

Stakeholder Comments Template

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

Submitted by	Company	Date Submitted
Megha Lakhchaura mla@cpuc.ca.gov Donald Brooks dbr@cpuc.ca.gov	California Public utilities Commission	

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.11-10-023¹ that respond to the questions asked on the Joint Parties' Proposal per the CPUC's December 4, 2012 Scoping Memo.² 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 fcg@caiso.com no later than the close of business on January 9, 2013.

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 2014. Please provide any general comments/questions/clarifications regarding the needs assessment.

The Energy Division Staff propose that resources count as either "flexible" or "inflexible," consistent with the "Count all" approach in the Joint Proposal. Energy Division requests that the ISO's study of maximum three-hour-ramping requirements accounts for the inflexible range of

¹ The record for R.11-10-023 can be found at http://delaps1.cpuc.ca.gov/CPUCProceedingLookup/f?p=401:56:1171820792119401::NO:RP,57,RIR:P5,PROCEEDING_SELECT:R1110023.

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

resources, which includes the difference between a resource's Net Qualifying Capacity (NQC) and Effective Flexible Capacity (EFC).

Staff recognizes that if the "Count All" option is adopted, additional flexibility will be needed for capacity that is not accessible within a 90 minute start-up time. Also, this option does not account for the inflexibility of a resource until it reaches its PMin. Staff believes that flexibility needs should be augmented to reflect that the Count All option does not take into account the PMin of a resource. Thus, the error term in the need equation should account for the reliability impacts from the inflexibility of the PMin portion of a resource.

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?

CPUC staff recognizes the complexity of coordinating a flexibility requirement between the several LRAs in California. It is not clear how CAISO will effectuate the LRA allocation. The CAISO would allocate obligations similarly to how it currently communicates Local RA obligations to LRAs, but it is unclear how LRAs would allocate flexible obligations to LSEs, or whether they will allocate them at all.

CPUC staff suggests a means of apportioning flexible portfolio requirements by setting a portfolio requirement (a percentage of total RA fleet) that LRAs could use to limit their procurement of inflexible resources. This approach is consistent with how the CPUC is proposing to implement a flexibility requirement.

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?

CPUC staff has no comment

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?

CPUC staff supports requiring annual and monthly showing for flexible capacity procurement obligations and supports these RA procurement levels, which are the same as the current system RA procurement levels.

5. The ISO is proposing new backstop authority in 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?

ISO proposes the following changes to tariff language³ –

“This tariff authority would allow the ISO to issue Flexible Capacity Procurement Mechanism designation if a) an LSE has insufficient flexible capacity in either its annual or monthly Resource Adequacy Plan and b) there is an overall net deficiency in meeting the total annual or monthly flexibility need requirements after taking into account all LSE demonstrations in their applicable or monthly flexible capacity showings.”

Staff proposes that the ISO should issue a flexible capacity procurement designation only if there is an overall net deficiency in meeting the total annual and monthly flexibility requirements. Imposing the CPM designation only if an LSE has insufficient flexible capacity in either its annual or monthly Resource Adequacy Plan could lead to wasteful procurement of flexible resources when the system might have sufficient resources.

6. The ISO proposes to allocate costs for backstop procurement designations to all LSEs that are deficient in their flexible capacity showings. 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?

Staff agrees that backstop procurement costs should be allocated to LSEs that are deficient in their flexible capacity showings. Staff also recommends allocating these costs based on the LSE’s contribution to the deficiency.

7. Are the ISO’s proposed criteria for determining selecting resources to procure for designation,

“If an LSE does have additional flexible capacity that it is willing to show and will meet all applicable flexible capacity performance obligations, then the ISO will provide the LSE all applicable Flexible Capacity Procurement Mechanism compensation.”⁴

³ ISO straw proposal “Flexible Resource Adequacy Criteria and Must-Offer Obligation” (Section 8)

⁴ ISO straw proposal “Flexible Resource Adequacy Criteria and Must-Offer Obligation” (Section 8.1)

Staff agrees with this approach. This encourages LSEs with unused flexible capacity to provide it to the market (additional showing of the capacity). Because this is considered a rare occurrence, it does not appear reasonable to assume that LSEs will start acquiring large amounts of Flexible capacity to hold in reserve to market to other LSEs come up short. However, the Flexible Capacity Procurement Mechanism (FCPM) price should be set significantly lower than the CPM price to benefit ratepayers. .

8. 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?

[There are several ways a resource could be use-limited; a resource like hydro might have available energy constraints, while a resource like a peaker might have restrictions on the number of start ups. In both cases, the ability to be used flexibly is impaired and it is imperative to save the resource for extreme times. PG&E rightly points out that flexible resources, under the Net Load scenario, would need a maximum of six hours of available energy per day, with two possible peaky periods in each day. It is also possible that hydro, unlike other resources, might be available to take energy in periods when that would be advantageous like the middle of the day. If pumped hydro could absorb some solar generation on occasion, net load could be supported at a higher level, thus partially reducing the magnitude of ramping needs. Storage could eventually perform this function as well; however, hydro resources of the needed size already exist. A hydro proposal would also benefit from the ability of hydro to absorb energy in the middle of the day during the lowest Net Load troughs.

9. 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?

The ISO should consider including tariff changes for developing flexibility rules around qualified storage and Demand Response resources to count towards flexibility requirements. Stage 2 should consider how resources could absorb energy as needed to aid flexible operation of the grid. This attribute is unique to pumped hydro, storage, and demand response, and is a valuable way to ameliorate flexibility needs.

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

Staff wants to point out the section on bidding, and highlight how bidding can help resources curtail economically as opposed to the difficulty CAISO has in administratively curtailing scheduled units. This is expected to be part of the benefit created by economic bidding, and is an opportunity for resources that create the flexibility problem (solar resources) to make economic curtailment decisions that may become part of the solution. Bidding the ability to absorb energy may also allow non-thermal resources to provide a portion of the solution.

11. Please feel free to respond to any comments already submitted to the CPUC in R.11-10-023 as they apply to the ISO straw proposal or the Joint Parties proposal.