Stakeholder Comments Template

Flexible Resource Adequacy Criteria and Must-Offer Obligation Straw Proposal, July 25, 2013

Submitted by	Company	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 July 25, 2013, and issues discussed during the stakeholder meeting on August 1, 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 August 15, 2013.

1. The ISO has proposed a process by which an annual flexible capacity requirement assessment would be conducted. Please provide any comments or questions your organization has regarding this proposed process.

   RESPONSE: The CAISO's proposed process aligns with the current process for determining the Local Capacity Requirements, which seems reasonable.

2. The ISO has outlined a methodology to allocate flexible capacity requirements to LRAs. It is based on one possible measurement of the proportion of the system flexible capacity requirement to each LRA and calculated as the cumulative contribution of the LRA's jurisdictional LSE's contribution to the ISO's largest 3-hour net load ramp each month. Please provide comments regarding the equity and efficiency of the ISO proposed allocation. Please provide specific alternative allocation formulas when possible. The ISO will give greater consideration to

[1] AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

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. Over the course of a day or month, any of the identified contributors to the change in the net load curve may be positive or negative. How should the ISO account for the overall variability of a contributor over the month (i.e. how to account for the fact that some resources reduce the net load ramp at one time, but increase it at others)?

RESPONSE: AReM has no comments at this time.

b. What measurement or allocation factor should the ISO use to determine an LRA's contribution to the change in load component of the flexible capacity requirement?

RESPONSE: The CAISO proposes to move from a peak-load ratio share to a monthly average load factor in calculating the "change in load" component of the flexible capacity requirement. The paper provides no discussion on why this change was made. In discussing the flexibility requirements, the CAISO has stated that peak flexibility needs may occur at different times than energy peaks. In summer months, the time of the two peaks (flex and energy) may differ by only an hour or two. In winter (December to February), the timing of the two peaks may be more significantly different. AReM observes that the "monthly average load factor" chosen by the CAISO for allocation purposes appears to have <u>no relationship</u> to when the flexibility need occurs. However, peak-load ratio shares seem to have a general relationship to flexibility needs for certain times of the years. If it is too complicated to calculate an LSE's change in load during the expected 3-hour ramping periods during each month, AReM recommends using the peak-load ratio share in the calculation for the interim, while continuing to explore other alternative methods that may better track an LSE's contribution to the change in load component.

For example, AReM requested in its June 26th comments that the CAISO explore an alternative allocation method, which both incorporates cost causation principles and takes into consideration the extent to which the shape of an LSE's load exacerbates or 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 could 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 explore this and other alternative methods going forward.

c. Does your organization have any additional comments or recommendations regarding the allocation of flexible capacity requirements?

RESPONSE: As AReM has previously noted, 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 based on cost causation principles. Proper cost causation ensures that all market participants get the correct price signals. The CAISO's proposed approach does not ensure proper cost causation nor does it implement a transparent, market-based mechanism to address reliability needs. If the CAISO moves forward with its proposal, AReM requests that the CAISO adopt it as an interim measure only and continue to work toward an improved approach, which could include (a) assigning flexible requirements based on cost causation (either to intermittent suppliers or to LSEs whose load shapes exacerbate the "duck curve") and (b) meeting flexible capacity requirements through biddable ancillary services (either as new ancillary services or as new requirements folded into existing ancillary services) combined with a centralized forward capacity market. The implementation of both ancillary services and a centralized forward capacity market would 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.

3. The ISO has proposed must-offer obligations for various types of resources. Please provide comments and recommendations regarding the ISO's proposed must-offer obligations for the following resources types:

    a. Resources not identified as use-limited

    b. Use-limited resources

        1. Please provide specific comments regarding the ISO's four step proposal that would allow resources with start limitations to include the opportunity costs in the resource's start-up cost.

        2. Please provide information on any use-limitations that have not been addressed and how the ISO could account for them.

c. Hydro Resources

d. Specialized must-offer obligations (please also include any recommended changes for the duration or timing of the proposed must-offer obligation):

    1. Demand response resources

    2. Storage resources

    3. Variable energy resources

RESPONSE: AReM has no comments at this time.

4. The ISO has proposed to include a 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.

    RESPONSE: AReM agrees with the CAISO's proposal that LSE's that do not meet their flexible requirements should be subject to backstop procurement by the CAISO and only if the CAISO determines there is a cumulative deficiency in the flexibility requirements (p. 32). However, the proposed allocation to the deficient LSE is somewhat confusing. AReM understands that an LRA may choose to allocate its flexibility requirement to its LSEs using a different method than the CAISO. The CAISO proposes to use the same allocation method as the LRA in allocating backstop procurement costs. AReM suggests that an example or two on how this might work would be helpful. In addition, the CAISO proposes using CPM for procuring flexible capacity, but does not address whether it plans to modify the CPM must offer requirements, the minimum payment term or any other CPM-specific provisions. AReM requests that these additional details be provided in the draft final proposal.

    AReM also reiterates that, if all of the 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.

5. The ISO is not proposing to use bid validation rules to enforce must-offer obligations. Instead, the ISO is proposing a flexible capacity availability incentive mechanism. Please provide comments on the following aspects of the flexible capacity availability incentive mechanism:

    a. The proposed evaluation mechanism/formula

        1. The formula used to calculate compliance

        2. How to account for the potential interaction between the flexible capacity availability incentive mechanism and the existing availability incentive mechanism (Standard Capacity Product)

    b. The use of a monthly target flexible capacity availability value

        1. Is the 2.5% dead band appropriate?

        2. Is the prevailing flexible capacity backstop price the appropriate charge for those resource that fall below 2.5% of monthly target flexible capacity availability value? If not, what is the appropriate charge? Why?

    c. Please also include comments regarding issues the ISO must consider as part of the evaluation mechanism that are not discussed in this proposal.

    RESPONSE: AReM has no comments at this time.

6. Are there any additional comments your organization wishes to make at this time?

    RESPONSE: In previous comments (January 10, 2013; June 26, 2013), AReM requested that the CAISO address (a) grandfathering of existing contracts, (b0 monthly revisions to an LSE's flexible requirements to reflect load migration, and (c) a long-term solution for qualifying Combined Cycle Units as flexible resources. However, the Second Revised Straw proposal continues to be silent on these topics. AReM intends to pursue these issues as part of Phase 3 of the CPUC's RA proceeding, R.11-10-023.