

**California Municipal Utilities Association (“CMUA”)  
Comments on the CAISO Standard Resource Adequacy Capacity Product Proposal**

**December 18, 2008**

**Prepared for Discussion Purposes**

CMUA submits these Comments to the latest iteration of the CAISO’s Standardized Resource Adequacy Capacity Product (“SCP”). CMUA responds to the December 4, 2008 Updated Straw Proposal and certain oral representations of the CAISO during the December 11 stakeholder meeting. CMUA notes that it is difficult to assess the proposal in a comprehensive way with key details outstanding and submits a proposal below to solve this problem.

**Overall Observations**

At the December 11 stakeholder meeting, the issue of the broad scope of the SCP proposal was revisited. CMUA would like to reiterate its support for an approach that does not mandate SCP tags for RA resources unless SCP tags are provided for in the counting and associated Resource Adequacy (“RA”) rules of the Local Regulatory Authority, whether that be the CPUC or the governing boards of relevant CMUA members. CMUA’s reasons for this position are many, including:

- The main driver for a SCP is to create a fungible product for those Load Serving Entities (“LSEs”) that desire and need a fungible product to trade and facilitate RA compliance. Requiring SCP tags for all RA resources is unnecessary to accomplish this goal;
- Even assuming a broader goal of a uniform product to both trade RA capacity and count RA capacity (as discussed more fully below), mandating an SCP tag as the only mechanism to show RA compliance will not accomplish the desired uniformity because planning reserve margins and counting rules are not homogeneous among LSEs;
- A high percentage of capacity to serve California load comes from resources for which SCP tag application is difficult, whether the resources be imports, intermittent resources, energy limited resources, resources under Load-Following Metered Subsystem Agreements, etc. It makes little sense to pose the SCP tag as the sole RA compliance mechanism when it is recognized up front that it cannot truly serve this purpose.

Over all of these observations, CMUA notes its concurrence with positions taken by representatives of the California Public Utilities Commission at the December 11 stakeholder meeting that RA counting rules and RA compliance are properly the purview of state and local authorities charged with that purpose under their own charters, decisions, and the CAISO Tariff. Imposing SCP as the mechanism for RA counting

contravenes this division of responsibilities on RA policies. This can be avoided by using SCP tags as an augmentation of current RA rules, rather than the substitute method for RA compliance. This approach would also allow expeditious adoption of the SCP proposal while working out the numerous unresolved issues in a subsequent stakeholder process.

### **Treatment of Imports and Other Types of Resources**

Consistent with prior Comments submitted by CMUA, SCP tags for imports, energy-limited resources, LD Contracts, and intermittent resources should not be part of any initial roll-out of the SCP tag. The CAISO proposals repeatedly recognize the thorny issues raised by these resources that have not been thoroughly examined in the stakeholder process. If the CAISO moves forward with implementation of the SCP tag on the currently proposed schedule, CMUA proposes that these types of resources be removed from the proposal and a stakeholder process be convened to more carefully consider how these resources fit into the SCP paradigm.

With specific regard to imports, the December 4 Updated Straw Proposal acknowledges that application of the availability standard to imports is problematic but suggests possible use of Resource IDs to track the availability of imports. That approach appears unworkable for at least two reasons. First, if one source for a System Resource becomes unavailable, it may be possible to maintain the import using a substitute resource. Under those circumstances, basing the availability metric solely on the Resource ID initially indicated would be unreasonable. In addition, it is unclear how the availability metric would be applied to a System Resource that is curtailed due to a transmission derate or outage, as opposed to generator unavailability.

### **Substitution of Resources**

The December 4 Updated Straw Proposal indicates that the CAISO is contemplating a provision that would allow a Scheduling Coordinator for an RA Resource that suffers a forced outage to substitute capacity from a pre-approved non-RA Resource and thereby avoid potential imposition of a penalty for failure to meet availability requirements. CMUA supports the proposal to allow substitution of appropriate non-RA capacity for RA Resources that become unavailable. To meet System RA requirements, there should be no limitations on the RA Resources that can be used as substitutes. With respect to Local RA Resources, any non-RA resource within the same Local Area should be a permissible substitute.

### **Grandfathering**

If the SCP tag is adopted as the mandatory mechanism for demonstrating RA compliance, CMUA, along with several other stakeholders, believes strongly that all RA resource contracts must be fully grandfathered for the term of the relevant contract. These contracts were negotiated in good faith and cannot be pulled apart piece by piece to add or subtract obligations without disturbing the benefits and balances of the bargains

reflected in the agreement. Likewise, the SCP tag proposal should not be the vehicle for the forced or coerced renegotiation of existing RA contracts that are serving California well.

### **Credit Obligations**

The CAISO's December 4 Updated Straw Proposal indicated that the CAISO did not propose to increase credit requirements to cover potential penalties for violation of SCP availability standards. During the December 11 stakeholder conference, however, the CAISO expressed the opposite view, based on the concern that RA Resources that exceed availability standards will be expecting to receive a bonus for superior performance. CMUA supports the December 4 Updated Straw Proposal for a self-funding penalty/incentive mechanism. The imposition of uncertain credit requirements will be burdensome for many CMUA members, particular since they do not stand to benefit in any tangible or demonstrable way from the SCP proposal.

### **Ancillary Services MOO Obligation and Bid Substitution**

The December 4 Updated Straw Proposal indicates at page 16 that the CAISO will not adjust Energy Self-Schedules if sufficient bids are available to supply Ancillary Services requirements. However, if the CAISO is not able to procure 100% of its Ancillary Services requirements in the Day-Ahead Market, it proposes to override Energy Self-Schedules to the extent necessary to obtain Ancillary Services. If the CAISO continues this approach, it is necessary to compensate Scheduling Coordinators whose Energy Self-Schedules are overridden in favor of Ancillary Services are kept whole in terms of the costs of procuring replacement energy. It is not clear under the CAISO's proposal that the payment for Ancillary Services will be equal to or greater than the cost for replacement energy for the LSE. In addition, the LSE may be exposed to additional charges from the CAISO, such as deviation penalties. It would be unjust and unreasonable to allow the CAISO to override an Energy Self-Schedule in order to procure additional Ancillary Services for the market as a whole without compensating the Scheduling Coordinator whose Energy Self-Schedule is overridden for all costs incurred as a result.