

## Stakeholder Comments Template

### **Flexible Resource Adequacy Criteria and Must-Offer Obligation Straw Proposal, December 13, 2012**

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 straw proposal dated December 13, 2012, and issues discussed during the stakeholder meeting on December 20, 2012. The ISO will also review comments filed with the CPUC in R.11-10-023<sup>1</sup> that respond to the questions asked on the Joint Parties' Proposal per the CPUC's December 4, 2012 Scoping Memo.<sup>2</sup> Therefore, the ISO has not included questions in this template that have already been asked by the CPUC. However, stakeholders that have not submitted comments to the CPUC may include comments regarding those questions at the end of this document.

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](mailto:fcp@caiso.com) no later than the close of business on January 9, 2013.

**Preamble: CMUA does not dispute the need to reconsider RA rules, and the likely need to make changes, to enable generation fleet characteristics to match the operational needs anticipated as large amounts of intermittent resources come on line later this decade. However, in doing so several issues need careful consideration. First, a solution to the need for flexible capacity in the RA fleet cannot ignore the root cause for the need; procurement and interconnection of intermittent resources without associated planning to meet the needed ramping requirements. This is a procurement problem and the solution must be based in procurement rules, not CAISO backstop mechanisms. Second, even an interim proposal must be cognizant of cost causation principles, for several reasons: (1) this is what FERC will require consistent with long-standing precedent; (2) it is**

<sup>1</sup> The record for R.11-10-023 can be found at [http://delaps1.cpuc.ca.gov/CPUCProceedingLookup/?p=401:56:1171820792119401::NO:RP,57,RIR:P5,PROCEEDING\\_SELECT:R1110023](http://delaps1.cpuc.ca.gov/CPUCProceedingLookup/?p=401:56:1171820792119401::NO:RP,57,RIR:P5,PROCEEDING_SELECT:R1110023).

<sup>2</sup> The Scoping Memo can be found at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M031/K723/31723210.PDF>.

necessary to send appropriate price signals; and (3) it is consistent with the CAISO's own adopted market design principles, as set forth in its February 14, 2012 Cost Allocation Guiding Principles Straw Proposal. Further, certain of the design choices in the Straw Proposal need further scrutiny. The treatment of imports, for example, requires further discussion. While in many cases import schedules may not be dispatchable on an intra-hour basis, import schedules can still respond to the longer ramping needs that the CAISO has identified, thus freeing up internal resources for more granular dispatchability requirements. It seems highly unlikely that California can simply "design" its way out of this need for additional flexible requirement in sole reliance on internal generation. Also, given the market changes contemplated to comply with FERC Order No. 764, more flexible intra-hour scheduling for imports is likely. Similarly, self-scheduled resources are capable of addressing ramping and load following needs and should not be categorically excluded from being designated as flexible resources. In some instances, municipal resources have restrictions on their ability to be bid into the CAISO markets, but those restrictions do not prevent them from addressing ramping and load following needs.

In light of (1) the CAISO's representation that the true need for greater dispatchable RA projects comes in 2015, and that the MOO changes are not proposed until then in any event; (2) considerable issues that need further discussion; and (3) the reality of a late summer/early Fall FERC Order right up against the 2014 RA compliance year, a compelling case can be made that the CAISO should be focused on changes for the 2015 compliance year, rather than this attempt to hastily fit a square peg into a round hole.

Thus, while CMUA addresses many of the specific issues in the proposal below, it urges the CAISO to focus on changes for the 2015 compliance year, when the CAISO indicates that the real need commences.

1. The ISO has outlined the basic considerations and assumptions that it proposes (in conjunction with the "Joint Parties") for the flexible capacity needs assessment for 2104. Please provide any general comments/questions/clarifications regarding the needs assessment.

**CMUA Comments:** CMUA is concerned about the CAISO's proposed approach for identifying the need as a function of the maximum continuous three-hour ramp plus a portion of the operating reserve requirement. This approach combines a myriad of resource needs (ramping, 5-minute dispatchability, regulation, operating reserves) into a single requirement. Doing so could overstate the need, and also could result in an inefficient mix of RA resources.

2. The ISO proposes to allocate flexible capacity procurement obligations to LRAs based on the LRAs contribution to forecasted monthly system peak. Is this the appropriate allocation methodology? What other allocation methodology could be considered?

**CMUA Comments:** CMUA objects in the strongest terms to this allocation methodology. From a design perspective, the proposal *per se* deviates from cost causation principles, which is violative of FERC precedent. Indeed, the allocation

methodology violates the principles the CAISO itself has developed to guide market design proposals, as set forth in the February 14, 2012 Cost Allocation Guiding Principles Straw Proposal.

**CMUA therefore does not support allocation of flexible capacity procurement obligations to LRAs based on contribution to forecasted monthly system peak. LRAs for non-CPUC jurisdictional LSEs have adopted diverse approaches to resource procurement, they have effectively used integrated resource planning, and have not relied upon intermittent resource procurement as heavily as others, based on the grid empirical analysis presented by the CAISO. CMUA is developing for the CAISO record net load profiles that demonstrate this fact, and show clearly and conclusively that municipal renewable procurement does not impose the same degree of ramping burden as is evidenced in the CAISO-wide charts. It is both inequitable and inconsistent with cost causation to impose the same proportional obligation to procure flexible capacity on LRAs whose resource portfolios and/or net load profiles do not give rise to comparable flexibility requirements. Flexibility obligations should be ascribed to LRAs based on actual contributions to needs for flexible capacity, taking into account both load characteristics and resource portfolio attributes.**

3. The ISO proposes to include default tariff provisions for LRAs that do not set flexible capacity procurement obligations. The default level would be the flexible capacity requirement established in the ISO's flexible capacity assessment. Are there other considerations that should be included in the default provisions?

**CMUA Comments: Any proposal needs to be accompanied by clarification of the role of the LRA, and to what level the CAISO will be procuring. CMUA believes the Flexible RA product is akin to System RA, given that the needs are driven by the underlying requirements of the LSEs governed by the LRA. As such, so long as the LSEs are following the LRA requirements, default mechanisms should not be triggered. Further, as stated above in its response to Q2, CAISO's default allocation methodology is inconsistent with cost causation principles and should be replaced with a methodology that addresses the drivers of the need for flexible resources, including the LSE's net load shape.**

4. The ISO is proposing a year-ahead and 12 monthly showings demonstrating that an LSE has procured sufficient quantities of flexible capacity for each month, with 90 percent of the total flexible capacity obligation be shown in the year-ahead showing and 100 percent in the month-ahead showing. Are these the right levels? Are there any other attributes that should be included in these showings?

**CMUA Comments: CMUA supports this element of the proposal, and emphasizes that it supports a bilateral approach to securing sufficient quantities of flexible capacity.**

5. The ISO is proposing new backstop authority if the system is deficient in the total amount of flexible capacity required. Are the triggers for issuing a backstop procurement designation sufficient? What else should the ISO consider?

**CMUA Comments. CAISO backstop authority, to the extent it is deemed necessary, should be triggered if there are deficiencies in flexible capacity measured by the difference between an LRA adopted policy, and actual procurement by the LSEs subject to the retail jurisdiction of the LRA. Should the CAISO have to resort to backstop procurement, the costs should be allocated only to LSEs who are deficient in meeting the obligations imposed on them by their LRA.**

6. The ISO is proposing to use the current CPM rate in procuring backstop flexible capacity. Are there additional considerations in the use of this rate?

**CMUA Comments: CMUA has no comments at this time.**

7. The ISO proposes to allocate costs for backstop procurement designations to all LSEs that are deficient in their flexible capacity showings. Is cost allocation for backstop correct? If not, what other options should be considered

**CMUA Comments: While allocation of backstop procurement costs to those LSEs that are deficient is appropriate, CMUA does not agree that allocation based on a load ratio share of system peak is consistent with cost causation. Allocation of backstop procurement costs must be based on analysis of both load variability and variability in an LSE's resource portfolio.**

8. Are the ISO's proposed criteria for determining selecting resources to procure for any flexible backstop procurement designation correct?

**CMUA Comments: CMUA has no comment on this issue.**

9. The ISO has put forth a proposed counting convention for hydro resources. PG&E presented an alternative approach. Please comment on the relative merits of each proposal? Does your organization have any additional suggestions to enhance either proposal?

**CMUA Comments: CMUA supports PG&E's suggestion for determining eligibility to count toward flexible capacity and believe it should apply not only to hydro resources but also to other types of use-limited resources. The PG&E approach appropriately ties the eligibility and counting criteria to the three hour ramping periods that the ISO has determined will drive the flexible capacity need. Allowing resources that can assist in meeting the three hour ramps to count toward satisfaction of flexible capacity obligations, even if they cannot provide energy on a more extended basis, will maximize the pool of eligible resources without any significant adverse effect on operational reliability.**

10. Beyond the three issues identified by the ISO, are there any other issues the ISO needs to consider in Stage Two of this stakeholder initiative and why?

**CMUA Comments: CMUA has not additional comments at this time.**

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

**CMUA Comments: As noted above, there are several elements of this proposal that clearly need additional consideration based on review by CMUA and the comments of other stakeholders, including the efficacy of rushing this proposal for application in the 2014 compliance period. CMUA is concerned about:**

- **How imports and self-scheduled resources are treated: it would be short-sighted and counterproductive to assume that the ISO can satisfy all flexibility requirements using non-self scheduled existing resources located within the ISO's BAA or building within the BAA.**
- **Bundling flexible and generic capacity. The bundling of flexible and generic capacity seems to be counterintuitive and risks muting incentives to develop and/or deploy flexible capacity resources, thereby undermining the basic purpose for flexible capacity requirements. CMUA understands that the CAISO chose this design element to remove complexity from the Proposal. However, this is one more reason why additional time is needed to get this mechanism right.**
- While CMUA supports the overall objective of minimizing flexible procurement costs, clarification is needed. CMUA is unsure, based on the wording of section Section 8.1, with respect to the overlap and consequent compensation for either generic system capacity or flexible capacity. How will the CAISO ensure that the LSE can or cannot effectively commit the generator as flexible capacity under the proposed backstop mechanism?