

Stakeholder Comments Template

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

| Submitted by | Company | Date Submitted |
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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 10, 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 2104. Please provide any general comments/questions/clarifications regarding the needs assessment.

- a. At the CAISO stakeholder meeting, some parties expressed the assumption that underlying, generic capacity sold as part of an existing contract contains "bundled" within that capacity, in whole or in part, a flexible capacity component. This is an unwarranted assumption. Unless the contract specifically provides for this specific product to be delivered

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>.

by Seller to the Buyer, then this assumption is wrong. Furthermore, it would be wrong to assume as some are suggesting that silence in the contract on this matter implies that the bundling of generic and flexible capacity has occurred. Contract law suggests otherwise and, since this situation/condition is new, there can be no allegation of even implied consent in this situation.

The contracts themselves delineate the responsibilities of the Buyer and Seller of capacity, and it is to the specific terms of the contracts that the CAISO must look for determining the extent to which the Seller has sold capacity that can be called upon for meeting flexible capacity needs. For example, typically existing contracts will precisely address the obligations of the Seller and the expectations of the Buyer regarding operational/testing constraints, number of starts per year, self-scheduling opportunities, etc.

This issue is particularly important given that the CAISO is proposing to impose a must-offer obligation (“MOO”) on resources with flexibility attributes.

- b. As a general matter, the flexible capacity product needs to be defined; and, all resources that can meet that definition should be eligible to provide the product. The need to properly define the product is critical to the overall market design/flexible capacity initiative. Because of its importance, IEP offers two additional comments:
 1. Currently, the CAISO proposes to address the definition of the Standard Capacity Product for Flexible Capacity in Phase Two of this stakeholder initiative. IEP recommends that the Standard Capacity Product for Flexible Capacity be developed and resolved as part of Phase One. Currently, Phase One is planned to address among other matters: (a) default provisions for LRA’s without flexible capacity procurement obligations, and (b) backstop procurement authority. Critical to addressing both these issues is defining the product against which the default provisions will apply and for which backstop procurement authority might be necessitated. For example, addressing the product definition in Phase One of the stakeholder initiative should help inform debate on other critical issues such as the following: what is the proper duration for availability for flexible resources (e.g. 17 hours or, alternatively, might some other duration be more appropriate); how should “use limited” resources and/or so-called “energy limits” be treated in light of the defined product.

2. The Standard Capacity Product for Flexible Capacity should be designed and tailored to provide the product needed by the CAISO to maintain grid reliability. All resources capable of providing the product sought should be eligible to do so. However, IEP has concerns about creating “one-off” eligibility exceptions for a specific technology (e.g. hydro resources) without addressing other use-limited resources in the context of overall program design. To the extent that use-limited resources are to be deemed eligible to provide flexible capacity, then the policy/tariff addressing this should be tailored to all use-limited resources and not just hydro resources as is currently proposed.
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?
 - a. Regarding the allocation of the obligation, IEP assumes that when allocating the obligation to Local Regulatory Authorities (LRAs) this is matching the need as seen from the grid operator’s perspective. If the allocation of the obligation is mis-matched to the need, then the CAISO risks obfuscating the procurement/price signals that will help (a) meet future flexible capacity needs in the future at least-cost, and (b) potentially mitigate the need for flexible resources in the future.
 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?
 - a. The default level obligation should be set at a level of encourage LRAs to affirmatively set a flexible capacity procurement obligation, rather than lean on the CAISO as a backstop.
 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?
 - a. This proposal appears reasonable as it is consistent with existing RA policy requirements.

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?
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?

a. The new backstop authority suggested by the CAISO, essentially, is application of the existing RA backstop authority as implemented through the CPM. The existing CPM authority was developed in the context of generic capacity being available as prescribed, i.e. being made available during the peak hour(s) of the peak day(s) of the peak month(s). However, as noted above, flexible capacity needs are expected to be significantly different than the capacity that would have been procured via the CPM. Not only are the periods of availability likely to be different, but the operational characteristics are likely to be different.

The CAISO has proposed to apply the CPM rate until a Flexible Capacity Procurement Mechanism rate is established. The CAISO should set, as part of this proposal, a firm deadline for determining the Flexible Capacity Procurement Mechanism rate.

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.
 - a. IEP supports the proposal to allocate costs for backstop procurement designations to LSEs deficient in their flexible capacity showings.
8. Are the ISO's proposed criteria for determining selecting resources to procure for any flexible backstop procurement designation correct?

a. As IEP understand the proposal, the ISO is proposing to procure resources to match flexible capacity deficiencies in the following order: (a) an RA resource not listed on a LSE's plan as having fully provided all its eligible flexible capacity, i.e. calling on available flexible capacity from fully committed resources with flexible operating characteristics; (b) a partial RA resource that is not listed on a LSE's plan yet has additional capacity to meet flexible capacity deficiencies, i.e. calling on available flexible capacity from a partially committed resources with flexible operating characteristics; and, finally (c) non-RA resources which best meets the flexible capacity deficiencies given due consideration for Pmin, ramp rate, and start-up time, i.e. calling on any remaining resources with most attractive operating characteristics.

IEP needs to better understand this approach to determine whether it is fair and equitable to all resources and resource owners. For example, under the proposed approach, resources in the first class of resources that are given a priority in the “loading order” for meeting an unmet need are any resources in any of the LSE plans that are not fully committed. This implies that resources committed in one LSE plan will be called on first to meet a deficiency in another LSE plan, before any consideration of resources partially committed. Since one would expect that any and all rate-based utility-owned-generation (“UOG”) will be listed as fully committed in an individual IOUs plan, this approach seemingly provides a competitive advantage to these types of resources compared to independent power producers. Thus, we request further elaboration by the CAISO of the rational, pros/cons, etc., of this proposal and its implications for competitive markets.

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?
 - a. IEP asks for further discussion as to why hydro resources should be treated differently than other resources before a discussion of any proposed alternative counting convention, including the CAISO alternative proposal and the PG&E alternative proposal. Consistent with the CAISO’s goal of being “technology agnostic” on determining a resource’s eligibility to be a flexible capacity resource, *ANY and ALL* resources (or a portion thereof) should be counted to the extent the unit (or a portion of the unit) is able to meet the specified flexible capacity need. This includes specified ramp rates, specified energy output for a minimum of hours (e.g. 3), etc.
 - b. Regarding setting a ‘baseline’ output for hydro resources, using the average hydro output over the previous five years will tend to over count hydro resources in periods of increasing drought, and undervalue hydro resources in periods of increasing water flows. On the other hand, hydro resources (other than run-of-the-river) have the ability to store energy as needed to meet anticipated flexible operating needs/conditions. To the extent that these resources are “use limited” due to other policy considerations, they have the characteristics of intermittent resources. Furthermore, to the extent that “use limited” hydro resources are deemed eligible to meet the product definition, then the baseline for counting such resources should not be based on an average. Rather, given the inherent intermittency of these resources, the CAISO ought to take a conservative approach to setting the baseline; namely, calculate the baseline assuming the lowest hydro flow that occurred over the past 5 years. This will help ensure that the CAISO doesn’t over-count this resource, particularly

during sustained drought conditions that may trigger the need for backstop procurement.

Hydro resources should be held to the same bidding obligations as thermal resources. Alternatively, the CAISO should develop bidding protocols/obligations for the class of “use limited” resources as a whole, a class that would include all intermittents such as wind, solar, and hydro.

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?

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

a. As noted above, the assumption that existing contracts that sold “generic RA capacity” also sold “flexible RA capacity” is wrong. The CAISO will need to look to the contracts regarding this matter.

b. The concern about inappropriate treatment of existing contracts is increased given that, under the CAISO proposal, resources eligible to provide Flexible RA Capacity and/or assumed to be eligible to provide flexible capacity (e.g. existing contracts selling generic capacity w/o reference to flexibility) would be subject to the must-offer obligation (“MOO”) proposed for RA Flexible capacity resources.

c. The Phasing of the stakeholder process ought to be reviewed fully. One initial concern is that the definition of the Standard Capacity Product for RA Flexible Capacity apparently is not addressed until Phase Two. It’s hard to imagine how this program can be developed, even initially, if the definition of the product desired remains a mystery. We recommend at a minimum adding to Phase One the Standard Capacity Product definition for flexible capacity.

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.