ISO's filing.

[9] If these contracts expire prior to a FERC order, this provision will not apply.