

Stakeholder Comments Template

Reliability Services Initiative - Phase 2

Revised Draft Final Proposal

Submitted by	Company	Date Submitted
<i>Department of Market Monitoring</i>	<i>Department of Market Monitoring</i>	<i>August 4, 2016</i>

Overview

The Department of Market Monitoring (DMM) appreciates this opportunity to comment on the Reliability Services – Phase 2: Revised Draft Final Proposal. Below DMM first provides comments on two problems we see with the resource adequacy design that are not being addressed in the current initiative. We then provide comments on specific aspects of the Revised Draft Final Proposal.

Resource Adequacy Availability Incentive Mechanism performance incentives

The ISO’s proposal includes necessary improvements to the RAAIM. However, we continue to view the design of the RAAIM as incomplete. In future initiatives, we recommend the ISO incorporate into its availability incentive mechanism an assessment of resources’ actual performance when dispatched, rather than rely solely on whether or not a resource submitted a bid.

Resource Adequacy plays a critical role in the ISO’s markets. It is intended to ensure that sufficient capacity with the requisite flexibility characteristics to maintain system and local reliability is made available to the ISO. The ISO, in consultation with local regulatory authorities, specifies the criteria for resource characteristics and locations that will ensure system reliability. However, if Resource Adequacy resources do not perform according to the characteristics that the ISO and local regulatory authorities assume the resources will provide, the Resource Adequacy process may not ensure system or local reliability. Therefore, the Resource Adequacy Availability Incentive Mechanism should penalize resources that cannot consistently perform at the standards the ISO assumes for the resources in the ISO’s reliability studies and when setting requirements for the quantity of capacity load serving entities are required to procure.

Penalizing Resource Adequacy resources that do not perform according to the standards required of them should increase the efficiency of the Resource Adequacy process by increasing incentives to perform and/or by resulting in Resource Adequacy contracts going to the resources that have the performance characteristics required for reliability. This would be more efficient than Resource Adequacy contracts being awarded to resources that bid into the ISO according to their Must Offer Obligations, but which ultimately perform poorly when dispatched. This would also be more equitable for owners of resources which perform up to standards compared to those which do not.

A resource's revenues from Resource Adequacy contracts may be pivotal in the resource's decision to offer energy to the ISO's markets. The RA revenues may even be a crucial determinant of whether or not a resource remains operational at all. Therefore, incorporating into the availability incentive mechanism an assessment of resources' performance when dispatched may have an important impact on the operational characteristics of resources available to the ISO in future years.

Accurately specifying the blend of unit characteristics and locations necessary to maintain reliability, and contracting resources that can actually perform according to the assumed specifications, will become increasingly important with the growing penetration of intermittent renewable resources in ISO markets.

Planned outages for non-maintenance reasons

The current resource adequacy replacement rules are intended to ensure adequate capacity is available while considering the fact that units that must take planned maintenance outages throughout the year. The replacement rule is based on a *last-in-first-out* approach that provides an incentive for RA resources to notify the ISO of planned maintenance outages as early as possible.

However, this policy does not adequately address the possibility that RA resources may take planned outages for non-maintenance reasons. While the replacement process ensures that these outages will not result in a shortage of total Resource Adequacy capacity, it also provides an incentive for resources to be compensated as Resource Adequacy capacity and then place themselves on planned outage in order to take advantage of the probability that an outage reported early in the process will not require substitution.

For example, a pseudo-tie unit that planned on selling its power to a different balancing authority area could submit a planned outage far in advance of the time it plans on selling its power to the other balancing authority area. The resource would then be low in the replacement stack at the time of the RA plan review and would therefore be unlikely to be required to find replacement. The unit could then double-sell its capacity to an outside entity without incurring a penalty in the ISO for not being available. Instead, a different resource that may actually need to take an outage for maintenance would have to be replaced by an LSE or provide substitute capacity itself.

DMM believes the intent of the replacement rule is to accommodate maintenance outages -- not outages that are economic in nature. Consequently, we suggest the ISO and stakeholders consider modifications to the current process to prevent this from occurring. One option would be to require replacement for all Resource Adequacy units that take an outage for non-maintenance purposes regardless of the timing of the outage submission or total capacity shown for the month.

Substitution for flexible capacity resources on planned outage

The ISO must strike a balance between substitution rules that are too restrictive and costly and those that are too loose and which could therefore compromise the benefits of the flexible resource adequacy program. Flexible capacity category requirements are set based on the ISO's assessment of flexible ramping needs. The rules and processes surrounding the implementation of the flexible resource adequacy program must not compromise these requirements because they could, in turn, compromise system reliability needs. If the ISO allows lower quality resources to substitute for higher quality

flexible resource adequacy capacity then there must be strict guidelines in place to preserve the level of flexibility ultimately provided to the system (and assumed, by ISO operations, to be available).

The ISO proposes to require a substitute resource to demonstrate that it has the capability to meet the must-offer obligation of the category it is replacing at the time of the outage request. The ISO states that it will use the same confirmation process that is used for forced outage substitutions, although this process is not well defined in the proposal. The ISO should elaborate on how the confirmation process will be implemented and how the ISO will verify the demonstration when approving the outage.

DMM is concerned that if this process is not adequately thorough, the proposed substitution framework could undermine the flexible resource adequacy category requirements and the program as a whole. The RAIM alone is not sufficient to encourage resources to substitute equivalent flexible capacity. For example, the RAIM does not assess whether or not a substitute for a category 1 resource has two starts per day in a given month. Therefore, the ISO must verify that the substitute resource has at least two starts per day before approving the outage of the category 1 resource.

Separate local and system RA for purpose of forced outage substitution

The ISO currently has differing substitution requirements for resources in a local area and those outside of a local area. Resources in local areas have to provide substitution for resources located in the same area while those outside of a local area can be replaced with any system resource. The ISO is proposing to instead create requirements which differ based on whether or not the capacity is ‘designated’ as serving local needs.

It is DMM’s understanding that this issue arose because generators in local areas argued that they should not have to replace with a local resource if they were not ‘procured’ for local purposes. The ISO agreed and has proposed to align substitution rules with how a resource is ‘procured.’

To the extent that this is an issue, the LSE’s and resource adequacy resources will have to re-negotiate contracts to ensure there will be adequate local capacity during outages in order to avoid a CPM. The effectiveness factors of resources in local areas are presented in the ISO’s annual Local Capacity Technical Report, so LSE’s should be able to consider this risk when weighing the costs of designating certain resources as local vs. system.

Process to update EFC list during the year

The ISO proposes to update a resource’s EFC mid-year upon request (rather than automatically updating the unit’s EFC if characteristics change). When calculating a resource’s EFC, the ISO uses the use-plan of the previous year. So if a resource anticipates its use-plan changing, it must submit documentation during the comment period of the draft EFC list so that the change is reflected in the following year’s EFC. Since the EFC is only calculated once a year currently, DMM believes this additional flexibility is beneficial. However, a resource that changes its resource characteristics in such a way that it no longer qualifies for its current Flex RA category should be disqualified.

Address the RAAIM exemption currently in place for combined flexible capacity resources

On balance, DMM supports removing the RAAIM exemption for combination flexible resource adequacy resources as this was an obvious shortcoming of the initial policy. We support the ISO's quasi-resource framework because it will evaluate both the shared flexible resource adequacy obligation and the cumulative generic obligations of both resources. The quasi-resource framework will assess both of the resources' resource adequacy obligations jointly, as if they were a single resource. As DMM understands the proposal, the flexible resource adequacy availability assessment will use whichever resource had the highest availability for the day. The incremental generic capacity availability assessment will use the sum of incremental capacity available from both resources.

However, because the two resources will be assessed as a single resource, we note that an issue could arise if one of the combination resources is shown in a local capacity area and the other is able to meet the flexible and generic resource adequacy obligations on its own. In this case, the resource in the local area could take a forced outage, not provide local substitution and not be subject to RAAIM penalties. DMM is concerned that this could be an opportunity for an entity to count local capacity but not actually provide it. While this is a potential drawback in the proposal, DMM still views the quasi-resource framework as an improvement over current rules.