

**Environmental Defense Fund Comments on
CAISO's Draft 2017 Stakeholder Initiatives Catalog**

September 29, 2016

The Environmental Defense Fund (EDF) appreciates the opportunity to comment on the California Independent System Operator Corporation's (CAISO) Draft 2017 Stakeholder Initiatives Catalog. EDF seeks clarification from CAISO on one currently planned initiative and sets forth a suggestion for a discretionary initiative to be added to the catalog. Consistent with its prior comments to CAISO, EDF continues to maintain that CAISO's overall market design needs to reflect the full value of ancillary services and products in order to facilitate accurate price formation. In the absence of accurate price formation, resources that can provide flexible services do not have a pricing benchmark from which to make investment and market participation decisions going forward.

1. Clarification on Commitment Cost and Default Energy Bid Enhancements Process

During the September 16th Aliso Canyon FERC technical conference, CAISO stated it would begin a stakeholder process to refine how it calculates fuel costs in various bid components, consistent with FERC's June 1 Order on the CAISO's Phase 1 Aliso Canyon tariff revisions.¹ CAISO's September 15, 2016 Stakeholder Initiatives Milestone document provides that the "Commitment Cost and Default Energy Bid enhancements stakeholder process will begin in the third quarter of 2016."²

The Commitment Cost and Default Energy Bid Enhancements process listed on page 14 of the catalog states that it is "in progress" and "discretionary." EDF seeks confirmation that this process will in fact begin in the third quarter of 2016, which ends September 30, 2016. Given the direction in the June 1 Order on Aliso Canyon, as well as FERC's December 30, 2014 Order in Docket No. ER15-15,³ EDF submits that this process should be characterized "FERC-mandated."

2. Additional Stakeholder Process: Three Year-Forward Looking Market Reliability Assessment

CAISO has previously acknowledged that it cannot rely exclusively on the energy scheduled and capacity reserved in its market optimization to meet net load needs because of

¹ *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,284 at P 33 (2016).

² <http://www.caiso.com/Documents/StakeholderInitiativeMilestones.pdf>.

³ *Cal. Indep. Sys. Operator Corp.*, 149 FERC ¶ 61,284 at P 32 (2014) ("we expect CAISO to abide by its commitment to consider longer-term market design changes for commitment cost bids").

uncertainty in supply and demand forecasts, which ultimately leads to uneconomic results.⁴ While implementation of the Flexible Ramping Product (“FRP”) may help CAISO to address this need, stakeholders have observed that the FRP is an ancillary service that provides at least as much value to grid reliability as other bid-based ancillary services, and as such, should be a bid-based product.⁵ EDF concurs with the Department of Market Monitoring’s recommendation that CAISO initiate a stakeholder initiative to enhance the design of the FRP and “better facilitate the integration of DERs and VERs”.⁶

In addition to concerns regarding the design of the FRP, stakeholders have voiced similar concerns regarding the procurement and pricing of regulation,⁷ frequency response,⁸ and reactive power requirements.⁹ As described below, a more comprehensive review and analysis of the sufficiency of ancillary services and other balancing market products is warranted to ensure the proper market mechanisms are in place to enable fair competition among all technology types capable of providing these products and services. Instead of merely cataloging a list of discrete initiatives, this broader perspective would provide a helpful means of connecting, and resolving, similar issues raised in these various stakeholder processes as well as inform CAISO’s overall arc of market design consistent with

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- ⁴ CAISO Transmittal Letter, Docket No. ER16-2023 at 4 (June 24, 2016) (“The CAISO’s experience in operating the markets shows that the fleet of resources committed in the fifteen-minute real-time unit commitment process to provide energy often does not provide sufficient flexible ramping capability in the five-minute real-time dispatch to meet the actual changes in net load that occur over every successive five-minute period. When this occurs, the CAISO may have to relax the power balance constraint, dispatch units out of economic sequence, or dispatch units that are not in the market. Such measures impose additional costs on the system that are borne through uplift, and prices do not reflect such marginal costs.”).
- ⁵ Motion to Intervene and Protest of the Western Power Trading Forum, the Electric Power Supply Association and the Independent Energy Producers Association, Docket No. ER16-2023 at 7 (July 15, 2016).
- ⁶ CAISO 2017 Stakeholder Initiatives Catalog at p. 22.
- ⁷ Draft 2017 Stakeholder Catalog at 21 (“NCPA noted the price of this imbalance energy can result in a significant net loss to a resource despite the resource performing as dispatched by the ISO.”).
- ⁸ *Id.* at 10 (“The ISO assessed its current frequency response capabilities and historical frequency response rates and compared them to the new NERC requirements. The analysis showed that the ISO could, at times, be short of its required share of frequency response.”).
- ⁹ WPTF Comments to the CAISO Board on Reactive Power, *available at* <https://www.wptf.org/Shared%20Documents/CAISO/2016/WPTF%20Comments%20to%20the%20CAISO%20Board%20on%20Reactive%20Power.pdf> (“High renewable penetration is causing energy prices and RA prices to fall rapidly to a point that is unsustainable for many thermal resources to remain in the market. But at the same time, in order to maintain grid reliability through increased renewables, the CAISO will increasingly depend on services from thermal resources- flexible ramping, frequency response, and yes, reactive power, will all be needed in amounts that cannot be provided by asynchronous resources alone.”).

its 2014-2016 Strategic Plan.¹⁰ EDF therefore submits that CAISO add the following initiative to its catalog:

- Three Year-Forward Looking Market Reliability Assessment

Over the past few years, CAISO has addressed the pricing and sufficiency of ancillary services and other market products in separate initiatives such as “Pay for Performance Regulation,” “Frequency Response,” “Reactive Power Requirements and Financial Compensation,” and the FRP. This initiative would take a more holistic approach to assessing the effectiveness of the CAISO’s ability to transparently and effectively procure and price these products and services, especially during times of high renewable output and low load levels and the steep ramp-up to higher net load levels and lower renewable output in the evening hours.

This process would set forth CAISO’s three-year strategy for efficiently and reliably integrating variable energy resources consistent with CAISO’s focus on integrating renewables on the grid as outlined in its current Strategic Plan, with an overall goal of developing market mechanisms that enable fair competition among all technology types capable of providing the products and services.

Thank you for considering these comments. Please feel free to reach out with any questions or comments.

Sincerely,

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¹⁰ CAISO, Building a Sustainable Energy Future, 2014-2016 Strategic Plan at 7, *available at* <http://www.caiso.com/Documents/2014-2016StrategicPlan-ReaderFriendlyreader-friendly.pdf> (setting forth the CAISO’s strategy, which includes stated goals of “competitive prices, new technologies and policies that encourage efficiency and minimize costs” and “improve price transparency to incentivize the demand at the right time.”).