

**Comments of the Staff of the California Public Utilities
Commission on the CAISO’s Reliability Services and Flexible Resource
Adequacy Initiatives “Phase 2” Issue Paper (June 25th, 2015)**

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The Staff of the California Public Utilities Commission (CPUC Staff) appreciate the opportunity to comment on the joint “Phase 2” Issue paper for both the Reliability Services Initiative and the Flexible Resource Adequacy Criteria Must Offer Obligation (FRAC-MOO) Initiative. As this is the beginning of a second phase stakeholder process for both of these initiatives, our main focus in these comments is the initial proposed scope for each initiative.

Comments on the Issue Paper for FRAC-MOO 2

In the issue paper, CAISO states: “[t]he ISO expected that enhancements to the original FRACMOO tariff provisions would be needed based on actual experience with the programs and as flexible capacity needs became clearer.” CPUC Staff observes that, given that the Flexible RA requirements have been in place for less than one full compliance year, there is very little “actual experience” with the program and requirements on which to base conclusions as to whether or not the present requirements are sufficient. Therefore, we encourage CAISO to consider whether it makes sense to focus on a straw proposal release date of October, and whether this effort needs to be concluded by May 2016. If CAISO does decide to continue the FRAC-MOO 2 initiative on this timeline, we offer the following comments on how CAISO can make most effective use of the “working group” format it is proposing to aid in the development of a straw proposal for flexible resource adequacy.

Recommended Initial Focus for the Flexibility Working Group

In the issue paper, CAISO highlights: “the ISO continues to assess how well this single product works towards addressing the various flexible capacity needs.” In FRAC-MOO, CAISO actually created three “flavors” of flexible RA, so calling it a “single product” is confusing. CPUC Staff requests that CAISO clarify this point moving forward. Also, CPUC Staff has not seen any evaluations of the product/ 3 sub-products by CAISO. It is unclear to us how the working group can make recommendations for how the product should be changed to be more effective without first understanding CAISO’s observations about the current product. Therefore, the development, publication and discussion of analysis should be, over

the next few months, the primary function of the working group. More specifically, we encourage CAISO to provide as much available operational data as possible now, and, update this at the conclusion of the year. Sharing this data would allow all stakeholders to benefit from analyzing and learning from the experience as the FRACMOO 2 products are discussed and developed. The working group could also discuss whether the analysis done during FRAC-MOO is still valid, or should it be updated? Does it still support the need for three types of flexibility? In other words, have the different categories proven necessary and/or useful operationally to CAISO?

The paper also states “[h]owever, the ISO is now seeing shorter duration flexible capacity needs that might not be addressed using the single three hour net-load ramping measurement. The largest one hour net-load ramps are growing in size and are forecasted to grow as a portion of the three hour net-load ramps.” CPUC Staff suggests that both of these observations/forecasts would be appropriate to cover at the first working group meeting.

Other Analytical Needs

CPUC Staff is unclear as to CAISO’s expectations regarding a two-month working group process, and suggests that this timeframe be extended. There is not an urgent demonstrated need for CAISO to develop a proposal for a new/ revised flexible RA product proposal by the end of the year. If the working group process is to be effective, it should be conducted over a period of 4-6 months, allowing for full consideration of analysis on flexible needs, and possible options for meeting those needs through capacity requirements.

The issue paper discusses the one-hour and three-hour ramping needs at length. It would be helpful for achieving the goals of the working group if CAISO would provide data showing how CAISO has been meeting ramping needs to date given what is currently offering into the CAISO markets. Has CAISO seen a correlation between ramping needs and the resources that have been procured under the Flexible RA program? Or has it relied on other non-RA contracted market participants? These questions were not discussed in the issue paper and CPUC Staff suggests that they be considered in the working group.

More specifically, the data presented on page 10 of the issue paper has not been presented in either a CAISO stakeholder process or an RA workshop at the CPUC, and therefore, the methodology should be fully explained to and vetted by stakeholders through the working group as a first step.

Also, CPUC Staff understands that the relationship between “generic” and “flexible” capacity is a topic that is under consideration through this initiative, and therefore a CAISO proposal may be developed that has implications for the “generic” RA requirement as well. If this were to happen, the CPUC and parties to the RA proceeding would require analysis on the justifications for this change. Therefore, we recommend that the working group focus on developing and vetting such analysis.

Coordination with CPUC RA Proceeding

The CPUC has stated in multiple rulings that the earliest it would consider flexible RA would be in 2016, however, given the other issues that the CPUC needs to address in the current RA proceeding, and the time required to adequately consider a “durable” flexible product, it seems more likely that the adopted “interim” flexible capacity product definition would remain in place through the 2017 RA year. Through recent rulings the CPUC has stated its commitment to looking at revised flexible RA requirements for a 2018 compliance year. Given this timing, it may be more efficient for CAISO to develop analysis that can help CAISO and the CPUC determine the needed characteristics for a flexible capacity products(s) This would allow the CPUC to consider these results in its proceeding before CAISO files tariff amendments.

Over-generation and downward ramping

CPUC Staff are fully committed to working with CAISO to better understand the options for mitigating over-generation events and the resource types that can provide downward ramping. However, it is unclear to CPUC staff how a capacity product is related to encouraging resources to ramp down. This seems like an issue that should be addressed in the Flexi-Ramp initiative, which is attempting to create market-based incentives for resources to offer downward ramping (as well as other services) in real time. It would be helpful for CAISO to explain, through the working group, the perceived relationship between procuring a capacity contract with a specific type of resource and the behavior of that resource in the market (*ie*, offering downward ramping).

Comments on the Scope of the Reliability Services Initiative Phase 2, as set out in the Issue Paper:

Echoing the above comments on FRAC-MOO timing, CPUC Staff requests clarity on what CAISO means by “process alignments” in the context of the Reliability Services Initiative. Does CAISO mean to suggest that the two-year RA proceeding cycle would need to be modified to accommodate CAISO’s intended schedule for developing proposed changes for RA requirements? Also, including the CPUC’s Capacity Allocation Mechanism (CAM) in the potential scope for this initiative is very confusing, because the CAM is within the CPUC’s jurisdiction to determine and as it does not seem relevant to any of the issues in CAISO’s jurisdiction related to reliability services.

Our additional comments on the scope of this initiative are as follows:

- The CAISO should consider seasonal local requirements within the scope of the RSI Phase 2.
- CPUC Staff suggest that the scope of this initiative should be expanded to consider the error term adopted in FRAC-MOO. The definition and calculation of the error term was given insufficient attention in the FRAC-MOO process and it would be difficult to implement anything other than a zero error term for CPUC-jurisdictional LSEs without further clarification regarding the methodology and consideration in the CPUC’s proceeding prior to implementation.

- Outage replacement rules for local and flexible resources: It seems logical that CAISO wait to consider outage replacement requirements for flexible resources until the “durable” product definition is finalized.

Modifications to EFC calculations

- The issue paper states that reducing the “Pmin burden” is a goal of this initiative. While CPUC Staff recognize the operational challenges posed by the “burden” represented by baseload resources, we also presume that reducing the statewide Pmin “burden” will not be accomplished by re-defining EFC, given that most of the resources with high Pmins are *not* currently defined as flexible and don’t meet the present qualifications to receive an EFC..
- CPUC Staff encourages CAISO to conduct the analysis on one-hour ramping events suggested in the paper: “the magnitude of one-hour ramps is necessitating a review of the impact this measurement has on the ISO’s ability to address hourly ramps.”
- The scope of the issue paper does not include re-considering how variable energy resources are valued for their flexibility. The treatment of these resources under the EFC methodology seems ripe for consideration in this initiative. These resources do not yet have an EFC, but we have observed that they seem willing to offer flexible capacity, and especially related to downward ramping, if compensated appropriately. A related issue is: when studying resource sufficiency, how are resources treated that do not currently have an RA contract?
- Assigning LSEs a negative allocation value requires further consideration. CPUC staff are concerned that negative allocations could arise from incomplete reporting or result from the types of contracts LSEs execute for renewable resources (i.e., they could be energy only or entered into only shortly before the compliance year, such that they are not captured in the current CAISO data request).

Method for determining monthly flexible capacity needs

- The initiative should consider alternatives to using one year’s actual load data to determine flexible needs for following years. In stating that the “ISO will explore options to address the impact of anomalous load and weather events in calculating flexible capacity requirements” CPUC staff suggests that a new method should be proposed which draws upon data from multiple years and normalizes abnormal load and weather events.