

Stakeholder Comments Template

**Flexible Resource Adequacy Criteria and Must-Offer Obligation
Revised Straw Proposal, June 13, 2013**

Submitted by	Company/Organization	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the Flexible Resource Adequacy Criteria and Must-Offer Obligation revised straw proposal on June 13, 2013, and issues discussed during the stakeholder meeting on June 19, 2013.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to fcp@caiso.com no later than the close of business on June 26, 2013.

GENERAL: AReM remains fundamentally convinced that flexible capacity requirements should be structured as biddable ancillary services (either as new ancillary services or as new requirements folded into existing ancillary services) and that the CAISO's primary focus should be on developing and implementing those ancillary services and establishing a centralized forward capacity market. The implementation of both ancillary services and a centralized forward capacity market will greatly improve the transparency of market prices, and better support the ability of market participants to make investment decisions to meet the capacity needs of the system.

1. The ISO has outlined the a methodology to allocate flexible capacity requirements to LSE SC based one possible measurement of the proportion of the system flexible capacity requirement to each LSE SC based on its contribution to the ISO's largest 3 hour net-load ramp change each month. Please provide comment regarding the equity and efficiency of the ISO proposed allocation. Please provide specific allocation formulas when possible. The ISO will give greater consideration to specific allocation proposals than conceptual/theoretical ones. Also please provide information regarding any data the ISO would need to collect to utilize a proposed allocation methodology. Specifically,

- a. Has the ISO identified the core components for allocation? Are more needed? If so, what additional components should be considered and how should ISO consider them? Are fewer needed? If so, what should the ISO include?
- b. Has the ISO used the right allocation factors for the identified components (i.e. load ratio share, percent of total capacity contracted)? If additional or fewer components should be considered as identified in 1a, above, please provide specific allocations factors for these components.
- c. Does your organization have any additional comments or recommendations regarding the allocation of flexible capacity requirements?

The CAISO's proposal for allocating the flexible capacity requirement to LSEs based on their contribution to the three-hour ramp needs further discussion and consideration, both from a policy perspective and to further evaluate various alternatives. The increasing amount of intermittent resources on the grid, required by state law are, without a doubt, creating changes to overall grid operations, and necessitating new products and services to manage the intermittency. However, AReM has not yet reached any specific conclusions as to whether the impact of increasing renewable resources in compliance with state law should result in the imposition of these new grid management costs in the manner proposed by the CAISO. AReM looks forward to additional discussion on this issue and a full discussion of all the potential allocation alternatives. In particular, AReM believes that principles of cost causation, and establishing appropriate price signals, needs to be balanced against how the impacts of changes to grid operations that result from increased intermittency of resources should be procured and priced. In short, the discussion of whether these costs should be allocated in the same manner that ancillary service costs or RA requirements are allocated today (which is more of a pro-rata allocation) or whether new cost allocation mechanisms are warranted needs further discussion.

As AReM has previously argued, a robust policy to address reliability needs should identify the root cause of the reliability needs, develop market-based transparent mechanism to address the reliability needs, and assign equitable cost responsibility.. Proper cost causation ensures that all market participants get the correct price signals.

AReM appreciates that the CAISO has proposed a new method for allocating flexibility requirements to Local Regulatory Authorities (LRAs), which differs from the peak-load ratio share used to allocate RA requirements to LSEs (pp. 12-15). The CAISO's proposed allocation formula adds factors to address each LSE's portfolio of wind, solar and distributed energy resources and their effects on flexibility needs. This proposed allocation method is a bookend of a

potential allocation mechanism based on how an LSE's fleet of renewable resources contributes to a need for flexible resources.

In addition, AReM requests that the CAISO explore another alternative allocation method that also incorporates cost causation principles. The CAISO has presented the "duck curve" as evidence that load shape drives system flexibility needs. AReM suggests that there may be merit in an allocation method that takes into consideration the extent to which the shape of an LSE's load exacerbates the "duck curve" or, conversely, mitigates the "duck curve." The LSEs with load shapes that exacerbate the "duck curve" would be allocated the flexible capacity requirements. Those who help mitigate the "duck curve" would be allocated zero flexible capacity requirements, or perhaps receive a "credit" for helping the system. This alternative approach may potentially address the root cause of the flexibility needs and send a price signal to LSEs encouraging action to modify their load shapes, thereby reducing the need for flexible resources. AReM requests that the CAISO study this additional alternative allocation method and report on its results in its next paper.

However, if the CAISO moves forward with the allocation method specified in its Revised Straw Proposal (pp. 13-14), AReM opposes allocating the flexible requirements on an annual basis as the CAISO has proposed. Instead, AReM supports a monthly allocation of flexibility requirements, which more closely tracks the effect an LSE's portfolio has on the flexible resource needs of the system. As previously noted, flexible needs do not correspond with system peaks and using an annual peak value to allocate flexible requirements will create additional cross subsidies that should be avoided. The CPUC has proposed a monthly allocation of the flexible requirements and AReM requests that the CAISO adopt a monthly allocation as well.¹

Finally, AReM notes that an LSE's allocation of the flexible capacity requirement must be adjusted to reflect load migration as is currently the practice for System and Local RA. AReM recommends that the current process for revising RA requirements apply to the flexible capacity allocation as well.

2. The ISO believes that there are either tools in place or under development to manage a resource's use-limitations while still be subject to economic bid must offer obligation. The ISO, consistent with the CPUC's RA proposed decision, will require hydro resources to be able to provide a minimum of 6 hours of energy at Pmax to be eligible to provide flexible capacity. However, some resources, including demand response and storage resources may have use limitations that may do not fit well within these mechanisms.

¹ Proposed Decision in R.11-10-023, issued May 28, 2013, Appendix A, p. 1.

- a. Please provide comments regarding what use-limitations are currently managed by existing or proposed ISO tools and what must-offer obligation should apply to these resources.

AReM has no comment at this time, but looks forward to further discussion on this topic.

- b. Should the ISO consider other minimum energy or run time limits for other types of use limited resources to be eligible to provide flexible capacity? If so, what should these limits be? Why?

AReM is concerned about potential limitations on the use of Combined Cycle Units to qualify to provide flexible capacity. In particular, the CAISO's December 13, 2012 Straw Proposal proposed an "interim" counting rule for combined cycle units and stated that a "longer-term solution" is needed (p. 20). The Revised Straw Proposal is silent on this topic. ESPs procure RA capacity from combined cycle units and need upfront clarity about how such units will qualify to provide flexible capacity. Lack of clarity will hamper procurement and create unnecessary market uncertainty. AReM does not have the technical expertise to propose appropriate counting rules for Combined Cycle Units. However, the CAISO should commit to work with stakeholders to develop clear rules for Combined Cycle Units and all flexible resources before any flexible procurement requirements are imposed on LSEs.

3. The ISO is assessing how bid validation rules could work for flexible capacity resources that are subject to an economic bid must offer obligation. The ISO provided two examples of bid validation rules and potential interpretations. Please provide comments regarding how the ISO should address each of these examples and any others that may need to be considered.

AReM has no comment at this time, but looks forward to further discussion on this topic.

4. The ISO currently has a tool in place that allows for a resource to include the opportunity costs associated with run-limitations into the default energy bid. The ISO is considering a similar mechanism to allow resources with annual or monthly start limitations to include the opportunity costs of start-up in the resource's start-up and minimum load costs. Please provide comments on how the ISO should consider the opportunity costs for start limitations and how that opportunity cost should be calculated.

AReM has no comment at this time, but looks forward to further discussion on this topic.

5. The ISO is proposing that all flexible capacity resources should be required to submit economic bids between 5:00 am and 10:00 pm. Please provide comments regarding this proposed must-offer obligation. Please connect to the response to this question to any responses to questions **Error! Reference source not found.** or 5 as appropriate.

The CAISO has previously discussed issues associated with self-scheduling of resources by LSEs, which limits resources available to meet flexibility needs. The CAISO's December 13th Straw Proposal stated that the CAISO was "considering" a requirement to prohibit self-schedules on flexible resources during "particular periods," but not until 2015 (p. 14). The Revised Straw Proposal seems to require that self-scheduling of flexible resources would be prohibited between 5:00 a.m. and 10:00 p.m. beginning with the 2015 compliance year (p. 18). Because self-scheduling reduces flexible resources available to the system, AReM generally supports this requirement (subject to the CAISO adequately addressing the issues that have been raised about the impact that CAISO modelling flaws have on the need for some self-scheduling, as discussed at the June 19, 2013 meeting), but recommends that it be clearly specified in the CAISO's rules to avoid misunderstanding and market uncertainty.

6. The ISO has proposed to include backstop procurement provision that would allow the ISO to procure flexible capacity resources to cure deficiencies in LSE SC flexible capacity showings. Please provide comments regarding the ISO's flexible capacity backstop procurement proposal.

Capacity obligations imposed by the CAISO must be shared among all LRAs, and therefore a default mechanism in the event that an LRA does not establish capacity procurement obligations will be necessary, if flexible capacity requirements are embedded in the RA requirements. The December 13th Straw Proposal discussed how the CAISO would establish default obligations for LRAs in its tariff. The Revised Straw Proposal is silent on this topic. AReM requests that the CAISO specify how it intends to set and enforce default flexible capacity obligations for LRAs. Without a CAISO requirement for comparable obligations, cross subsidies could occur. If the CAISO intends to identify deficient LSEs, AReM requests that the CAISO also specify that all LRAs must meet or exceed the CAISO's default requirements or be subject to any backstop procurement and, possibly, penalties (if penalties are imposed for LSE deficiencies by other LRAs). However, if LSEs have met their flexible capacity obligations, there should be no need for additional backstop procurement authority. Put another way, backstop procurement should be explicitly tied to deficiencies in an LSE's showing. If all LSEs have submitted compliant showings, and the CAISO still feels there is a need for further backstop procurement, that means that there is something wrong with the manner in which the obligation is defined and/or

allocated, and those flaws should be remedied instead of incurring costly incremental backstop procurement.

7. Are there any additional comments your organization wished to make at this time?

Grandfathering of Existing RA Contracts – This topic is not addressed in the Revised Straw Proposal. AReM recommends that parties to existing RA contracts must be either exempt from the new flexible resource requirements (i.e., the contracts would be “grandfathered”) or be given time to renegotiate the contracts to the mutual satisfaction to both parties.

Required Annual Showing for Flexible Capacity – The Revised Straw Proposal states that “as in the current RA framework,” the LSEs’ SC must show they have met 90 Percent of the LSE’s flexible capacity requirement in the annual RA showing made in October. LSEs under CPUC jurisdiction submit their showings to the CPUC, which are then shared with the CAISO. The LSE’s SC is not involved in this process. The Revised Straw Proposal also notes that the 90% requirement could be increased to 100% in the future (footnote 4, p. 4). AReM opposes this new requirement and recommends that LSEs report the flexible resources included within the System and Local units procured to meet their RA requirements, using the same process and schedule in place today. Thus, in the October filing, LSEs would continue to demonstrate that they had met 90% of the System RA for May to October of the following year, and would provide as part of their showing the flexible capacity available in those System RA units. Before the CAISO implements a change to the current process for making RA showings, AReM reiterates its previous request (made in AReM’s January 10, 2013 comments) that the CAISO provide market participants with data on: (1) the magnitude of the monthly flexible capacity requirement from 2008 to 2012 if such a requirement had been in place during that time period; and (2) the extent to which its proposed flexible capacity requirements would have been met through the system and local RA showings made during that same five-year period. AReM believes that analysis of such data will help determine whether changes are required to the annual showings.