

Flexible Ramping Products Incorporating FMM and EIM

Revised Straw Proposal

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Summary:

Calpine addresses only one issue: the exclusion of capacity bidding in FRP design. In large part, the ISO's choice seems to be hinged on its inability to "identify incremental marginal costs beyond those already embedded within the energy bid price." Calpine does not agree that this is a sufficient condition to exclude all DA capacity bidding, as first, comparable or substitutable products should have similar bid structures and second, the cost and operational consequences of the evolving product are unknown.

FRP and Non-contingent Spin are Nearly Identical Products

Both FRP and Non-Contingent Spin (NCS) are capacity reserve products that can be dispatched in RT if the associated energy bid is economic. In the DA market, capacity will be reserved for a future ramping need and the opportunity cost of not generating energy will be a significant factor in both determining the award and in compensating the resource. While NCS is not a perfect substitute for FRP (largely due to the addition of FRP's downward constraints) the upward ramping capability derived from each product is highly comparable¹.

Bidding Rules for Comparable Products Should Be Similar

The ISO now proposes to create a structural difference in bidding rules between FRP and NCS by prohibiting DA capacity bidding for FRP. This change may result in inefficiencies² and could result in price and compensation differences

¹ We are not suggesting that Non-Contingent Spin be procured instead of FRP, only observing the compelling similarities of the upward products.

² This structural difference would, assuming a non-zero NCS bid, award FRP fully prior to awarding NCS (subject to the constraints of the proposed demand curve). Such an outcome seems contrary to the "priorities" described in Section 4.6.3 and may require artificial allocation rules to ensure that WECC reliability rules for Spinning reserves are met.

between two products that are operationally identical. Such a difference is inappropriate.

Bid Rules Should Allow for Risk and Resource Allocation

The CAISO market optimization will soon be confronted with five capacity products that will be awarded based, in part, on opportunity costs (Regulation, Spin, Non-Spin, FRP and Corrective Capacity). While the marginal cost differences of providing these various forms of reserves products may be difficult to objectively express, it is entirely reasonable to assume that a reserve product that is almost never deployed (e.g., contingent spin) will have a different marginal cost than a product that is often deployed in RT (such as FRP). All of the more traditional Ancillary Services allow for capacity bidding and in several instances, allow suppliers to signal their preferences for deployment (e.g., spin can be classified as contingent or non-contingent, and regulation can be bid separately for upward/downward and can include “mileage” bids).

The CAISO decision to prohibit capacity bidding in the DA market is hinged tightly to an observation that these potential incremental costs of frequent dispatch cannot be quantified. Such quantification is simply not possible before the products are implemented³, and potential marginal costs can be envisioned and indeed are listed in section 9 of DMM's paper addressing capacity bidding⁴. Further, while the DMM paper suggests that there are strategies to capture the value of alternative DA resource deployments (for instance through the use of virtual bidding), the DMM paper does not conclude that the value or cost of providing capacity is always zero.

Since there may be differential value or cost between the various reserve products, resource owners should be allowed to manage this cost risk or value differential through a capacity bid. Resource owners should be allowed the opportunity – even if ultimately found unnecessary -- to send a transparent market signal for the allocation of capacity between the various products. The absence of verifiable cost data, alone, is not a sufficient condition to eliminating bidding.

Volume Bidding is an Inappropriate Substitute for Economic Bidding

The ISO has proposed that resource owners can minimize their exposure to FRP by only bidding the volume of Flexible RA capacity under contract. That minimum quantity would be stated by the ISO on a monthly basis and be calculated based on confirmed Flexible RA supply plans.

³ For example, must-offer incentives which are currently under consideration could add an artificial cost/risk exposure to offers of FRP.

⁴ *The Role of Separate Capacity Offers in Spot Capacity Reserve Markets*; July 31, 2015

9/3/2014

Volume bidding attempts to do indirectly that which the ISO could allow directly through capacity bidding, but with the potential for unintended consequences. Specifically, if additional costs of providing FRP emerge, volume bidding rules, alone, would do nothing to allow a supplier to manage that cost risk and ultimately would discourage the provision of flexibility and sales of Flexible RA. All of the reported goals of volume bidding listed on Page 10 of the revised Straw Proposal can be met with much more directly with capacity bidding.

Thanks for the opportunity to comment.