

Stakeholder Comments Template

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

Submitted by	Company	Date Submitted
Peter Spencer Regulatory Analyst 505 Van Ness Avenue, Room 4103 San Francisco, CA 94102 (415) 703-2109 phs@cpuc.ca.gov	Division of Ratepayer Advocates- California Public Utilities Commission	January 9, 2013

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 fcf@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.**

As Sierra Club and Vote Solar suggest, improved solar and wind forecasting can reduce the need for flexible resources.³ It would be beneficial to this stakeholder process for the CAISO to reach out to forecasting vendors to participate in this

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 found at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M031/K723/31723210.PDF>.

³ Comments of Sierra Club/Vote Solar on the Joint Parties Proposal, December 26, 2012, p. 15

discussion. In addition, the joint parties proposal does not explicitly indicate how solar and wind forecast error will be incorporated. In anticipation of the move towards 15-minute scheduling timelines,⁴ lower limit forecast errors for wind and solar should be discussed and considered in this stakeholder process.

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?

This appears to be a reasonable methodology since an LRA's contribution to flexible capacity system needs will likely correlate with its contribution to system peak load. The proposed methodology is approximation which should be refined during the interim period to more precisely calculate each LRA's contribution to flexible capacity need. DRA requests that the CAISO develop data for stakeholder review which measures each LRAs contribution to flexible capacity. This data could allow the CAISO and stakeholders to consider other methodologies to assess LRA flexible obligations.

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?

The flexible capacity needs of the CAISO should be shared proportionally by all LRAs based on their contribution to the need. An appropriate methodology for assessing causation of flexible capacity needs should be developed and applied to all LRAs. DRA encourages the CAISO to provide data which supports its default levels for LRAs which do not set flexible capacity obligations.

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?

The proposed LSE requirement showings are reasonable. As more information is obtained through future flexible need modeling, it may become important to include additional attributes, such as ramping down, in LSE requirement showings. It is premature to add additional attributes in LSE requirement

⁴ CAISO Straw Proposal, FERC Order 764 Compliance, 15-Minute Scheduling and Settlement, October 23, 2012.

showings for 2014, but other attributes may be desirable to include prior to the end of the 2014-2017 interim period defined in the Joint Parties' Proposal.

- 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?**

DRA has no comment at this time.

- 6. 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?**

DRA encourages the exploration of alternatives to the CPM rate because CPM is typically higher than the market price. In the CAISO initiative, flexible capacity and local reliability resource retention (docket no ER13-550-000), a CPM rate was initially proposed; however, after input from stakeholders an alternative was created. Flexible capacity requirements and obligations are evolving issues with a high level of uncertainty going forward, alternatives to typical backstop procurement and CPM prices should be explored with the stakeholders.

- 7. The ISO proposes to allocate costs for backstop procurement designations to all LSEs that are deficient in their flexible capacity showings. Is cost allocation for backstop correct? If not, what other options should be considered?**

Allocating costs to deficient LSEs seems to be appropriate for this interim proposal, although DRA is eager to hear from other stakeholders on this issue.

- 8. Are the ISO's proposed criteria for determining selecting resources to procure for any flexible backstop procurement designation correct?**

DRA has no comment at this time.

- 9. 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?**

DRA recommends that the final CAISO proposal allow the largest amount of resources with flexible attributes to be counted without compromising the reliability of the grid. DRA is concerned that the Joint Parties' Proposal would

disqualify a substantial amount of flexible hydro resources from being counted toward LSEs' flexible capacity obligations. DRA agrees with PG&E's assessment that it would be difficult for flexible hydro resources to meet the 17-hour daily energy requirement over the course of the year due to inadequate water supplies. However, there is no merit in disqualifying large amounts of flexible hydro that can provide flexible capacity for a limited duration each day. Moreover, because flexible capacity will likely command a price premium over generic capacity, constraining the supply of flexible capacity by restricting the counting of flexible hydro resources will likely negatively impact ratepayers by increasing costs. For these reasons, PG&E's alternative approach merits further discussion and analysis.

10. 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?

DRA has no comment at this time.

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

The CAISO⁵ and SDG&E⁶ both address potential renewable curtailment in their respective comments to the CPUC; however, it appears to DRA that the CAISO and SDG&E interpreted the potential of renewable curtailment to apply only towards downward ramps or regulation needs. As DRA explained in its CPUC comments,⁷ it is possible to reduce solar production in anticipation of a steep drop in production, with flexible resources coming online earlier in the day. DRA wishes to explore the possibility of this option more extensively to understand if there is a technical reason why the CAISO does not believe this to be a potential partial solution to limiting ramping needs.

During the 2014-2017 interim timeframe, consistency between this proposal and the flexible ramping product developed at the CAISO⁸, as well as FERC Order 764⁹, should be a guiding principle. Before this proposal is accepted, detailed analysis must occur to determine the level of support a ramping product on the day ahead and real time market will provide to generators. This analysis will

⁵ Comments of the CAISO on the Joint Parties Proposal, December 26, 2012, p. 2

⁶ Comments of San Diego Gas & Electric on the Joint Parties Proposal, December 26, 2012, p. 4

⁷ Comments of the Division of Ratepayers Advocates on the Joint Parties Proposal, December 26, 2012, p. 3

⁸ Flexible Ramping Product: <http://www.caiso.com/Documents/SecondRevisedDraftFinalProposal-FlexibleRampingProduct.pdf>

⁹ FERC Order 764: http://www.caiso.com/Documents/Presentation-Agenda-FERCOrder764MarketChangesTechnicalWorkshopDec18_2012.pdf

determine the degree to which flexible resource adequacy requirements will become less significant as a result of the changes to the CAISO's MRTU.

12. 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.

Multiple parties suggest in their CPUC RA comments that it is possible that incremental must offer obligations might not begin until 2015, but LSEs could incur costs in 2014.¹⁰ If these costs do arise, this possibility is troublesome. Any costs LSE may incur must coincide with an enhanced must offer obligation.

¹⁰ Comments of the Alliance for Retail Energy Markets on the Joint Parties Proposal, December 26, 2012, p. 12; Comments of the Western Power Trading Forum on the Joint Parties Proposal, December 26, 2012, p. 13; Comments of the California Large Energy Consumers Association on the Joint Parties Proposal, December 26, 2012, p. 2; Comments of Southern California Edison on the Joint Parties Proposal, December 26, 2012, p. 12