

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to
Oversee the Resource Adequacy
Program, Consider Program
Refinements, and Establish Annual
Local Procurement Obligations

R.11-10-023

**REPLY COMMENTS ON STAFF PROPOSALS BY
THE ENERGY PRODUCERS AND USERS COALITION AND
THE COGENERATION ASSOCIATION OF CALIFORNIA AND
THE CALIFORNIA COGENERATION COUNCIL**

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Pursuant to the Assigned ALJ's oral ruling during the workshop on April 9, 2014, the Cogeneration Association of California,¹ the Energy Producers and Users Coalition² and the California Cogeneration Council³ (the CHP Parties) provide these reply comments on two Staff proposals. The proposals are the *Revised RA Implementation Staff Proposals* dated April 3, 2014, and the *Staff Proposal on the Implementation of the Flexible Capacity Procurement Framework* dated April 9, 2014.

¹ CAC represents the combined heat and power and cogeneration operation interests of the following entities: Coalinga Cogeneration Company, Mid-Set Cogeneration Company, Kern River Cogeneration Company, Sycamore Cogeneration Company, Sargent Canyon Cogeneration Company, Salinas River Cogeneration Company, Midway Sunset Cogeneration Company and Watson Cogeneration Company.

² EPUC is an *ad hoc* group representing the electric end use and customer generation interests of the following companies: Aera Energy LLC, BP West Coast Products LLC, Chevron U.S.A. Inc., Phillips 66 Company, ExxonMobil Power and Gas Services Inc., Shell Oil Products US, THUMS Long Beach Company, and Occidental Elk Hills, Inc.

³ The CCC is an *ad hoc* association of natural gas-fired cogenerators located throughout California, in the service territories of all three of California's major investor-owned electric utilities (IOUs) – Pacific Gas & Electric Company, Southern California Edison, and San Diego Gas & Electric. CCC member facilities are certified as qualifying facilities (QFs) pursuant to the Public Utility Regulatory Policies Act of 1978. In aggregate, CCC members' 30 different cogeneration projects in California generate about 1,300 megawatts (MWs), most of which is sold under long-term contracts to the California IOUs.

The CHP Parties reply to comments from SDG&E, the CAISO and PG&E.

Specifically, these reply comments:

- Respond to an SDG&E proposed alternative for determining the Effective Flexible Capacity of CHP resources. The SDG&E alternative misuses the NQC and RMTG characteristics of CHP resources and would be unworkable;
- Respond to the CAISO comments objecting to the proposal allowing each CHP facility to designate its EFC as unduly burdensome, and clarify why the Staff proposal is practical, no more burdensome than the CAISO protocol and will not compromise the CAISO's reliability; and
- Provide reassurance, in response to PG&E's comment, that the CHP Parties intend CHP resources to perform any must-offer obligation resulting from a CHP's designated sale of flexible capacity.

I. SDG&E'S ALTERNATIVE TO DETERMINE EFC IS UNWORKABLE

The Staff's EFC proposal incorporates the important principle that permits each CHP resource to set the amount of EFC, with a maximum equal to a project's NQC. This is a reasonable and workable approach. Each CHP unit is unique, both in its obligations to its industrial host and in its equipment configuration. Both of these factors affect what flexibility the unit may be able to offer.

SDG&E brands this approach as "*arbitrary and unrelated to the resource's actual operational capability to provide flexibility.*"⁴ That accusation is simply untrue. No unit will designate an EFC value that is not achievable, given that the unit will have to deliver what it sells or potentially breach its sales contract and suffer a penalty under the CAISO Tariff. The unit has no incentive to set a value

⁴ *Post-Workshop Opening Comments of SDG&E*, p. 3.

that exceeds its capability. Since the EFC has a maximum of the facility's NQC, the designated value will not be "arbitrary," but will have a relation to the historical exports from the facility, as explained below.

SDG&E proposes, as an alternative, limiting the EFC "*to the MW range between $RMTG_{Max}$ and NQC as limited by ramp rate.*"⁵ That proposal is unworkable and misuses the NQC and RMTG values for CHP units. The $RMTG_{Max}$ value is set for each CHP facility in order to require the CAISO to accept delivery of the maximum amount of electricity generated by the CHP unit concurrently with the generation of thermal energy for its industrial host. Thus, it ensures that in meeting its thermal obligations to its host, the CHP unit will have an assured physical delivery of its electricity. The $RMTG_{Max}$ value will be set at the maximum amount of electricity the CHP facility may export to the grid. The CHP facility may or may not have the ability to vary the output represented by $RMTG_{max}$; therefore, it may or may not include flexible capacity.

NQC for CHP facilities is set as the average of the exports to the grid for the prior three years.⁶ This amount of exports may be equal to or less than $RMTG_{Max}$. The exports may or may not be flexible.

Both $RMTG_{Max}$ and NQC are measures of exports to the grid. The range between them may be minimal and may be irrelevant to measuring the flexibility of the facility. As explained above, the potential flexible capacity is not necessarily limited to the range between NQC and $RMTG_{Max}$; each of those values may include some flexible capacity.

⁵ *Id.*

⁶ Qualifying Capacity Methodology Manual, p. 17, R.09-10-032.

The proposal from SDG&E does not provide a rational basis for measuring the flexibility of a CHP facility, and should be rejected. The CHP Parties endorse Staff's proposal on this issue because it will produce a realistic and deliverable EFC value for each facility, consistent with the operational flexibility of each resource.

II. THE CAISO PROPOSAL IS UNNECESSARY

Commenting on the proposal to allow each CHP facility to set its own EFC, the CAISO states: "*such an approach could lead to widely differing values, and would be unreasonably burdensome to administer given the number of CHP resources on the system.*"⁷

CAISO's arguments are unpersuasive. The flexible capacity protocol adopted by the CAISO Board includes the option for CHP facilities to set their own EFC, so any burden created by that option is also inherent in the CAISO's program. Allowing each CHP facility to set its own EFC will maximize the amount of flexible capacity available from these resources. A fixed, generic methodology as advocated by CAISO and SDG&E will not reflect the operational options unique to each resource. Ensuring that the flexible capacity available from a CHP resource is maximized is consistent with this state's policy to encourage the development of these resources, and provides additional value for their operation. Maximizing the full flexibility available will also allow recognition of the full reductions in greenhouse gas emissions achieved by utilizing more efficient CHP rather than a conventional resource to provide flexible capacity.

⁷ *California Independent System Operator Comments*, p. 15-16.

It is also unclear how the CAISO methodology would “*distinguish between a CHP resource that has excess on-site generation from a CHP resource that relies on industrial processes to produce electricity as a byproduct.*” Those alternatives both seem to be inherent characteristics of an industrial cogeneration facility.

The CAISO objection is misplaced, and the Commission should retain Staff’s original proposal.

III. THE CHP PARTIES DO NOT PROPOSE ANY EXEMPTION FROM THE MUST OFFER OBLIGATION

Regarding the Staff proposal for CHP facilities, PG&E states that it would “*object to the extent it is intended to relieve a CHP resource from meeting any applicable flexible capacity must-offer obligation as set forth in the CAISO tariff.*”⁸ Nothing in the CHP Parties’ prior comments or in the Staff proposal would provide such an exemption. It is important to differentiate the technical capability represented by EFC from the actual capacity sold. The EFC represents the facility’s maximum technical capability to provide flexible capacity. The facility then exercises its discretion in determining what portion of that capability to commit by contract to provide. Only the amount that is actually offered and sold is subject to the must offer obligation. The CHP Parties agree that the must offer obligation will apply to those sales. The ability of a CHP facility to set its EFC does not affect the application of the must offer obligation to the amounts of flexible capacity it commits to deliver.

⁸ *Comments of Pacific Gas and Electric Company*, p. 10.

IV. CONCLUSION

The CHP Parties appreciate the efforts Staff made to match the rules for RA and flexible capacity programs to meet the requirements of CHP resources. With the clarifications provided above, the Commission should retain Staff's proposals, and reject the few objections to it consistent with the reasoning presented in these comments.

Respectfully submitted,



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April 25, 2014



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